



PENNSYLVANIA HOUSING FINANCE AGENCY

Basic Financial Statements and Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors' Reports Thereon)

PENNSYLVANIA HOUSING FINANCE AGENCY

Basic Financial Statements and Supplementary Information

June 30, 2017 and 2016

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennsylvania Housing Financing Agency (the Agency), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Homeowners' Emergency Mortgage Assistance Program (HEMAP) which represents approximately 1 percent of total assets, 6 percent of total net position, and 4 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 audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2017 and 2016, 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 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 3-12, 68, 69, 70 and 71 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, 2017 and 2016 on pages 72-79, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

KPMG LLP

Harrisburg, Pennsylvania
October 2, 2017

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2017 and 2016 (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.

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June 30, 2017 and 2016 (amounts rounded)

Condensed Summary Balance Sheet (In thousands)

	<u>2017</u>	<u>2016</u>	<u>Increase/(Decrease)</u>	
Assets:				
Mortgage loans receivable	\$ 3,210,406	\$ 3,224,510	\$ (14,104)	(0.4%)
Capital assets	32,238	30,843	1,395	4.5%
Other assets	873,286	808,540	64,746	8.0%
Total Assets	<u>4,115,930</u>	<u>4,063,893</u>	<u>52,037</u>	<u>1.3%</u>
Deferred Outflows of Resources	<u>19,555</u>	<u>28,612</u>	<u>(9,057)</u>	<u>(31.7%)</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 4,135,485</u>	<u>\$ 4,092,505</u>	<u>\$ 42,980</u>	<u>1.1%</u>
Liabilities:				
Current liabilities	215,256	225,604	(10,348)	(4.6%)
Noncurrent liabilities	3,135,940	3,079,132	56,808	1.8%
Total Liabilities	<u>3,351,196</u>	<u>3,304,736</u>	<u>46,460</u>	<u>1.4%</u>
Deferred Inflows of Resources	<u>4,764</u>	<u>-</u>	<u>4,764</u>	<u>100.0%</u>
Net Position				
Net Investment in Capital Assets	13,333	11,558	1,775	15.4%
Restricted	149,670	149,947	(277)	(0.2%)
Unrestricted	616,522	626,264	(9,742)	(1.6%)
Total Net Position	<u>779,525</u>	<u>787,769</u>	<u>(8,244)</u>	<u>(1.0%)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 4,135,485</u>	<u>\$ 4,092,505</u>	<u>\$ 42,980</u>	<u>1.1%</u>

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June 30, 2017 and 2016 (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>

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June 30, 2017 and 2016 (amounts rounded)

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

	<u>2017</u>	<u>2016</u>	<u>Increase/(Decrease)</u>	
Revenues:				
Mortgage loan interest	\$ 110,869	\$ 124,179	\$ (13,310)	(10.7%)
Other operating revenues	76,520	105,879	(29,359)	(27.7%)
Federal program awards	436,531	412,750	23,781	5.8%
Total Revenues	<u>623,920</u>	<u>642,808</u>	<u>(18,888)</u>	<u>(2.9%)</u>
Expenses:				
Interest and financing expenses	105,996	117,038	(11,042)	(9.4%)
Other operating expenses	89,637	87,617	2,020	2.3%
Federal program expenses	436,531	412,750	23,781	5.8%
Total Expenses	<u>632,164</u>	<u>617,405</u>	<u>14,759</u>	<u>2.4%</u>
Change in Net Position	(8,244)	25,403	(33,647)	(132.5%)
Net Position - Beginning of Year	<u>787,769</u>	<u>762,366</u>	<u>25,403</u>	<u>3.3%</u>
Net Position - End of Year	<u>\$ 779,525</u>	<u>\$ 787,769</u>	<u>\$ (8,244)</u>	<u>(1.0%)</u>
	<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	412,750	406,616	6,134	1.5%
Total Revenues	<u>642,808</u>	<u>631,226</u>	<u>11,582</u>	<u>1.8%</u>
Expenses:				
Interest and financing expenses	117,038	125,049	(8,011)	(6.4%)
Other operating expenses	87,617	68,504	19,113	27.9%
Federal program expenses	412,750	406,616	6,134	1.5%
Total Expenses	<u>617,405</u>	<u>600,169</u>	<u>17,236</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>

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Analysis of Overall Financial Position and Results of Operations

Comparison of Years Ended June 30, 2017 and 2016

Assets increased by \$52 million from \$4.064 billion to \$4.116 billion. The net increase was primarily attributable to increases in cash and investments, both of which are reported as Other Assets on the preceding Condensed Summary Balance Sheet, offset by decreases in mortgage loans receivable and real estate owned, which is reported as Other Assets on the preceding Condensed Summary Balance Sheet. The net increase in cash and investments, equal to \$107 million, resulted from the timing of the issuance of Series 2017-123 single family mortgage revenue bonds on June 20, 2017 – only ten days prior to fiscal year end, leaving a sizeable amount of bond proceeds yet to be utilized. The decrease in mortgage loans receivable, equal to \$14 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 real estate owned, equal to \$30 million, resulted from the Agency's increased efforts of liquidating its portfolio of real estate acquired as a result of foreclosure, acceptance of a deed in lieu of foreclosure or other defaults of nonperforming mortgage loans.

Deferred outflows of resources decreased by \$9 million from \$28 million to \$19 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, 2017 valuation date.

Liabilities increased by \$46 million from \$3.305 billion to \$3.351 billion. The net increase was brought about, primarily, by increases in the balances of bonds and notes payable, offset by decreases in the balances of derivative instrument liabilities. The net increase to the balances of bonds and notes payable, equal to \$55 million, was brought about by the Agency's vigorous efforts to increase the size of its balance sheet – purchasing and holding mortgage loans receivable by utilizing capital provided by its single family mortgage revenue bond program. The decrease in the balances of derivative instrument liabilities, equal to \$21 million, 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, 2017 valuation date.

Deferred inflows of resources increased from zero to \$5 million. This is attributable to establishing balances of pension-related deferred inflows and accumulated increases in fair values of hedging derivatives. Balances of pension-related deferred inflows came as a result of changes in actuarial assumptions associated with mortality and differences between expected and actual beneficiary experience. Balances associated with accumulated increases in fair

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June 30, 2017 and 2016 (amounts rounded)

values of hedging derivatives are established and increase as the Agency reduces notional amounts associated with certain interest rate swaps and exercises embedded options at opportune economic times, coupled with favorable market conditions at the June 30, 2017 valuation date positively impacting the values of derivatives instruments.

The Agency's overall net position decreased by \$8 million from \$788 million to \$780 million. The negative impact on net position resulted, primarily, from a decrease in the fair value of Agency investments at the June 30, 2017 valuation date. The previous year experienced an increase in the fair value of Agency investments equal to \$17 million at June 30, 2016, while Agency investments at June 30, 2017 experienced a decrease in fair value of \$12 million. Increases or decreases in the fair values of Agency investments do not represent either the receipt or disbursement of cash; the Agency invests exclusively in government securities providing consistent fixed-interest payments and typically holds these securities to their maturity.

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 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 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 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 mortgage-backed securities (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

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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.

The Agency's overall net position experienced an increase of \$25 million. 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.

Analysis of Capital Asset Activity *(In thousands)*

	Balances at June 30		Increase/
	2017	2016	(Decrease)
Nondepreciable Capital Assets:			
Land	\$ 2,454	\$ 2,454	\$ -
Construction in progress	2,136	-	2,136
Total nondepreciable capital assets	<u>4,590</u>	<u>2,454</u>	<u>2,136</u>
Depreciable Capital Assets:			
Building	32,079	32,056	23
Furniture, fixtures and equipment	9,905	9,584	321
Less accumulated depreciation:			
Building	(8,316)	(7,730)	(586)
Furniture, fixtures and equipment	<u>(6,020)</u>	<u>(5,521)</u>	<u>(499)</u>
Total depreciable capital assets, net	<u>27,648</u>	<u>28,389</u>	<u>(741)</u>
Total Capital Assets, net	<u>\$ 32,238</u>	<u>\$ 30,843</u>	<u>\$ 1,395</u>

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June 30, 2017 and 2016 (amounts rounded)

	Balances at June 30		Increase/ (Decrease)
	2016	2015	
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	28,389	28,884	(495)
Total Capital Assets, net	\$ 30,843	\$ 31,338	\$ (495)

Balances attributable to the Agency's building increased moderately for the years ended June 30, 2017 and 2016 by virtue of typical repairs and maintenance. Balances attributable to construction in progress at June 30, 2017 resulted from the Agency's headquarters expansion; construction is anticipated to conclude in July 2018. The net increase in the balances of furniture, fixtures and equipment for the year ended June 30, 2017 was attributed primarily to the purchase of computers and related equipment; the net decrease in the balances of furniture, fixtures and equipment for the year ended June 30, 2016 were attributed primarily to disposals of computers and related network equipment due to obsolescence.

Analysis of Long-Term Debt Activity (In thousands)

Agency Program	Long-Term Debt at June 30		Increase (Decrease)
	2017	2016	
General Activities	\$ 18,905	\$ 19,285	\$ (380)
Multifamily Program	9,799	14,320	(4,521)
Single Family Program	2,811,848	2,751,951	59,897
Total Long-Term Debt	<u>\$ 2,840,552</u>	<u>\$ 2,785,556</u>	<u>\$ 54,996</u>

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	2,751,951	2,956,631	(204,680)
Total Long-Term Debt	<u>\$ 2,785,556</u>	<u>\$ 2,991,066</u>	<u>\$ (205,510)</u>

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Year Ended June 30, 2017

Additions

Additions to Agency bonds and notes payable for the year ended June 30, 2017 included the following:

<u>Date</u>	<u>Single Family Program Bond Series</u>	<u>General Obligation Note</u>	<u>Original Issue Premium</u>	<u>Total Proceeds</u>	<u>New Mortgage Loan Production Proceeds</u>	<u>Refunding Proceeds</u>	<u>Single Family Program Bond Series Refunded</u>
7/21/16	2016-120	-	\$ 4,676	\$ 214,265	\$ 55,495	\$ 158,770	2009-107A
10/3/16	2016-121	-	6,419	254,835	123,395	131,440	2009-107B
2/1/17	2017-122	-	4,782	239,645	69,985	169,660	2009-107C
6/20/17	2017-123	-	3,206	261,390	96,790	71,940	2006-96A
6/20/17	2017-123	-	-	-	-	79,550	2007-97A
6/20/17	2017-123	-	-	-	-	13,110	2007-98A
3/30/17	-	2017	-	7,000	7,000	-	-
Total Additions:			<u>\$ 19,083</u>	<u>\$ 977,135</u>			

Reductions

Reductions to Agency bonds and notes payable for the year ended June 30, 2017 included the following:

<u>Date</u>	<u>Single Family Program Bond Series Refunded</u>	<u>Refunded Amount</u>	<u>Scheduled Debt Service</u>	<u>Advance Debt Service</u>	<u>Original Issue Premium Amortization</u>
7/21/16	2009-107A	\$ 158,770	\$ -	\$ -	\$ -
10/3/16	2009-107B	131,440	-	-	-
2/1/17	2009-107C	169,660	-	-	-
6/20/17	2006-96A	71,940	-	-	-
6/20/17	2007-97A	79,550	-	-	-
6/20/17	2007-98A	13,110	-	-	-
Various	-	-	87,265	226,911	2,576
Total Reductions:		<u>\$ 624,470</u>	<u>\$ 87,265</u>	<u>\$ 226,911</u>	<u>\$ 2,576</u>

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Year Ended June 30, 2016

Additions

Additions to Agency bonds and notes payable for the year ended June 30, 2016 included the following:

<u>Date</u>	<u>Single Family Program Bond Series</u>	<u>Original Issue Premium</u>	<u>Total Proceeds</u>	<u>New Mortgage Loan Production Proceeds</u>	<u>Refunding Proceeds</u>	<u>Single Family Program Bond Series Refunded</u>
9/22/15	2015-117	\$ 1,642	\$ 150,240	\$ 53,355	\$ 58,110	2005-90C
9/22/15	2015-117	-	-	-	38,775	2008-102C
12/8/15	2015-118	2,427	231,165	87,570	22,340	2004-85B
12/8/15	2015-118	-	-	-	44,645	2004-85C
12/8/15	2015-118	-	-	-	30,035	2005-87B
12/8/15	2015-118	-	-	-	46,575	2005-87C
4/28/16	2016-119	2,332	162,095	51,415	110,680	2009-106C
	Total Additions:	<u>\$ 6,401</u>	<u>\$ 543,500</u>			

Reductions

Reductions to Agency bonds and notes payable for the year ended June 30, 2017 included the following:

<u>Date</u>	<u>Single Family Program Bond Series Refunded</u>	<u>Refunded Amount</u>	<u>Scheduled Debt Service</u>	<u>Advance Debt Service</u>	<u>Original Issue Premium Amortization</u>
9/22/15	2005-90C	\$ 58,110	\$ -	\$ -	\$ -
9/22/15	2008-102C	38,775	-	-	-
12/8/15	2004-85B	22,340	-	-	-
12/8/15	2004-85C	44,645	-	-	-
12/8/15	2005-87B	30,035	-	-	-
12/8/15	2005-87C	46,575	-	-	-
4/28/16	2009-106C	110,680	-	-	-
Various	-	-	111,810	290,880	1,561
	Total Reductions:	<u>\$ 351,160</u>	<u>\$ 111,810</u>	<u>\$ 290,880</u>	<u>\$ 1,561</u>

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, 2017 and 2016 (in thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 281,395	\$ 248,011
Restricted cash and cash equivalents	128,440	122,895
Investments	91,634	10
Restricted investments	1,040	3,040
Accrued investment interest receivable	2,113	6,844
Mortgage loans receivable, net	99,523	100,787
Accrued mortgage loan interest receivable	19,788	20,592
Mortgages held for sale	33,521	38,932
Other current assets	2,653	2,410
Total Current Assets	<u>660,107</u>	<u>543,521</u>
Noncurrent Assets:		
Investments	164,820	182,613
Restricted investments	100,358	103,682
Mortgage loans receivable, net	3,110,883	3,123,723
Real estate owned	40,024	69,636
Capital assets, net	32,238	30,843
Other noncurrent assets	7,500	9,875
Total Noncurrent Assets	<u>3,455,823</u>	<u>3,520,372</u>
TOTAL ASSETS	<u>4,115,930</u>	<u>4,063,893</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension-related deferred outflows	14,365	12,800
Unamortized losses on bond refundings	5,190	6,526
Accumulated decrease in fair value of hedging derivatives	-	9,286
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>19,555</u>	<u>28,612</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 4,135,485</u>	<u>\$ 4,092,505</u>
LIABILITIES		
Current Liabilities:		
Bonds and notes payable, net	\$ 89,997	\$ 91,915
Accrued interest payable	20,738	24,233
Accounts payable and accrued expenses	4,517	20,610
Escrow deposits and development reserves	71,151	69,532
Other current liabilities	28,853	19,314
Total Current Liabilities	<u>215,256</u>	<u>225,604</u>
Noncurrent Liabilities:		
Bonds and notes payable, net	2,750,555	2,693,641
Derivative instrument - interest rate swaps	16,621	37,440
Development reserves	80,354	77,643
Net pension liability	26,307	25,525
Other noncurrent liabilities	262,103	244,883
Total Noncurrent Liabilities	<u>3,135,940</u>	<u>3,079,132</u>
TOTAL LIABILITIES	<u>3,351,196</u>	<u>3,304,736</u>
DEFERRED INFLOWS OF RESOURCES		
Pension-related deferred inflows	1,306	-
Accumulated increase in fair value of hedging derivatives	3,458	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>4,764</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	13,333	11,558
Restricted	149,670	149,947
Unrestricted	616,522	626,264
TOTAL NET POSITION	<u>779,525</u>	<u>787,769</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 4,135,485</u>	<u>\$ 4,092,505</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2017 and 2016 (in thousands)

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Interest income on mortgage loans	\$ 110,869	\$ 124,179
Program income and fees	61,554	64,969
Gain on sales of mortgage-backed securities	6,736	9,382
Investment income	3,998	13,755
Net increase in fair value of investments	-	17,031
Net increase in fair value of swaps	2,865	-
Gain on early extinguishment of debt	1,367	742
	<u>187,389</u>	<u>230,058</u>
Total Operating Revenues	<u>187,389</u>	<u>230,058</u>
Operating Expenses:		
Interest expense on bonds and notes	87,532	99,302
Financing and program expenses	18,464	17,736
Salaries and related benefits	43,375	38,368
General and administrative	21,042	14,997
Net decrease in fair value of investments	12,194	-
Net decrease in fair value of swaps	-	3,278
Provision for loan loss and real estate owned	13,026	30,974
	<u>195,633</u>	<u>204,655</u>
Total Operating Expenses	<u>195,633</u>	<u>204,655</u>
Operating (Loss) Income	(8,244)	25,403
Non-operating Revenue		
Federal program awards	436,531	412,750
Non-operating Expense		
Federal program expense	<u>436,531</u>	<u>412,750</u>
Change in Net Position	(8,244)	25,403
Net Position - beginning of year	<u>787,769</u>	<u>762,366</u>
Net Position - end of year	<u>\$ 779,525</u>	<u>\$ 787,769</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows

Years Ended June 30, 2017 and 2016 (in thousands)

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Receipts of mortgage loan payments	\$ 555,240	\$ 653,992
Receipts of mortgage-backed security premiums	6,736	9,382
Receipts of fees and other income	61,554	63,787
Receipts of interest on mortgages	111,673	129,374
Receipts of escrow and development reserves	33,125	21,866
Payments for mortgages and purchases	(547,548)	(563,385)
Payments for salaries and related benefits	(40,947)	(35,969)
Payments for goods and services	(6,638)	(2,020)
Net Cash Provided By Operating Activities	<u>173,195</u>	<u>277,027</u>
Cash Flows From Noncapital Financing Activities		
Proceeds from the issuance of bonds	993,642	543,500
Payments for retirement of bonds and notes	(938,266)	(748,645)
Payments of bonds and notes interest	(89,532)	(100,313)
Payments of financing costs	(18,464)	(17,736)
Repayments of program advances	(2,370)	(2,456)
Receipts of federal program awards	436,531	412,750
Payments of federal program awards	(436,531)	(412,750)
Net Cash Used In Noncapital Financing Activities	<u>(54,990)</u>	<u>(325,650)</u>
Cash Flows From Capital Financing Activities		
Purchases of capital assets	(2,525)	(689)
Payments for retirement of capital financing bond	(380)	(365)
Interest paid on capital debt	(128)	(20)
Net Cash Used In Capital Financing Activities	<u>(3,033)</u>	<u>(1,074)</u>
Cash Flows From Investing Activities		
Proceeds from the sale or maturity of investments	67,782	146,473
Investment interest receipts	8,729	7,955
Purchases of investments	(152,754)	(149,010)
Net Cash (Used In) Provided By Investing Activities	<u>(76,243)</u>	<u>5,418</u>
Net Increase (Decrease) In Cash and Cash Equivalents	38,929	(44,279)
Cash and cash equivalents, beginning of year	<u>370,906</u>	<u>415,185</u>
Cash and cash equivalents, end of year	<u>\$ 409,835</u>	<u>\$ 370,906</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows (continued)

Years Ended June 30, 2017 and 2016 (in thousands)

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating (Loss) Income	\$ (8,244)	\$ 25,403
Investment income recognized	(3,998)	(13,755)
Net change in fair value of investments	12,194	(17,031)
Net change in fair value of swaps	(2,865)	3,278
Interest expense on bonds and notes	87,532	99,302
Financing expenses	18,464	17,736
Provision for loan loss and real estate owned	13,026	30,974
Depreciation	1,125	1,177
Early extinguishment of debt	(1,367)	(742)
Changes in Assets and Liabilities:		
Mortgage loans receivable, net	7,692	90,607
Mortgage loans interest receivable	804	5,140
Other assets	31,485	4,902
Accounts payable and accrued expenses	(16,091)	7,537
Escrow deposits and development reserves	4,330	4,581
Other liabilities	29,108	17,918
Net Cash Provided By Operating Activities	<u>\$ 173,195</u>	<u>\$ 277,027</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (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 (with one vacancy). 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, 2017 and 2016 (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, 2017 and 2016 (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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

the balances of principal outstanding, unamortized premiums and discounts and capitalized 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, 2017 and 2016 (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.

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

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 less the fiduciary net position available to pay that liability. Investments included within fiduciary net position are reported at fair value.

Other Liabilities

Other liabilities consist mainly of unearned revenues, other postemployment benefit (“OPEB”) obligations, unearned federal funding, amounts due to Pennsylvania State Employees Retirement System (“SERS”) and accrued expenses.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

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.

Interest Income on Mortgage Loans

Interest received for mortgage loans is based upon the constant yield method. Interest accrues on performing and nonperforming loans until the underlying obligation is satisfied or the associated property is sold, foreclosed-upon or transferred to another entity.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

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

Adopted Accounting Standards

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

GASB Statements 67 and 68, effective for the Agency's fiscal year ended June 30, 2017, provides guidance for improving the usefulness of information about pensions included in the financial statements of state and local governments. Adoption of this standard did not have a significant impact on the Agency's basic financial statements.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the Agency's fiscal year ended June 30, 2017, addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Adoption of this standard did not have a significant impact on the Agency's basic financial statements.

The following accounting standards, effective for the Agency's fiscal year ended June 30, 2017, had no impact on the Agency's basic financial statements:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*,
- GASB Statement No. 77, *Tax Abatement Disclosures*,
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and
- GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*.

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. 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.
- 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. 83, *Certain Asset Retirement Obligations*, issued November 2016. This statement is effective for the Agency's fiscal year ending June 30, 2019.
- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. This statement is effective for the Agency's fiscal year ending June 30, 2020.
- GASB Statement No. 85, *Omnibus 2017*, issued March 2017. This statement is effective for the Agency's fiscal year ending June 30, 2018.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017. This statement is effective for the Agency's fiscal year ending June 30, 2018.
- GASB Statement No. 87, *Leases*, issued June 2017. This statement is effective for the Agency's fiscal year ending June 30, 2021.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

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, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Cash	\$ 56,670	\$ 59,222
Money market accounts	<u>353,165</u>	<u>311,684</u>
Total carrying amount of cash and cash equivalents	<u>\$ 409,835</u>	<u>\$ 370,906</u>
Bank balance of cash and cash equivalents	<u>\$ 413,803</u>	<u>\$ 375,537</u>

Custodial Credit Risk

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

At June 30, 2017 and 2016, the fair value of the Agency's cash deposits equaled \$56,670 and \$59,222, respectively, with corresponding bank balances equal to \$64,103 and \$62,103, respectively, of which \$63,103 and \$61,103, 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, 2017 and 2016, the fair value of the Agency's money market accounts, reported as cash equivalents, equaled \$353,165 and \$311,684, respectively, with corresponding bank balances equal to \$349,700 and \$313,434, 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

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

- Direct obligations of or obligations guaranteed by the United States of America;
- Any bond, debenture, note, participation certificate or other similar obligation issued by any of the following agencies: GNMA, Federal Land Bank, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation; Federal Intermediate Credit Banks, Federal Farm Credit Administration, Export-Import Bank and FNMA;
- Any other obligation of the United States of America or any federal agencies which may then be purchased with Agency funds or which are legal investments for savings banks, savings associations, or savings and loan associations in the Commonwealth;
- Public Housing Bonds issued by public agencies or municipalities and fully secured by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary loans, notes or project notes issued by public agencies or municipalities, in such case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- Direct and general obligations of or obligations guaranteed by the Commonwealth, to the payment of the principal of the interest on which the full faith and credit of the Commonwealth is pledged;
- Direct and general obligations of any state of the United States, to the payment of which the full faith and credit of such state are pledged, but only if such obligations are rated not less than "AA" by Standard & Poor's and "Aa" by Moody's Rating Service or, upon the discontinuance of either or both of such services, another nationally recognized rating service;
- Deposits in interest-bearing time or demand deposits, or certificates of deposit, fully secured as provided under the laws of the Commonwealth or by obligations described in the six bullet points above;
- Repurchase agreements with Primary Government Securities Dealers fully collateralized by Investment Securities of the types described in the first three bullet points above provided that such collateral is valued at least monthly and that such collateral as applicable is held by the trustee or a third party;
- Deposits in mutual or money market funds which invest solely in Investment Securities of the types described in the first three bullet points above and with total assets (deposited funds) of five hundred million dollars or greater;

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

- 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.

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, 2017 and 2016 were as follows:

Investment	2017		2016	
	Level 1	Level 2	Level 1	Level 2
U.S. Treasury bonds	\$ 2,135	\$ -	\$ 2,319	\$ -
U.S. Treasury bills	89,489	-	-	-
GNMA mortgage-backed securities	-	99,831	-	107,703
Refco strips	-	114	-	164
Freddie Mac corporate bonds	-	4,941	-	4,021
FNMA mortgage-backed securities	-	11,030	-	10,401
FNMA corporate bonds	-	1,500	-	-
HUD bond	-	1,806	-	1,827
Private Export Funding Corporation bonds	-	8,457	-	8,634
Tennessee Valley Authority bonds	-	65,259	-	71,904
Federal Farm Credit Bank bonds	-	30,383	-	25,758
Federal Home Loan Bank bonds	-	42,907	-	56,614
	<u>\$ 91,624</u>	<u>\$266,228</u>	<u>\$ 2,319</u>	<u>\$287,026</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.

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

The credit quality ratings of the Agency's investments for the years ended June 30, 2017 and 2016, as determined by Moody's Investors Service, are shown below. At June 30, 2017 and 2016, \$201,832 and \$120,647, 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.

<u>Investment Type</u>	<u>Fair Value at June 30</u>		<u>Credit Rating</u>
	<u>2017</u>	<u>2016</u>	
U.S. Government Agency Securities*	\$ 71,699	\$ 86,326	Aaa
U.S. Government Agency Mortgage-Backed Securities*	84,321	82,372	Aaa
	<u>\$156,020</u>	<u>\$168,698</u>	

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

Money market accounts with fair values of \$353,165 and \$311,684 at June 30, 2017 and 2016, respectively, that were held by the Agency and reported as cash equivalents were rated as follows by Moody's Investors Service:

<u>Moody's Rating</u>	<u>Fair Value</u>	
	<u>2017</u>	<u>2016</u>
Aaa	\$ 351,846	\$ 305,117
Not Rated	1,319	6,567
	<u>\$ 353,165</u>	<u>\$ 311,684</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.

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

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, 2017 and 2016, the Agency had the following concentrations of credit risk:

Investment Issuer	2017		2016	
	Fair Value	% of Total Investments	Fair Value	% of Total Investments
U.S. Treasury Department	\$ 91,624	25.60%	\$ 2,319	0.80%
GNMA	99,831	27.90%	107,703	37.22%
Tennessee Valley Authority	65,259	18.24%	71,904	24.85%
Federal Farm Credit Bank	30,383	8.49%	25,758	8.90%
Federal Home Loan Bank	42,907	11.99%	56,614	19.57%
	<u>\$ 330,004</u>	<u>92.22%</u>	<u>\$ 264,298</u>	<u>91.34%</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, 2017 and 2016, concentrations in government securities, which represented 100% of the portfolio, exceed the policy. This departure from policy was 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, 2017 and 2016, the Agency had investments with the following maturities:

Investment Type	2017				
	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Agency Mortgage-backed Securities	\$ 184,152	\$ -	\$ 19,831	\$ 64,350	\$ 99,971
U.S. Government Agency Securities	82,076	50	16,750	17	65,259
U.S. Treasury Securities	91,624	91,624	-	-	-
	<u>\$ 357,852</u>	<u>\$ 91,674</u>	<u>\$ 36,581</u>	<u>\$ 64,367</u>	<u>\$ 165,230</u>

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

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>

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 \$353,165 and \$311,684 at June 30, 2017 and 2016, respectively, reported as cash equivalents that have maturities of less than one year.

4. Mortgage Loans

Amounts reported as mortgage loans receivable at June 30, 2017 and 2016 consisted of the following:

	2017				
	General Activities	Multifamily Program	Single Family Program	HEMAP	Total
Mortgage loans	\$ 7,367	\$ 462,729	\$ 2,840,629	\$ 82,645	\$ 3,393,370
Add:					
Loan premiums	-	-	-	-	-
Less:					
Loan discounts	-	2,738	-	-	2,738
Allowance for loan losses	3,880	121,538	11,031	43,777	180,226
Mortgage loans receivable	3,487	338,453	2,829,598	38,868	3,210,406
Current portion	-	12,839	81,662	5,022	99,523
Noncurrent portion	<u>\$ 3,487</u>	<u>\$ 325,614</u>	<u>\$ 2,747,936</u>	<u>\$ 33,846</u>	<u>\$ 3,110,883</u>

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

	2016				Total
	General Activities	Multifamily Program	Single Family Program	HEMAP	
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>

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

During the years ended June 30, 2017 and 2016, the Agency securitized mortgage loans with a principal balance of \$274,891 and \$362,540, respectively, into MBSs through GNMA and FNMA. MBSs are either sold to private investors or purchased by the Agency. Ongoing revenue for the Agency is generated from servicing the loans pooled into MBSs, which is reported as program income and fees, and by gains derived from the sale price less the value of the underlying mortgages of the MBSs at the time of settlement. Total gains on the sale of MBSs for the years ended June 30, 2017 and 2016 equaled \$6,736 and \$9,382, 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 \$33,521 and \$38,932 at June 30, 2017 and 2016, 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"), Homeownership Choice Program ("HCP") and Revised Community Leveraging Assistance Initiative Mortgage ("ReCLAIM"). 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, 2017 and 2016, the Agency's Single Family Program mortgage loan servicing portfolio equaled \$4.7 billion and \$4.6 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

PENNSYLVANIA HOUSING FINANCE AGENCY

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June 30, 2017 and 2016 (in thousands)

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, 2017 and 2016, insurance coverage associated with Single Family Program mortgage loan servicing portfolio included the following:

	2017		2016	
Commercial Insurance	\$ 147,931	3.14%	\$ 147,994	3.20%
PHFA Insurance Program	154,350	3.28%	200,275	4.33%
FHA	2,483,572	52.70%	2,440,470	52.77%
VA	135,831	2.88%	136,751	2.96%
RD	393,266	8.34%	354,963	7.68%
FNMA	599,310	12.72%	587,173	12.70%
Uninsured	798,604	16.95%	756,836	16.37%
Total Single Family Program Servicing Portfolio:	<u>\$ 4,712,864</u>	<u>100.00%</u>	<u>\$ 4,624,462</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, 2017 and 2016, no mortgage loans reported within General Activities were either delinquent or in pending foreclosure actions.

At June 30, 2017 and 2016, 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 \$119 and \$113, respectively, and no Multifamily Program mortgage loans were in pending foreclosure actions.

At June 30, 2017 and 2016, 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 \$234,130 and \$267,399, respectively. Included within these June 30, 2017 and 2016 balances of loans delinquent 91 days or greater were loans with pending foreclosure actions with aggregate principal balances of \$94,509 and \$102,043, respectively.

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

At June 30, 2017 and 2016, the principal balance of HEMAP mortgage loans delinquent 91 days or greater equaled \$29,215 and \$27,045, 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.

Details associated with Single Family Program cumulative loan modifications as of June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Aggregate recorded loan balance	\$ 264,179	\$ 249,458
Gross interest revenue, if the mortgage loan had been current	14,739	13,995
Actual amount of interest received and included in net position	\$ 7,639	\$ 6,740

The number of mortgage loans deemed troubled debt restructurings as of June 30, 2017 and 2016 totaled 3,289 (three-thousand two-hundred eighty-nine) and 3,068 (three-thousand sixty-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, 2017 and 2016 consisted of the following:

	<u>2017</u>				
	<u>General</u>	<u>Multifamily</u>	<u>Single</u>	<u>HEMAP</u>	<u>Total</u>
	<u>Activities</u>	<u>Program</u>	<u>Family</u>		
			<u>Program</u>		
Beginning balance	\$ 4,358	\$ 126,341	\$ 9,973	\$ 45,897	\$186,569
Loss provision	402	(2,582)	8,619	2,772	9,211
Net losses	(880)	(2,221)	(7,561)	(4,892)	(15,554)
Ending balance	<u>\$ 3,880</u>	<u>\$ 121,538</u>	<u>\$ 11,031</u>	<u>\$ 43,777</u>	<u>\$180,226</u>

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

	2016				Total
	General Activities	Multifamily Program	Single Family Program	HEMAP	
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>

Included in amounts reported as provision for loan loss and real estate owned at June 30, 2017 and 2016 equal to \$13,026 and \$30,974, respectively, were amounts relating to the decrease in realizable value of real estate owned by the Agency totaling \$3,815 and \$22,905, respectively.

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 \$35,525 and \$37,614 for the years ended June 30, 2017 and 2016, respectively, and the Agency’s repurchase reserve for securitized loans equaled \$4,517 and \$3,962 at June 30, 2017 and 2016, 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 562 properties with a net realizable value of \$40,024 at June 30, 2017 and 912 properties with a net realizable value of \$69,636 at June 30, 2016.

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, 2017 and 2016, the Agency capitalized mortgage servicing

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June 30, 2017 and 2016 (in thousands)

rights/service release premiums totaling \$5,593 and \$5,519, respectively. Amortization of mortgage servicing rights/servicing release premiums totaled \$4,740 and \$4,609 for the years ended June 30, 2017 and 2016, respectively, and unamortized mortgage servicing rights/service release premiums totaling \$38,238 and \$37,385 were outstanding at June 30, 2017 and 2016, respectively. Included in unamortized mortgage servicing rights/service release premium balances at June 30, 2017 and 2016 were mortgage servicing rights totaling \$5,178 and \$5,006, respectively, relating to loans sold by the Agency for which the Agency retained the servicing rights.

7. Capital Assets

Capital assets activity for the years ended June 30, 2017 and 2016 and a summary of balances were as follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2017</u>
Nondepreciable Capital Assets:				
Land	\$ 2,454	\$ -	\$ -	\$ 2,454
Construction in progress	-	2,136	-	2,136
Total nondepreciable capital assets	<u>2,454</u>	<u>2,136</u>	<u>-</u>	<u>4,590</u>
Depreciable Capital Assets:				
Building	32,056	23	-	32,079
Furniture, fixtures and equipment	9,584	366	(45)	9,905
Less accumulated depreciation:				
Building	(7,730)	(586)		(8,316)
Furniture, fixtures and equipment	<u>(5,521)</u>	<u>(539)</u>	<u>40</u>	<u>(6,020)</u>
Total depreciable capital assets, net	<u>28,389</u>	<u>(736)</u>	<u>(5)</u>	<u>27,648</u>
Total Capital Assets, net	<u>\$ 30,843</u>	<u>\$ 1,400</u>	<u>\$ (5)</u>	<u>\$ 32,238</u>

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

	<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>

Depreciation expense for the years ended June 30, 2017 and 2016 totaled \$1,125 and \$1,177, respectively.

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, 2017, variable interest rates payable ranged from 0.91% to 2.30%. At June 30, 2016, variable interest rates payable ranged from 0.40% to 1.65%.

The aggregate principal amounts of bonds and notes payable outstanding at June 30, 2017 and 2016, maturity dates and corresponding interest rates at June 30, 2017 are illustrated in the following table.

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

Bond Series	Interest rates at June 30, 2017		Maturity Date	Amounts Outstanding at June 30	
	Variable	Fixed		2017	2016
General Activities:					
Headquarters Bonds*	91 bps	-	2034	\$ 18,905	\$ 19,285
Multifamily Program:					
Development Issue 2005K	130 bps	-	2036	9,799	14,320
Single Family Program:					
Mortgage Revenue Bonds					
Series 1999 - 67	155 bps	-	2029	11,560	12,330
Series 2000 - 69	145 bps	-	2031	17,305	17,995
Series 2000 - 70	140 bps	-	2028	11,990	12,740
Series 2001 - 72	140 bps	-	2032	35,720	37,100
Series 2002 - 73	138 bps	-	2032	17,245	18,010
Series 2002 - 75*	95 bps	-	2032	30,000	30,000
Series 2003 - 77*	95 bps	-	2023	14,855	17,075
Series 2003 - 78	138 bps	-	2024	32,205	35,925
Series 2003 - 79*	95 bps	-	2033	54,300	56,350
Series 2004 - 81*	95 bps	-	2024	19,275	21,645
Series 2004 - 82*	95 bps	-	2030	37,435	41,340
Series 2004 - 83*	96 bps	-	2027	13,865	17,180
Series 2004 - 84*	96 bps	-	2021	5,440	10,355
Series 2004 - 86*	96 bps	-	2027	24,275	26,625
Series 2005 - 88*	94 bps	-	2037	40,205	45,275
Series 2005 - 89*	96 bps	-	2026	45,930	50,225
Series 2005 - 91*	96 bps	-	2036	63,490	66,360
Series 2006 - 92*	131 bps	-	2036	37,910	40,350
Series 2006 - 93*	94 bps	-	2036	26,045	31,060
Series 2006 - 94*	94 bps	-	2026	21,520	25,720
Series 2006 - 95*	94bps	-	2019	2,330	6,490
Series 2006 - 96	-	-	-	-	74,230
Series 2007 - 97	-	-	-	-	82,905
Series 2007 - 98*	94 bps	4.00%	2034	18,240	34,710
Series 2007 - 99*	94 bps	5.15%	2038	30,455	32,000
Series 2007 - 100*	94 bps	-	2036	21,340	22,690
Series 2007 - 101	230 bps	-	2023	12,730	14,740
Series 2008 - 103	-	-	-	-	1,070
Series 2009 - 105	-	3.20-4.25%	2024	36,810	40,830
Series 2009 - 107	-	-	-	-	474,970

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

Bond Series	Interest rates at June 30, 2017		Maturity Date	Amounts Outstanding at June 30	
	Variable	Fixed		2017	2016
Series 2010 - 108	-	3.25-4.00%	2021	32,750	77,785
Series 2010 - 109	-	2.80-4.50%	2028	49,980	63,800
Series 2010 - 110	-	2.80-4.35%	2025	63,455	125,135
Series 2011 - 112	-	3.55-5.00%	2028	50,095	70,830
Series 2011 - 113	-	2.55-4.125%	2041	24,670	28,585
Series 2012 - 114	-	1.85-3.70%	2042	178,115	187,965
Series 2013 - 115	-	1.60-4.20%	2043	107,430	116,155
Series 2013 - 116	-	1.10-4.00%	2045	107,245	113,730
Series 2015 - 117	-	1.20-4.15%	2045	133,685	140,585
Series 2015 - 118	-	1.05-4.10%	2045	216,265	227,080
Series 2016 - 119	-	0.85-3.50%	2041	151,415	162,095
Series 2016 - 120	-	1.30-3.50%	2046	209,300	-
Series 2016 - 121	-	0.85-3.50%	2046	248,760	-
Series 2017 - 122	-	2.05-4.00%	2046	236,400	-
Series 2017 - 123	-	1.20-4.00%	2042	261,390	-
Total Single Family Program Bonds Payable				<u>2,753,430</u>	<u>2,712,040</u>
Notes Payable					
General Obligation Note	-	4.00%	2027	19,500	14,000
General Obligation Note	-	3.60%	2025	8,000	9,000
2007 Purchase Agreement	-	2.50%	2017	-	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				31,000	29,000
Unamortized bond premiums				<u>27,418</u>	<u>10,911</u>
Total bonds and notes payable				<u>2,840,552</u>	<u>2,785,556</u>
Current portion				<u>89,997</u>	<u>91,915</u>
Noncurrent portion				<u>\$ 2,750,555</u>	<u>\$ 2,693,641</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, 2017 and 2016 (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, 2017 and 2016 were as follows:

Bond Issue	Liquidity	Effective Date	Expiration Date	Bond Balance	
	Provider at June 30, 2017			Outstanding at June 30 2017	2016
Hdqrtrs Bond	PNC Bank	12/23/2016	2/3/2018	\$ 18,905	\$ 19,285
2002-75A	RBC	4/8/2014	4/8/2019	30,000	30,000
2003-77B	RBC	4/8/2014	4/8/2019	14,855	17,075
2003-79B	RBC	4/8/2014	4/8/2019	54,300	56,350
2004-81C	RBC	4/8/2014	4/8/2019	19,275	21,645
2004-82B	RBC	4/8/2014	4/8/2019	16,380	18,830
2004-82C	RBC	4/8/2014	4/8/2019	21,055	22,510
2004-83C	Bank of Tokyo	5/13/2014	5/13/2019	13,865	17,180
2004-84D	Bank of Tokyo	5/13/2014	5/13/2019	5,440	10,355
2004-86B	Bank of Tokyo	5/13/2014	5/13/2019	24,275	26,625
2005-88B	TD Bank	5/20/2014	5/20/2019	22,125	27,195
2005-88C	TD Bank	5/20/2014	5/20/2019	18,080	18,080
2005-89	Bank of Tokyo	5/13/2014	5/13/2019	45,930	50,225
2005-91B	Bank of Tokyo	5/13/2014	5/13/2019	63,490	66,360
2006-93B	Sumitomo	7/8/2014	7/8/2019	26,045	31,060
2006-94B	TD Bank	5/20/2014	5/20/2019	21,520	25,720
2006-95C	Sumitomo	7/8/2014	7/8/2019	2,330	6,490
2007-98C	Sumitomo	7/8/2014	7/8/2019	17,905	17,905
2007-99C	Sumitomo	7/8/2014	7/8/2019	10,600	12,145
2007-100C	Sumitomo	7/8/2014	7/8/2019	21,340	22,690
			Total	<u>\$ 467,715</u>	<u>\$ 517,725</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

There were no failed remarketings or resultant liquidity draws during the years ended June 30, 2017 and 2016. 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, 2017, if the term-out agreements were exercised and assuming a term-out commencement date of July 1, 2017, respectively, were as follows:

Liquidity Provider	Term-Out Provisions	Payment Date	Interest Rate	Principal	Interest	Total Payment
PNC	Day 1 through 360:	1/1/2018	8%	\$ 400	\$ 756	\$ 1,156
	"bank rate" equal to	1/1/2019	8% & 12%	415	1,851	2,266
	the greater of PNC's	4/1/2019	12%	1,809	543	2,352
	prime rate, Federal	10/1/2019	12%	1,809	977	2,786
	Funds Open Rate +	4/1/2020	12%	1,809	868	2,677
	0.50%, or 8%. Day	10/1/2020	12%	1,809	760	2,569
	361 and thereafter:	4/1/2021	12%	1,809	651	2,460
	greater of bank rate	10/1/2021	12%	1,809	543	2,352
	+ 1% or 12%.	4/1/2022	12%	1,809	434	2,243
		10/1/2022	12%	1,809	326	2,135
		4/1/2023	12%	1,809	217	2,026
	10/1/2023	12%	1,809	109	1,918	
		Total		<u>\$ 18,905</u>	<u>\$ 8,035</u>	<u>\$ 26,940</u>
RBC	Day 1 through 90:	4/1/2018	8% & 10%	15,586	10,911	26,497
	"base rate" equal to	10/1/2018	10%	15,587	7,014	22,601
	the greater of RBC's	4/1/2019	10%	15,586	6,235	21,821
	prime rate + 2.5%,	10/1/2019	10%	15,587	5,455	21,042
	Federal Funds Rate	4/1/2020	10%	15,586	4,676	20,262
	+ 3.5%, or 8%. Day	10/1/2020	10%	15,587	3,897	19,484
	91 and thereafter:	4/1/2021	10%	15,586	3,117	18,703
	base rate + 2%.	10/1/2021	10%	15,587	2,338	17,925
		4/1/2022	10%	15,586	1,559	17,145
	7/1/2022	10%	15,587	390	15,977	
		Total		<u>\$ 155,865</u>	<u>\$ 45,592</u>	<u>\$ 201,457</u>

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Notes to Financial Statements

June 30, 2017 and 2016 (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%.	1/1/2018	8% & 9%	\$ 15,300	\$ 6,758	\$ 22,058
		7/1/2018	9%	15,300	6,197	21,497
		1/1/2019	9%	15,300	5,508	20,808
		7/1/2019	9%	15,300	4,820	20,120
		1/1/2020	9%	15,300	4,131	19,431
		7/1/2020	9%	15,300	3,443	18,743
		1/1/2021	9%	15,300	2,754	18,054
		7/1/2021	9%	15,300	2,066	17,366
		1/1/2022	9%	15,300	1,377	16,677
		7/1/2022	9%	15,300	689	15,989
			Total	\$ 153,000	\$ 37,743	\$ 190,743
TD Bank	LIBOR + 2%	4/1/2018	2.47%	\$ 6,172	\$ 1,143	\$ 7,315
		10/1/2018	2.47%	6,173	686	6,859
		4/1/2019	2.47%	6,172	610	6,782
		10/1/2019	2.47%	6,173	534	6,707
		4/1/2020	2.47%	6,172	457	6,629
		10/1/2020	2.47%	6,173	381	6,554
		4/1/2021	2.47%	6,172	305	6,477
		10/1/2021	2.47%	6,173	229	6,402
		4/1/2022	2.47%	6,172	152	6,324
		7/1/2022	2.47%	6,173	38	6,211
			Total	\$ 61,725	\$ 4,535	\$ 66,260
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%			
		4/1/2018	& 8.5%	\$ 7,822	\$ 4,726	\$ 12,548
		10/1/2018	8.5%	7,822	2,992	10,814
		4/1/2019	8.5%	7,822	2,659	10,481
		10/1/2019	8.5%	7,822	2,327	10,149
		4/1/2020	8.5%	7,822	1,995	9,817
		10/1/2020	8.5%	7,822	1,662	9,484
		4/1/2021	8.5%	7,822	1,330	9,152
		10/1/2021	8.5%	7,822	997	8,819
4/1/2022	8.5%	7,822	665	8,487		
		10/1/2022	8.5%	7,822	332	8,154
			Total	\$ 78,220	\$ 19,685	\$ 97,905

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

The balances of certain Single Family Program bonds payable include indexed floating rate bonds (“IFRBs”) directly purchased and owned by Wells Fargo Bank. The IFRBs bear interest at a weekly indexed rate mode plus a fixed spread, and are subject to mandatory tender upon the expiration of the Agency’s agreement with Wells Fargo Bank. Details of the IFRBs’ continuing covenant agreement at June 30, 2017 and 2016 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>2017</u>	<u>2016</u>
2006-92B	Wells Fargo	4/1/2014	4/1/2019	\$ 37,910	\$ 40,350

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, 2017 were as follows:

June 30, 2017								
<u>Fiscal Year</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>
2018	\$ 400	\$ 172	\$ 342	\$ 126	\$ 89,255	\$ 77,427	\$ 89,997	\$ 77,725
2019	415	168	357	122	115,190	76,766	115,962	77,056
2020	435	165	382	117	118,840	73,762	119,657	74,044
2021	450	161	400	112	117,745	70,914	118,595	71,187
2022	470	156	420	107	116,610	68,145	117,500	68,408
2023-2027	2,675	715	2,421	445	533,805	301,732	538,901	302,892
2028-2032	3,310	582	2,997	273	574,325	229,356	580,632	230,211
2033-2037	10,750	189	2,480	64	605,785	144,007	619,015	144,260
2038-2042	-	-	-	-	305,985	66,598	305,985	66,598
2043-2047	-	-	-	-	206,890	18,065	206,890	18,065
	<u>\$ 18,905</u>	<u>\$ 2,308</u>	<u>\$ 9,799</u>	<u>\$ 1,366</u>	<u>\$ 2,784,430</u>	<u>\$ 1,126,772</u>	<u>\$ 2,813,134</u>	<u>\$ 1,130,446</u>

Early Extinguishment of Debt

During the years ended June 30, 2017 and 2016, the Agency redeemed principal amounts of certain bonds totaling \$850,881 and \$642,040, 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 \$1,367 and \$742, 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.

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

Current Refunding

Year Ended June 30, 2017

On July 21, 2016 the Agency issued Series 2016-120 single family mortgage revenue bonds in the amount of \$214,265. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$158,770 of Series 2009-107A bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$8,062 and a reduction of future debt service payments equal to \$2,559.

On October 3, 2016, the Agency issued Series 2016-121 single family mortgage revenue bonds in the amount of \$254,835. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$131,440 of Series 2009-107B bonds. This refunding resulted in an economic gain equal to \$2,896 and a reduction of future debt service payments equal to \$1,936.

On February 1, 2017, the Agency issued Series 2017-122 single family mortgage revenue bonds in the amount of \$239,645. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$169,660 of Series 2009-107C bonds. This refunding resulted in an economic gain equal to \$2,249 and an increase of future debt service payments equal to \$6,681.

On June 20, 2017, the Agency issued Series 2017-123 single family mortgage revenue bonds in the amount of \$261,390. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$71,940 of Series 2006-96A bonds, \$79,550 of Series 2007-97A bonds and \$13,110 of Series 2007-98A bonds. This refunding resulted in an economic gain equal to \$4,817 and a reduction of future debt service payments equal to \$2,427.

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.

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

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.

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, 2017 and 2016; 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, 2017 are displayed in the following schedule. The following incorporates variable rate values at June 30, 2017, 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, 2017				
Fiscal Year Ending June 30	Hedged	Hedged	Net Swap Payments	Total
	Variable Rate Bond Principal	Variable Rate Bond Interest		
2018	\$ 13,454	\$ 4,447	\$ 6,690	\$ 24,591
2019	16,407	4,309	6,385	27,101
2020	22,867	4,131	5,988	32,986
2021	28,390	3,888	5,632	37,910
2022	30,917	3,604	5,244	39,765
2023-2027	128,666	14,049	20,558	163,273
2028-2032	93,669	8,382	10,435	112,486
2033-2037	110,218	2,922	2,140	115,280
	<u>\$ 444,588</u>	<u>\$ 45,732</u>	<u>\$ 63,072</u>	<u>\$ 553,392</u>

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Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

Conduit Debt Obligations

During the year ended June 30, 2017, the Agency issued Breslyn House Apartments, Cherry Grove Apartments, New Courtland Apartments, Courtyard Preservation, Parkview Knoll Apartments, Maple Mount Vernon, Lehigh Park Apartments, John Fox Towers, Hershey Plaza and Pleasant Valley 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, 2017 and 2016 include:

- Series 2015-W, 2015-X, 2015-Y, 2015-Z and 2015-AA, 2015-BB, 2015-CC, 2015-DD, Brinton Apartments 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.
- 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, 2017 and 2016, conduit debt outstanding aggregated \$324,242 and \$193,003, 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:

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

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

The Agency was in compliance with its bond covenant requirements at June 30, 2017 and 2016.

Bonds Authorized But Not Yet Issued

On June 8, 2017, the Agency Board authorized the issuance of Single Family Mortgage Revenue bonds Series 2017-124 in an amount not to exceed \$350,000. 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, 2017 and 2016. Changes in fair values are countered by reductions or increases in total interest payments required under

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Notes to Financial Statements

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variable rate bonds. Given that payments on the Agency's variable rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value.

Each of the Agency's swaps requires the Agency to post collateral in the event the fair value of the swap falls below specific thresholds of negative worth. As of and for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 were as follows:

2017			
Interest Rate Swap Type	Multifamily Program	Single Family Program	Total
Hedging Derivatives	\$ (2,198)	\$ 5,656	\$ 3,458
Hedging Derivatives - Amended	-	(14,511)	(14,511)
Investment Derivatives	(2,059)	(3,509)	(5,568)
Total Interest Rate Swaps	<u>\$ (4,257)</u>	<u>\$ (12,364)</u>	<u>\$ (16,621)</u>

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>

Hedging Derivative Instruments

The change in fair value of the Agency's hedging derivative instruments for the years ended June 30, 2017 and 2016 equaled \$17,923 and \$7,600, 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, 2017 and 2016 are detailed in the following schedule.

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Notes to Financial Statements

June 30, 2017 and 2016 (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>2016 Fair Value</u>	<u>Change In Fair Value</u>	<u>2017 Fair Value</u>
1999-67B	7/2002	4/2029	5.950%	100% of LIBOR + 50 bps	\$ 11,180	\$ (3,261)	\$ 1,094	\$ (2,167)
2001-72C	9/2001	10/2023	5.695	100% of LIBOR	4,035	(879)	336	(543)
2003-77B ¹	10/2016	10/2033	1.702	Enhanced LIBOR	15,975	(111)	475	364
2003-79B ¹	4/2017	10/2033	3.253	65% of LIBOR + 25 bps	54,300	(5,601)	2,247	(3,354)
2004-81C ¹	4/2017	10/2034	2.801	Enhanced LIBOR	20,470	(1,062)	1,116	54
2004-82B ¹	4/2016	4/2030	1.615	61% of LIBOR + 39 bps	16,160	(120)	196	76
2004-82C ¹	10/2016	10/2033	1.885	61% of LIBOR + 39 bps	21,055	(215)	364	149
2004-83C ¹	10/2015	4/2027	3.830	65% of LIBOR + 25 bps	13,865	(2,965)	1,240	(1,725)
2004-84D ¹	4/2017	10/2034	3.240	Enhanced LIBOR	5,440	(687)	528	(159)
2004-86B ¹	4/2017	10/2033	3.357	Enhanced LIBOR	22,400	(1,943)	866	(1,077)
2005-88B	10/2016	10/2035	1.645	61% of LIBOR + 39 bps	22,125	(190)	688	498
2005-88C ¹	10/2016	10/2035	1.998	61% of LIBOR + 39 bps	18,080	(187)	987	800
2005-89 ¹	10/2016	10/2035	1.718	Enhanced LIBOR	38,850	(143)	896	753
2005-91B	10/2016	10/2036	2.211	Enhanced LIBOR	63,490	(498)	1,098	600
2006-92B	10/2016	10/2036	1.950	65% of LIBOR + 25 bps	37,910	(729)	1,181	452
2006-93B	10/2016	4/2037	2.150	61% of LIBOR + 39 bps	26,045	(503)	616	113
2006-94B	10/2016	4/2027	1.413	69% of LIBOR	21,520	(586)	490	(96)
2006-95C ¹	4/2016	N/A	N/A	N/A	-	(2)	2	-
2007-98C ¹	10/2014	10/2037	4.105	61% of LIBOR + 39 bps	7,945	(1,698)	397	(1,301)
2007-99C ¹	4/2016	10/2023	3.674	69% of LIBOR	10,600	(1,253)	549	(704)
2007-100C ¹	4/2016	4/2032	4.131	65% of LIBOR + 25 bps	8,880	(2,234)	615	(1,619)
MF2005-K	3/2005	1/2036	5.183	100% of LIBOR	9,799	(4,140)	1,942	(2,198)
Total:					<u>\$ 450,124</u>	<u>\$ (29,007)</u>	<u>\$ 17,923</u>	<u>\$ (11,084)</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

At June 30, 2017, \$335 of the Agency's hedging derivatives were exposed to credit risk. At June 30, 2016, 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. The Agency's swaps rely upon the performance of counterparties. If interest rates rise and the total fair value of swaps with any counterparty becomes positive, the Agency may be exposed to credit risk on those agreements – the risk that the counterparty fails to perform according to contractual obligations.

Basis Risk and Interest Rate Risks

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

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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, 2017 and 2016:

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

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, 2017 and 2016 the Agency exchanged exercisable options, which had been embedded within effective hedging derivative instruments, in efforts to take advantage of the economic benefits associated with reducing the semiannual fixed rate payments to counterparties for certain swaps.

The aforementioned options were embedded within the respective swaps at the time the swap agreements were initiated, and were reflected in the fixed rate payable by the Agency to the respective counterparties. Exchanging the exercisable options amended the respective swap agreements by reducing the fixed rate paid to the counterparty, thereby changing the critical terms of the associated swaps. GAAP dictates that such changes trigger a termination of hedge accounting. In the instance of a termination event, amounts representing the accumulated decrease in the fair value of hedging derivatives and reported as a deferred outflow are to be recognized immediately as an item of income or expense, depending on the fair value of the swap at the time of termination. The balances recognized as an item of income or expense, respective of the amended swaps, are then amortized and recognized as a component of interest expense over the lives of the underlying hedgable items in order to recoup the effects of termination events over time. Amortization of the effects of termination events for the years ended June 30, 2017 and 2016 equaled \$1,388 and \$2,481, respectively.

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Amended hedging derivative activity for the years ended June 30, 2017 and 2016 reflected the following:

2017	
	Single Family Program
Amended hedging derivative balance at July 1, 2016	\$ (19,721)
Gain on 2016/2017 swap terminations	3,822
Amortization	1,388
Amended hedging derivative balance at June 30, 2017	<u>\$ (14,511)</u>
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>

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.

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, 2017 and 2016 were as follows:

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Bond Series	2017	2016	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
	Notional Amount	Notional Amount				
2004-85C	\$ 19,755	\$ 21,135	10/2015	4/2027	2.908%	65% of LIBOR + 25 bps
2005-87C	18,525	20,060	10/2015	4/2027	2.937	65% of LIBOR + 25 bps
RH2008A&B	10,775	13,450	12/2011	1/2021	3.407	67% of one-week LIBOR
RH2008C	9,330	14,500	6/2003	7/2020	3.457	70% of LIBOR
RH2008D	5,590	8,695	6/2011	7/2020	3.440	70% of LIBOR
Total:	<u>\$ 63,975</u>	<u>\$ 77,840</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, 2017 and 2016. 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, 2017 and 2016 are detailed in the following schedule.

2017						
Bond Series	Excess Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received	
2003-77B	\$ 1,855	10/2016	10/2033	1.702%	Enhanced LIBOR	
2004-81C	525	4/2017	10/2034	2.801	Enhanced LIBOR	
2004-82C	2,325	10/2016	10/2033	1.885	61% of LIBOR + 39 bps	
2004-83C	4,325	10/2015	4/2027	3.830	65% of LIBOR + 25 bps	
2004-84D	12,310	4/2017	10/2034	3.240	Enhanced LIBOR	
2005-88B	2,235	10/2016	10/2035	1.645	61% of LIBOR + 39 bps	
2005-88C	915	10/2016	10/2035	1.998	61% of LIBOR + 39 bps	
2005-91B	6,510	10/2016	10/2036	2.211	Enhanced LIBOR	
2006-92B	4,085	10/2016	10/2036	1.950	65% of LIBOR + 25 bps	
2006-93B	11,140	10/2016	4/2037	2.150	61% of LIBOR + 39 bps	
2006-94B	9,155	10/2016	4/2027	1.413	69% of LIBOR	
2007-99C	565	4/2016	10/2023	3.674	69% of LIBOR	
MF2005K	6,331	3/2005	1/2036	5.183	100% of Libor	
Total:	<u>\$ 62,276</u>					

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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>				

The fair values of the investment derivatives for the year ended June 30, 2017 and 2016 are shown below, and the changes in fair value equal to \$2,865 and \$3,278, 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.

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Bond Series	2017		2016	
	Notional Amount	Fair Value	Notional Amount	Fair Value
2003-77B	\$ 1,855	\$ 45	\$ 1,510	\$ (10)
2004-81C	525	2	800	(39)
2004-82B	-	-	505	(3)
2004-82C	2,325	16	1,175	(11)
2004-83C	4,325	(538)	2,290	(395)
2004-84D	12,310	(360)	8,100	(537)
2004-85C	19,755	(1,500)	21,135	(2,515)
2005-87C	18,525	(1,345)	20,060	(2,270)
2005-88B	2,235	50	785	(5)
2005-88C	915	40	915	(10)
2005-91B	6,510	62	3,640	(27)
2006-92B	4,085	49	1,645	(30)
2006-93B	11,140	48	6,125	(99)
2006-94B	9,155	(41)	7,150	(163)
2007-99C	565	(38)	-	-
MF2005K	6,331	(1,420)	2,475	(716)
RH2008A,B	10,775	(348)	13,450	(725)
RH2008C	9,330	(182)	14,500	(550)
RH2008D	5,590	(108)	8,695	(328)
Total:	<u>\$ 126,251</u>	<u>\$ (5,568)</u>	<u>\$ 114,955</u>	<u>\$ (8,433)</u>

Credit Risk

At June 30, 2017, the Agency was exposed to \$156 of credit risk with respect to its investment derivative instruments. At June 30, 2016, the Agency was not exposed to credit risk with respect to its investment derivative instruments.

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.

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10. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2017 and 2016 was as follows:

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	\$2,756,556	\$ 989,253	\$ 936,257	\$2,809,552	\$ 86,997
Notes payable	29,000	7,000	5,000	31,000	3,000
Escrow deposits and Development Reserves	147,175	275,966	271,636	151,505	71,151
Net Pension Liability	25,525	9,738	8,956	26,307	-
Other liabilities					
Accrued vacation and sick leave	3,257	-	158	3,099	50
Bond rebate	280	-	-	280	-
Borrower suspense accounts	4,139	81,861	82,600	3,400	3,400
Commonwealth grants	16,424	2,507	2,988	15,943	9,092
Federal grants	174,940	460,015	449,499	185,456	-
Other grants	5,288	23,129	14,460	13,957	-
GNMA/FNMA payables	10,426	14,462	10,426	14,462	14,462
OPEB obligation	31,538	9,802	-	41,340	-
Pennsylvania SERS	-	2,867	-	2,867	306
PHFA Insurance Program Claims	1,569	3,013	3,149	1,433	958
Project receipts	3,102	36,702	38,030	1,774	420
Unearned revenue	4,907	-	503	4,404	-
Other	8,327	5,637	11,423	2,541	165
Total Other Liabilities	<u>264,197</u>	<u>639,995</u>	<u>613,236</u>	<u>290,956</u>	<u>28,853</u>
Total	<u>\$3,222,453</u>	<u>\$1,921,952</u>	<u>\$1,835,085</u>	<u>\$3,309,320</u>	<u>\$190,001</u>

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	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>

11. Restricted and Designated Net Position

The Multifamily and Single Family Programs' June 30, 2017 and 2016 net position restrictions equaling \$295 and \$329 and \$100,303 and \$101,588, 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 \$49,072 and \$48,030 at June 30, 2017 and 2016, respectively, represent amounts restricted for the purpose of making mortgage assistance loans.

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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.

	<u>2017</u>	<u>2016</u>
General Activities:		
Homeownership Choice to fund housing opportunity in urban areas	\$ 1,500	\$ 1,500
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	10,000	10,000
Total	<u>\$ 29,500</u>	<u>\$ 29,500</u>
Multifamily Housing Program:		
Penn HOMES Program to lower development costs for apartments	\$ 10,000	\$ 10,000
Preservation from physical deterioration, financial or social distress	1,500	1,500
Total	<u>\$ 11,500</u>	<u>\$ 11,500</u>
Single Family Mortgage Loan Program:		
Closing Cost Assistance	\$ 1,000	\$ 1,000
Additional Single Family Insurance to reduce the risk of loan default	2,455	2,455
Total	<u>\$ 3,455</u>	<u>\$ 3,455</u>
Insurance Program:		
Risk Retention to provide single family mortgage insurance	<u>\$ 9,788</u>	<u>\$ 9,218</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

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35 years of service. The normal retirement pension is payable monthly during the participant's lifetime with payments ceasing upon the participant's death.

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)	
	2016	2015
Inactive employees or beneficiaries currently receiving benefits	172	159
Inactive employees entitled to but not yet receiving benefits	64	66
Active Employees	312	301
	<u>548</u>	<u>526</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

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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 \$4,150 and \$4,151 for the years ended December 31, 2016 and 2015, respectively. The Agency's average contribution rates for the years ended December 31, 2016 and 2015 equaled 21.11% and 22.24% 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, 2016 and 2015:

<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, 2016 and 2016, 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, 2016 and 2015, the annual money-weighted rate of return on investments of the Agency's Pensions, net of investment expense, was 5.34% and 0.42%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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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.

The fiduciary net position of the Agency's Pensions at December 31, 2016 and 2015 was invested as follows:

	<u>2016</u>	<u>2015</u>
Cash Equivalents	\$ 2,033	\$ 1,412
Equity Securities		
Equity exchange traded funds	15,022	11,433
U.S. and International equity mutual funds	10,597	12,748
U.S. common and preferred stocks	24,208	23,139
Fixed Income Securities		
Fixed income exchange traded funds	1,192	1,187
Fixed income mutual funds	23,116	22,467
Total:	<u>\$76,168</u>	<u>\$72,386</u>

Actuarial Assumptions

The Agency's net pension liability was measured as of December 31, 2016 and 2015, 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, 2016 and 2015 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, 2016 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-2016. Mortality rates used in the December 31, 2015 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-2015.

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

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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. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the years ended December 31, 2016 and 2015 are summarized in the following table:

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

The discount rate used to measure the total pension liability at December 31, 2016 and 2015 was 7.5%. The Pensions' fiduciary net positions are projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on the Pensions' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	2016		
	Total Pension Liability	Pension Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A)-(B)
Balances at January 1, 2016	\$ 97,911	\$ 72,386	\$ 25,525
Service Cost	1,786	-	1,786
Interest Cost	7,318	-	7,318
Changes for Experience	634	-	634
Changes of Assumptions	(927)	-	(927)
Contributions - Employer	-	3,989	(3,989)
Contributions - Member	-	161	(161)
Net Investment Income	-	3,879	(3,879)
Benefit Payments, including			
refunds of member contributions	(4,247)	(4,247)	-
Net Changes	<u>4,564</u>	<u>3,782</u>	<u>782</u>
Balances at December 31, 2016	<u>\$102,475</u>	<u>\$ 76,168</u>	<u>\$ 26,307</u>

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June 30, 2017 and 2016 (in thousands)

	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	5,994	867	5,127
Balances at December 31, 2015	<u>\$97,911</u>	<u>\$ 72,386</u>	<u>\$ 25,525</u>

The changes in assumptions reflected in the Changes in the Net Pension Liability for the periods ended December 31, 2016 and 2015 equal to (\$927) and \$1,455, respectively, were the result of incorporating mortality Scales MP-2016 and MP-2015, respectively. Prior to this change in assumption, Scale MP-2014 had been used.

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 Pension Liability for Calendar Year Ended	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
	December 31, 2016	\$ 39,506	\$ 26,307
December 31, 2015	38,464	25,525	14,659

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (in thousands)

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

For the years ended December 31, 2016 and 2015, the Pensions recognized pension expense of \$4,489 and \$4,338, respectively. At December 31, 2016 and 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2016</u>	<u>2015</u>
<u>Deferred Outflows</u>		
Differences between Expected and Actual Experience	\$ 3,481	\$ 2,373
Changes in Assumptions	5,982	6,932
Contributions made after measurement date	2,050	2,075
Net Difference Between Projected and Actual Earnings on Investments	<u>2,852</u>	<u>1,420</u>
Gross Deferred Outflows	<u>14,365</u>	<u>12,800</u>
<u>Deferred Inflows</u>		
Differences between Expected and Actual Experience	463	-
Changes in Assumptions	<u>843</u>	<u>-</u>
Gross Deferred Inflows	<u>1,306</u>	<u>-</u>
Net Deferred Outflows	<u><u>\$13,059</u></u>	<u><u>\$12,800</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	
2017	\$ 3,500
2018	2,435
2019	2,667
2020	1,645
2021	1,336
Thereafter	<u>1,476</u>
	<u><u>\$13,059</u></u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2017 and 2016 (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, 2017 and 2016, contribution rates for OPEB Plan members per participant per month equaled 6% of the insurance premiums paid. For these periods, gross Agency outlays for insurance premiums totaled \$1,247 and \$1,147, respectively, and of the amounts paid to insurance carriers by the Agency, OPEB Plan members receiving benefits paid to the Agency \$75 and \$69, respectively. This resulted in net outlays for OPEB insurance premiums paid by the Agency equal to \$1,172 and \$1,078 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 (in thousands)

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

	<u>2017</u>	<u>2016</u>
Annual required contribution (ARC)	\$ 7,405	\$ 7,405
Interest on net OPEB obligation	1,598	1,350
Adjustment to ARC	<u>(2,181)</u>	<u>(1,841)</u>
Annual OPEB expense	6,822	6,914
Contributions made	<u>(1,247)</u>	<u>(1,147)</u>
Increase in net OPEB obligation	5,575	5,767
Net OPEB obligation beginning of year	<u>35,765</u>	<u>29,998</u>
Net OPEB obligation end of year	<u>\$ 41,340</u>	<u>\$ 35,765</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, 2017	\$ 6,822	18%	\$ 41,340
June 30, 2016	6,914	17	35,765
June 30, 2015	5,103	19	29,998

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 for the years ended June 30, 2017 and 2016, respectively. For the same periods, covered payroll (annual payroll of active employees covered by the OPEB Plan) equaled \$18,523 and the ratio of the unfunded actuarial accrued liability to the covered payroll equaled 356.18%. 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, 2017 and 2016 (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 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, 2017 and 2016 (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 \$39,427 and \$940, respectively, at June 30, 2017.

Construction

As of June 30, 2017, PHFA had entered into construction contracts totaling \$8,408, of which \$4,890 was still outstanding.

15. Significant Effects of Subsequent Events

On September 28, 2017, the Agency issued Single Family Mortgage Revenue bonds Series 2017-124 totaling \$206,965. Proceeds included a portion to be used for refunding certain Single Family Mortgage Revenue Bonds previously issued by the Agency equal to \$85,650; the remainder is to be used to purchase new single family mortgage loans.

From July 1, 2017 through October 2, 2017, the effective date of these basic financial statements, PHFA has entered into construction contracts totaling \$15,958. These are in addition to the construction contracts in place as of June 30, 2017. As of October 2, 2017, \$19,725 of construction contracts totaling \$24,366 is still outstanding.

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>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service Cost	\$ 1,786	\$ 1,812	\$ 1,545
Interest	7,318	6,896	5,826
Differences Between Expected and Actual Experience	634	(604)	2,596
Changes of Assumptions	(927)	1,455	7,432
Benefit Payments, Including Refunds of Employee Contributions	(4,247)	(3,565)	(3,239)
Net Change in Total Pension Liability	4,564	5,994	14,160
Total Pension Liability - Beginning	97,911	91,917	77,757
Total Pension Liability - Ending (a)	<u>\$ 102,475</u>	<u>\$ 97,911</u>	<u>\$ 91,917</u>
Pensions Fiduciary Net Position			
Contributions - Employer	3,989	4,028	3,057
Contributions - Employee	161	123	92
Net Investment Income	3,879	281	6,071
Benefit Payments, Including Refunds of Employee Contributions	(4,247)	(3,565)	(3,239)
Net Change in Pensions Fiduciary Net Position	3,782	867	5,981
Pensions Fiduciary Net Position - Beginning	72,386	71,519	65,538
Pensions Fiduciary Net Position - Ending (b)	<u>76,168</u>	<u>72,386</u>	<u>71,519</u>
Agency's Net Pension Liability (a) - (b)	<u>\$ 26,307</u>	<u>\$ 25,525</u>	<u>\$ 20,398</u>
Pensions Fiduciary Net Position as a Percentage of Total Pension Liability	74.33%	73.93%	77.81%
Covered-Employee Payroll	\$ 18,114	\$ 17,383	\$ 17,440
Pensions Fiduciary Net Pension Liability as a Percentage of Covered-Employee Payroll	145.23%	146.84%	116.96%

Notes to Schedule:

The change of assumption reflected above for the period ended December 31, 2016 was the result of incorporating Scale MP-2016 to reflect mortality improvement; the change of assumption reflected above for the period ended December 31, 2015 was the result of incorporating Scale MP-2015 to reflect mortality improvement. Prior to the December 31, 2015 change of assumption, mortality rate tables utilized within the assumptions did not include scales to reflect mortality improvement.

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
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%
2016	3,823,254	3,989,443	(166,189)	18,114,356	21.11%

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. Years 2015 and 2016 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
2016	5.34%
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, 2017 (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	\$ 2,368	\$ 63,620	\$ 188,025	\$ 11,221	\$ 16,161	\$ -	\$ 281,395
Restricted cash and cash equivalents	1,674	50,139	76,627	-	-	-	128,440
Investments	2,145	-	89,489	-	-	-	91,634
Restricted investments	-	40	1,000	-	-	-	1,040
Accrued investment interest receivable	398	1	1,714	-	-	-	2,113
Mortgage loans receivable, net	-	12,839	81,662	-	5,022	-	99,523
Accrued mortgage loan interest receivable	-	3,784	15,796	-	208	-	19,788
Mortgages held for sale	-	-	33,521	-	-	-	33,521
Other current assets	2,632	3	16	-	2	-	2,653
Total Current Assets	9,217	130,426	487,850	11,221	21,393	-	660,107
Noncurrent Assets:							
Investments	65,062	230	99,528	-	-	-	164,820
Restricted investments	-	55	100,303	-	-	-	100,358
Mortgage loans receivable, net	3,487	325,614	2,747,936	-	33,846	-	3,110,883
Real estate owned	356	-	39,668	-	-	-	40,024
Capital assets, net	32,238	-	-	-	-	-	32,238
Intra-agency receivables	109,029	59,351	-	-	-	(168,380)	-
Other noncurrent assets	1,147	1,303	5,050	-	-	-	7,500
Total Noncurrent Assets	211,319	386,553	2,992,485	-	33,846	(168,380)	3,455,823
TOTAL ASSETS	220,536	516,979	3,480,335	11,221	55,239	(168,380)	4,115,930
DEFERRED OUTFLOWS OF RESOURCES							
Pension-related deferred outflows	14,365	-	-	-	-	-	14,365
Unamortized losses on bond refundings	-	-	5,190	-	-	-	5,190
TOTAL DEFERRED OUTFLOWS OF RESOURCES	14,365	-	5,190	-	-	-	19,555
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 234,901	\$ 516,979	\$ 3,485,525	\$ 11,221	\$ 55,239	\$ (168,380)	\$ 4,135,485
LIABILITIES							
Current Liabilities:							
Bonds and notes payable, net	\$ 400	\$ 342	\$ 89,255	\$ -	\$ -	\$ -	\$ 89,997
Accrued interest payable	14	729	19,995	-	-	-	20,738
Accounts payable and accrued expenses	2,867	-	1,354	-	296	-	4,517
Escrow deposits and development reserves	828	16,666	53,657	-	-	-	71,151
Other current liabilities	9,455	498	16,901	958	1,041	-	28,853
Total Current Liabilities	13,564	18,235	181,162	958	1,337	-	215,256
Noncurrent Liabilities:							
Bonds and notes payable, net	18,505	9,457	2,722,593	-	-	-	2,750,555
Derivative instrument - interest rate swaps	-	4,257	12,364	-	-	-	16,621
Development reserves	-	80,354	-	-	-	-	80,354
Intra-agency payables	-	-	168,380	-	-	(168,380)	-
Net pension liability	26,307	-	-	-	-	-	26,307
Other noncurrent liabilities	46,843	202,327	7,628	475	4,830	-	262,103
Total Noncurrent Liabilities	91,655	296,395	2,910,965	475	4,830	(168,380)	3,135,940
TOTAL LIABILITIES	105,219	314,630	3,092,127	1,433	6,167	(168,380)	3,351,196
DEFERRED INFLOWS OF RESOURCES							
Pension-related deferred inflows	1,306	-	-	-	-	-	1,306
Accumulated (decrease) increase in fair value of hedging derivatives	-	(2,198)	5,656	-	-	-	3,458
TOTAL DEFERRED INFLOWS OF RESOURCES	1,306	(2,198)	5,656	-	-	-	4,764
NET POSITION							
Net investment in capital assets	13,333	-	-	-	-	-	13,333
Restricted	-	295	100,303	-	49,072	-	149,670
Unrestricted	115,043	204,252	287,439	9,788	-	-	616,522
TOTAL NET POSITION	128,376	204,547	387,742	9,788	49,072	-	779,525
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 234,901	\$ 516,979	\$ 3,485,525	\$ 11,221	\$ 55,239	\$ (168,380)	\$ 4,135,485

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2017 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Operating Revenues:						
Interest income on mortgage loans	\$ 47	\$ 6,306	\$ 104,052	\$ -	\$ 464	\$ 110,869
Program income and fees	49,439	2,410	2,309	1,185	6,211	61,554
Gain on sales of mortgage-backed securities	6,736	-	-	-	-	6,736
Investment income	1,368	35	2,520	-	75	3,998
Net increase in fair value of swaps	-	260	2,605	-	-	2,865
Gain on early extinguishment of debt	-	217	1,150	-	-	1,367
Total Operating Revenues	57,590	9,228	112,636	1,185	6,750	187,389
Operating Expenses:						
Interest expense on bonds and notes	135	1,723	85,674	-	-	87,532
Financing and program expenses	187	7	18,270	-	-	18,464
Salaries and related benefits	41,105	-	-	-	2,270	43,375
General and administrative	13,027	363	6,986	-	666	21,042
Net decrease in fair value of investments	6,872	33	5,289	-	-	12,194
Provision for loan loss and real estate owned	402	(2,673)	11,724	801	2,772	13,026
Total Operating Expenses	61,728	(547)	127,943	801	5,708	195,633
Operating Income (Loss)	(4,138)	9,775	(15,307)	384	1,042	(8,244)
Non-operating Revenue						
Federal program awards	-	436,397	134	-	-	436,531
Non-operating Expense						
Federal program expense	-	436,397	134	-	-	436,531
Income (Loss) Before Transfers	(4,138)	9,775	(15,307)	384	1,042	(8,244)
Intra-agency transfers	(14,265)	(7,608)	21,687	186	-	-
Change in Net Position	(18,403)	2,167	6,380	570	1,042	(8,244)
Net Position - beginning of year	146,779	202,380	381,362	9,218	48,030	787,769
Net Position - end of year	\$ 128,376	\$ 204,547	\$ 387,742	\$ 9,788	\$ 49,072	\$ 779,525

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2017 (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	\$ -	\$ 18,648	\$ 529,662	\$ -	\$ 6,930	\$ 555,240
Receipts of mortgage-backed security premiums	6,736	-	-	-	-	6,736
Receipts of fees and other income	49,439	2,410	2,309	1,185	6,211	61,554
Receipts of interest on mortgages	47	6,319	104,904	-	403	111,673
Receipts of escrow and development reserves	16,349	13,407	3,369	-	-	33,125
Payments for mortgages and purchases	(581)	(19,827)	(523,779)	-	(3,361)	(547,548)
Payments for salaries and related benefits	(40,947)	-	-	-	-	(40,947)
Payments for goods and services	(8,765)	(365)	5,887	(937)	(2,458)	(6,638)
Net Cash Provided By Operating Activities	22,278	20,592	122,352	248	7,725	173,195
Cash Flows From Noncapital Financing Activities						
Proceeds from the issuance of bonds	-	-	993,642	-	-	993,642
Payments for retirement of bonds and notes	-	(4,521)	(933,745)	-	-	(938,266)
Payments of bonds and notes interest	-	(1,564)	(87,968)	-	-	(89,532)
Payments of financing costs	(187)	(7)	(18,270)	-	-	(18,464)
Payments (receipts) of program advances	(25,048)	(2,235)	27,097	186	(2,370)	(2,370)
Receipts of federal program awards	-	436,397	134	-	-	436,531
Payments of federal program awards	-	(436,397)	(134)	-	-	(436,531)
Net Cash (Used In) Provided By Noncapital Financing Activities	(25,235)	(8,327)	(19,244)	186	(2,370)	(54,990)
Cash Flows From Capital Financing Activities						
Purchases of capital assets	(2,525)	-	-	-	-	(2,525)
Payments for retirement of capital financing bond	(380)	-	-	-	-	(380)
Interest paid on capital debt	(128)	-	-	-	-	(128)
Net Cash Used In Capital Financing Activities	(3,033)	-	-	-	-	(3,033)
Cash Flows From Investing Activities						
Proceeds from the sale or maturity of investments	10	1,555	66,217	-	-	67,782
Investment interest receipts	2,756	110	5,788	-	75	8,729
Purchases of investments	-	-	(152,754)	-	-	(152,754)
Net Cash Provided By (Used In) Investing Activities	2,766	1,665	(80,749)	-	75	(76,243)
Net Increase (Decrease) In Cash and Cash Equivalents	(3,224)	13,930	22,359	434	5,430	38,929
Cash and cash equivalents, beginning of year	7,266	99,829	242,293	10,787	10,731	370,906
Cash and cash equivalents, end of year	\$ 4,042	\$ 113,759	\$ 264,652	\$ 11,221	\$ 16,161	\$ 409,835

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2017 (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)	\$ (4,138)	\$ 9,775	\$ (15,307)	\$ 384	\$ 1,042	\$ (8,244)
Investment income recognized	(1,368)	(35)	(2,520)	-	(75)	(3,998)
Net change in fair value of investments	6,872	33	5,289	-	-	12,194
Net change in fair value of swaps	-	(260)	(2,605)	-	-	(2,865)
Interest expense on bonds and notes	135	1,723	85,674	-	-	87,532
Financing expenses	187	7	18,270	-	-	18,464
Provision for loan loss and real estate owned	402	(2,673)	11,724	801	2,772	13,026
Depreciation	1,125	-	-	-	-	1,125
Early extinguishment of debt	-	(217)	(1,150)	-	-	(1,367)
Changes in Assets and Liabilities:						
Mortgage loans receivable, net	(581)	(1,179)	5,883	-	3,569	7,692
Mortgage loans interest receivable	-	13	852	-	(61)	804
Other assets	2,155	(2)	29,332	-	-	31,485
Accounts payable and accrued expenses	358	-	(16,459)	-	10	(16,091)
Escrow deposits and development reserves	119	2,862	1,349	-	-	4,330
Other liabilities	17,012	10,545	2,020	(937)	468	29,108
Net Cash Provided By Operating Activities	<u>\$ 22,278</u>	<u>\$ 20,592</u>	<u>\$ 122,352</u>	<u>\$ 248</u>	<u>\$ 7,725</u>	<u>\$ 173,195</u>

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	11,966	117,163	387,256	10,787	16,349	-	543,521
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	210,116	389,081	3,044,986	-	39,740	(163,551)	3,520,372
TOTAL ASSETS	222,082	506,244	3,432,242	10,787	56,089	(163,551)	4,063,893
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	12,800	4,141	11,671	-	-	-	28,612
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 234,882	\$ 510,385	\$ 3,443,913	\$ 10,787	\$ 56,089	\$ (163,551)	\$ 4,092,505
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	3,663	18,239	198,665	1,338	3,699	-	225,604
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	84,440	289,766	2,863,886	231	4,360	(163,551)	3,079,132
TOTAL LIABILITIES	88,103	308,005	3,062,551	1,569	8,059	(163,551)	3,304,736
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	146,779	202,380	381,362	9,218	48,030	-	787,769
TOTAL LIABILITIES AND NET POSITION	\$ 234,882	\$ 510,385	\$ 3,443,913	\$ 10,787	\$ 56,089	\$ (163,551)	\$ 4,092,505

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 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 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	24,097	38,846	204,248	482	9,354	277,027
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	(23,025)	(6,858)	(293,390)	79	(2,456)	(325,650)
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	(1,074)	-	-	-	-	(1,074)
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	2,451	1,949	983	-	35	5,418
Net Increase (Decrease) In Cash and Cash Equivalents	2,449	33,937	(88,159)	561	6,933	(44,279)
Cash and cash equivalents, beginning of year	4,817	65,892	330,452	10,226	3,798	415,185
Cash and cash equivalents, end of year	\$ 7,266	\$ 99,829	\$ 242,293	\$ 10,787	\$ 10,731	\$ 370,906

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Pennsylvania Housing Finance Agency (the Agency), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 2, 2017. Our report includes reference to other auditors who audited the financial statements of the Homeowners' Emergency Mortgage Assistance Program (HEMAP), as described in our report on the Agency's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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



Purpose of this Report

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

KPMG LLP

Harrisburg, Pennsylvania
October 2, 2017