



**PENNSYLVANIA HOUSING FINANCE AGENCY**

Basic Financial Statements and Supplementary Information

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis (unaudited) .....	3
Basic Financial Statements	
Balance Sheets .....	13
Statements of Revenues, Expenses and Changes in Net Position.....	14
Statements of Cash Flows.....	15
Notes to Financial Statements.....	17
Required Supplementary Information	
Schedule of Changes in the Agency's Net Pension Liability and Related Ratios (unaudited) .....	71
Schedule of Employer Contributions to Agency Employees' Retirement Plan and Government Excess Benefit Plan (unaudited).....	72
Schedule of Investment Returns of Agency Employees' Retirement Plan and Government Excess Benefit Plan (unaudited).....	73
Schedule of Changes in Total OPEB Liability and Related Ratios (unaudited) .....	74
Supplementary Information	
Combining Balance Sheet, June 30, 2018.....	75
Combining Statement of Revenues, Expenses and Changes in Net Position, Year Ended June 30, 2018.....	76
Combining Statement of Cash Flows, Year Ended June 30, 2018 .....	77
Combining Balance Sheet, June 30, 2017.....	79
Combining Statement of Revenues, Expenses and Changes in Net Position, Year Ended June 30, 2017.....	80
Combining Statement of Cash Flows, Year Ended June 30, 2017 .....	81

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Basic Financial Statements and Supplementary Information

June 30, 2018 and 2017

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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 ..... 83



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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 Pennsylvania Housing Finance Agency (the Agency), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2018 and 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.

#### *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 at June 30, 2018 and 2017, 6 percent and 7 percent, respectively, of total net position at June 30, 2018 and 2017, and 1 percent and 4 percent, respectively, of total operating revenues for the years then ended. 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### *Opinion*

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Housing Finance Agency as of June 30, 2018 and 2017, and the changes in financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

#### *Emphasis of Matter*

As discussed in Note 12 to the financial statements, in 2018, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which required the Agency to record its long-term obligation



for postemployment benefits other than pensions. This standard has been applied retrospectively, resulting in the restatement of beginning net position. Our opinion is not modified with respect to this matter.

#### *Other Matters*

##### Required Supplementary Information

U.S. generally accepted accounting principles require that 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 changes in total OPEB liability and related ratio on pages 3-12, 71, 72, 73, and 74, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

##### Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The 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, 2018 and 2017 on pages 75-82, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining balance sheets, the combining statements of revenues, expenses, and changes in net position, and the combining statements of cash flows are the responsibility of management and were 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 combining balance sheets, the combining statements of revenues, expenses, and changes in net position, and the combining statements of cash flows are 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 26, 2018 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 26, 2018

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (unaudited)

June 30, 2018 and 2017 (amounts rounded)

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### **Management's Discussion and Analysis**

#### **Introduction**

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

#### **Understanding the Basic Financial Statements**

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

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

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

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

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

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (unaudited)

June 30, 2018 and 2017 (amounts rounded)

**Condensed Summary Balance Sheet (In thousands)**

	<b>2018</b>	<b>2017 *</b> <b>(as restated)</b>	<b>Increase/(Decrease)</b>	
<b>Assets:</b>				
Mortgage loans receivable, net	\$ 3,290,302	\$ 3,210,406	\$ 79,896	2.5%
Capital assets, net	40,588	32,238	8,350	25.9%
Other assets	1,003,112	873,286	129,826	14.9%
<b>Total Assets</b>	<b>4,334,002</b>	<b>4,115,930</b>	<b>218,072</b>	<b>5.3%</b>
Deferred Outflows of Resources	32,978	38,981	(6,003)	(15.4%)
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 4,366,980</b>	<b>\$ 4,154,911</b>	<b>\$ 212,069</b>	<b>5.1%</b>
<b>Liabilities:</b>				
Current liabilities	269,394	215,256	54,138	25.2%
Noncurrent liabilities	3,310,923	3,200,116	110,807	3.5%
<b>Total Liabilities</b>	<b>3,580,317</b>	<b>3,415,372</b>	<b>164,945</b>	<b>4.8%</b>
Deferred Inflows of Resources	36,265	9,738	26,527	272.4%
<b>Net Position</b>				
Net Investment in Capital Assets	1,588	13,333	(11,745)	(88.1%)
Restricted	145,215	149,670	(4,455)	(3.0%)
Unrestricted	603,595	566,798	36,797	6.5%
<b>Total Net Position</b>	<b>750,398</b>	<b>729,801</b>	<b>20,597</b>	<b>2.8%</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 4,366,980</b>	<b>\$ 4,154,911</b>	<b>\$ 212,069</b>	<b>5.1%</b>

\* - Restatement was due to the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 12 to the financial statements for details.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (unaudited)

June 30, 2018 and 2017 (amounts rounded)

**Condensed Summary Balance Sheet (In thousands)**

	<b>2017 *</b> <b>(as restated)</b>	<b>2016 *</b> <b>(as restated)</b>	<b>Increase/(Decrease)</b>	
<b>Assets:</b>				
Mortgage loans receivable, net	\$ 3,210,406	\$ 3,224,510	\$ (14,104)	(0.4%)
Capital assets, net	32,238	30,843	1,395	4.5%
Other assets	873,286	808,540	64,746	8.0%
<b>Total Assets</b>	<b>4,115,930</b>	<b>4,063,893</b>	<b>52,037</b>	<b>1.3%</b>
Deferred Outflows of Resources	38,981	32,886	6,095	18.5%
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 4,154,911</b>	<b>\$ 4,096,779</b>	<b>\$ 58,132</b>	<b>1.4%</b>
<b>Liabilities:</b>				
Current liabilities	215,256	225,604	(10,348)	(4.6%)
Noncurrent liabilities	3,200,116	3,124,852	75,264	2.4%
<b>Total Liabilities</b>	<b>3,415,372</b>	<b>3,350,456</b>	<b>64,916</b>	<b>1.9%</b>
Deferred Inflows of Resources	9,738	5,685	4,053	71.3%
<b>Net Position</b>				
Net Investment in Capital Assets	13,333	11,558	1,775	15.4%
Restricted	149,670	149,947	(277)	(0.2%)
Unrestricted	566,798	579,133	(12,335)	(2.1%)
<b>Total Net Position</b>	<b>729,801</b>	<b>740,638</b>	<b>(10,837)</b>	<b>(1.5%)</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 4,154,911</b>	<b>\$ 4,096,779</b>	<b>\$ 58,132</b>	<b>1.4%</b>

\* - Restatement was due to the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 12 to the financial statements for details.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (unaudited)

June 30, 2018 and 2017 (amounts rounded)

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

	<b>2018</b>	<b>2017 *</b> <b>(as restated)</b>	<b>Increase/(Decrease)</b>	
Revenues:				
Mortgage loan interest	\$ 111,807	\$ 110,869	\$ 938	0.8%
Other operating revenues	80,993	76,520	4,473	5.8%
Federal program awards	<u>431,212</u>	<u>436,531</u>	<u>(5,319)</u>	<u>(1.2%)</u>
Total Revenues	624,012	623,920	92	0.0%
Expenses:				
Interest and financing expenses	103,001	105,996	(2,995)	(2.8%)
Other operating expenses	69,202	92,230	(23,028)	(25.0%)
Federal program expenses	<u>431,212</u>	<u>436,531</u>	<u>(5,319)</u>	<u>(1.2%)</u>
Total Expenses	<u>603,415</u>	<u>634,757</u>	<u>(31,342)</u>	<u>(4.9%)</u>
Change in Net Position	20,597	(10,837)	31,434	(290.1%)
Net Position - Beginning of Year	<u>729,801</u>	<u>740,638</u>	<u>(10,837)</u>	<u>(1.5%)</u>
Net Position - End of Year	<u>\$ 750,398</u>	<u>\$ 729,801</u>	<u>\$ 20,597</u>	<u>2.8%</u>
	<b>2017 *</b>	<b>2016 *</b>	<b>Increase/(Decrease)</b>	
	<b>(as restated)</b>	<b>(as restated)</b>		
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	<u>436,531</u>	<u>412,750</u>	<u>23,781</u>	<u>5.8%</u>
Total Revenues	623,920	642,808	(18,888)	(2.9%)
Expenses:				
Interest and financing expenses	105,996	117,038	(11,042)	(9.4%)
Other operating expenses	92,230	86,760	5,470	6.3%
Federal program expenses	<u>436,531</u>	<u>412,750</u>	<u>23,781</u>	<u>5.8%</u>
Total Expenses	<u>634,757</u>	<u>616,548</u>	<u>18,209</u>	<u>3.0%</u>
Change in Net Position	(10,837)	26,260	(37,097)	(141.3%)
Net Position - Beginning of Year	<u>740,638</u>	<u>714,378</u>	<u>26,260</u>	<u>3.7%</u>
Net Position - End of Year	<u>\$ 729,801</u>	<u>\$ 740,638</u>	<u>\$ (10,837)</u>	<u>(1.5%)</u>

\* - Restatement was due to the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 12 to the financial statements for details.

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (unaudited)

June 30, 2018 and 2017 (amounts rounded)

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### **Analysis of Overall Financial Position and Results of Operations**

#### ***Comparison of Years Ended June 30, 2018 and 2017***

Assets increased by \$218 million from \$4.116 billion to \$4.334 billion. The increase in mortgage loans receivable was attributable to the Agency's ongoing efforts to build its balance sheet by purchasing and holding mortgage loans receivable and utilizing capital provided by single family mortgage revenue bonds. The increase in capital assets was primarily attributable to the Agency expanding the footprint of its headquarters by constructing an addition to its building. The increase in other assets was primarily attributable to increases in cash and investments, which resulted from proceeds of general obligation bonds, issued to fund the construction of the addition to the Agency's headquarters, remaining unspent at June 30, 2018; the timing of the issuance of Series 2018-126 mortgage revenue bonds on June 27, 2018 – only three days prior to fiscal year end, leaving a sizeable amount of proceeds yet to be utilized; and the timing of mortgage revenue bond retirements anticipated to occur subsequent to the fiscal year end, compared to retirements of a similar nature that had been made in the prior year on June 20, 2017 – prior to the fiscal year end.

Deferred outflows of resources decreased by \$6 million from \$39 million to \$33 million. The decrease stemmed from the amortization of other postemployment benefit ("OPEB") deferred outflows that resulted from the impact of changes in the discount rate and mortality and trend assumptions in the prior year, and reductions 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, 2018 valuation date.

Liabilities increased by \$165 million from \$3.415 billion to \$3.580 billion. The increase was primarily attributable to additions to the balances of bonds and notes payable totaling \$170 million, which came as the result of the Agency's vigorous efforts to increase the size of its balance sheet – purchasing and holding mortgage loans receivable by utilizing capital provided by single family mortgage revenue bonds.

Deferred inflows of resources increased by \$26 million from \$10 million to \$36 million. The increase was attributable to balances of OPEB-related deferred inflows growing by \$23 million as a result of the difference between actuarially-determined expected and actual OPEB experience and changes in actuarial assumptions relating to discount and mortality rates, coupled with a \$3 million growth in pension-related deferred inflows resulting from the difference between actuarially-determined projected and actual investment earnings.

The Agency's total net position increased by \$20 million from \$730 million to \$750 million. While revenues in total remained relatively consistent with the prior year, the growth in net position resulted, primarily, from a decrease in operating expenses. Salary and benefit costs decreased

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (unaudited)

June 30, 2018 and 2017 (amounts rounded)

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by \$9 million as a result of a lower actuarially determined OPEB expense than that of the prior year and the absence of a one-time accrued sick leave payout offered to employees in the prior year that came as a result of a change in accrued leave policy. Additionally, the decrease in the fair value of investments as of the June 30, 2018 market valuation date was \$8 million less than the decrease in the fair value of investments one year prior. Finally, the provision for loan loss and real estate owned was \$7 million less than that of the prior year, thanks to the Agency's ongoing efforts to liquidate its inventory of real estate owned.

### ***Comparison of Years Ended June 30, 2017 and 2016***

Assets increased by \$52 million from \$4.064 billion to \$4.116 billion, the result of a decrease in mortgage loans receivable offset by an increase in capital assets and other assets. Mortgage loans receivable decreased by \$26 million as 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. Capital assets increased by \$1 million as a result of the Agency expanding the footprint of its headquarters by constructing an addition to its building. Other assets increased by \$65 million as a result of increases in the balances of cash and investments; the increase in cash and investment balances came as a result of 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.

Deferred outflows of resources increased by \$6 million from \$33 million to \$39 million. The net increase stemmed from the impact of changes in the discount rate and mortality and trend assumptions applied to OPEB valuations, offset by reductions 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 \$65 million from \$3.350 billion to \$3.415 billion. The increase was brought about, primarily, by increases in the balances of bonds and notes payable. The increase to the balances of bonds and notes payable, equal to \$55 million, came as the result of 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.

Deferred inflows of resources increased by \$4 million from \$6 million to \$10 million. This is attributable to establishing balances of accumulated increases in fair values of hedging derivatives, which 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 derivative instruments.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (unaudited)

June 30, 2018 and 2017 (amounts rounded)

The Agency's overall net position decreased by \$11 million from \$741 million to \$730 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.

**Analysis of Capital Asset Activity** *(In thousands)*

	<b>Balances at June 30</b>		<b>Increase/ (Decrease)</b>
	<b>2018</b>	<b>2017</b>	
<b>Nondepreciable Capital Assets:</b>			
Land	\$ 2,454	\$ 2,454	\$ -
Construction in progress	10,974	2,136	8,838
Total nondepreciable capital assets	<u>13,428</u>	<u>4,590</u>	<u>8,838</u>
<b>Depreciable Capital Assets:</b>			
Building	32,091	32,079	12
Furniture, fixtures and equipment	10,367	9,905	462
Less accumulated depreciation:			
Building	(8,818)	(8,316)	(502)
Furniture, fixtures and equipment	<u>(6,480)</u>	<u>(6,020)</u>	<u>(460)</u>
Total depreciable capital assets, net	<u>27,160</u>	<u>27,648</u>	<u>(488)</u>
<b>Total Capital Assets, net</b>	<u>\$ 40,588</u>	<u>\$ 32,238</u>	<u>\$ 8,350</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (unaudited)

June 30, 2018 and 2017 (amounts rounded)

	<b>Balances at June 30</b>		<b>Increase/ (Decrease)</b>
	<b>2017</b>	<b>2016</b>	
<b>Nondepreciable Capital Assets:</b>			
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>
<b>Depreciable Capital Assets:</b>			
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>
<b>Total Capital Assets, net</b>	<u>\$ 32,238</u>	<u>\$ 30,843</u>	<u>\$ 1,395</u>

Increases in the balances attributable to construction in progress at June 30, 2018 and 2017 resulted from the Agency's headquarters expansion; construction is anticipated to conclude in March 2019. Balances attributable to the Agency's building increased moderately for the years ended June 30, 2018 and 2017 by virtue of typical repairs and maintenance. Increase in the balances of furniture, fixtures and equipment for the years ended June 30, 2018 and 2017 was attributed primarily to the purchase of computers and related equipment.

**Analysis of Long-Term Debt Activity** (In thousands)

<b>Agency Program</b>	<b>Long-Term Debt at June 30</b>		<b>Increase (Decrease)</b>
	<b>2018</b>	<b>2017</b>	
General Activities	\$ 39,000	\$ 18,905	\$ 20,095
Multifamily Program	9,457	9,799	(342)
Single Family Program	2,962,398	2,811,848	150,550
Total Long-Term Debt	<u>\$ 3,010,855</u>	<u>\$ 2,840,552</u>	<u>\$ 170,303</u>

<b>Agency Program</b>	<b>Long-Term Debt at June 30</b>		<b>Increase (Decrease)</b>
	<b>2017</b>	<b>2016</b>	
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>

**PENNSYLVANIA HOUSING FINANCE AGENCY**  
Management's Discussion and Analysis (unaudited)  
June 30, 2018 and 2017 (amounts rounded)

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**Year Ended June 30, 2018**

**Additions**

Additions to Agency bonds and notes payable for the year ended June 30, 2018 included the following:

Date	Single Family Program Bond Series	General Obligation Bond Series	Original Issue Premium	Total Proceeds	New Mortgage Loan Production Proceeds	Refunding Proceeds	Single Family Program Bond Series Refunded
9/28/17	2017-124	-	\$ 3,683	\$ 206,965	\$ 122,100	\$ 13,710	2003-77B
9/28/17	2017-124	-	-	-	-	71,940	2017-123C
12/19/17	2017-125	-	-	300,205	125,000	14,695	2004-82B
12/19/17	2017-125	-	-	-	-	21,055	2004-82C
12/19/17	2017-125	-	-	-	-	21,540	2005-88B
12/19/17	2017-125	-	-	-	-	18,080	2005-88C
12/19/17	2017-125	-	-	-	-	62,480	2005-91B
12/19/17	2017-125	-	-	-	-	37,355	2006-92B
3/20/18	-	Headquarters	-	40,000	-	-	-
6/27/18	2018-126	-	1,822	123,175	123,175	-	-
Total Additions:			<u>\$ 5,505</u>	<u>\$ 670,345</u>			

**Reductions**

Reductions to Agency bonds and notes payable for the year ended June 30, 2018 included the following:

Date	Single Family Program Bond Series Refunded	Refunded Amount	Scheduled Debt Service	Advance Debt Service	Original Issue Premium Amortization
9/28/17	2003-77	\$ 13,710	\$ -	\$ -	\$ -
9/28/17	2017-123C	71,940	-	-	-
12/19/17	2004-82B	14,695	-	-	-
12/19/17	2004-82C	21,055	-	-	-
12/19/17	2005-88B	21,540	-	-	-
12/19/17	2005-88C	18,080	-	-	-
12/19/17	2005-91B	62,480	-	-	-
12/19/17	2006-92B	37,355	-	-	-
Various	-	-	82,612	158,465	3,615
Total Reductions:		<u>\$ 260,855</u>	<u>\$ 82,612</u>	<u>\$ 158,465</u>	<u>\$ 3,615</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**  
Management's Discussion and Analysis (unaudited)  
June 30, 2018 and 2017 (amounts rounded)

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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:

Date	Single Family Program Bond Series	General Obligation Note	Original Issue Premium	Total Proceeds	New Mortgage Loan Production Proceeds	Refunding Proceeds	Single Family Program Bond Series Refunded
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, 2018 included the following:

Date	Single Family Program Bond Series Refunded	Refunded Amount	Scheduled Debt Service	Advance Debt Service	Original Issue Premium Amortization
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>

**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](http://www.phfa.org).

# PENNSYLVANIA HOUSING FINANCE AGENCY

## Balance Sheets

June 30, 2018 and 2017 (in thousands)

<b>ASSETS</b>	<b>2018</b>	<b>2017 (Restated)</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 508,482	\$ 281,395
Restricted cash and cash equivalents	146,013	128,440
Investments	1,814	91,634
Restricted investments	1,010	1,040
Accrued investment interest receivable	1,922	2,113
Mortgage loans receivable, net	102,145	99,523
Accrued mortgage loan interest receivable	19,140	19,788
Mortgages held for sale	21,784	33,521
Other current assets	2,606	2,653
<b>Total Current Assets</b>	<b>804,916</b>	<b>660,107</b>
<b>Noncurrent Assets:</b>		
Investments	165,554	164,820
Restricted investments	103,363	100,358
Mortgage loans receivable, net	3,188,157	3,110,883
Real estate owned	24,990	40,024
Capital assets, net	40,588	32,238
Other noncurrent assets	6,434	7,500
<b>Total Noncurrent Assets</b>	<b>3,529,086</b>	<b>3,455,823</b>
<b>TOTAL ASSETS</b>	<b>4,334,002</b>	<b>4,115,930</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
OPEB-related deferred outflows	17,107	19,426
Pension-related deferred outflows	12,521	14,365
Unamortized losses on bond refundings	3,350	5,190
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>32,978</b>	<b>38,981</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 4,366,980</b>	<b>\$ 4,154,911</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 4,991	\$ 4,517
Bonds and notes payable, net	121,282	89,997
Accrued interest payable	23,486	20,738
Escrow deposits and development reserves	74,819	71,151
Other current liabilities	44,816	28,853
<b>Total Current Liabilities</b>	<b>269,394</b>	<b>215,256</b>
<b>Noncurrent Liabilities:</b>		
Bonds and notes payable, net	2,889,573	2,750,555
Derivative instrument - interest rate swaps	7,902	16,621
Development reserves	85,078	80,354
Net OPEB liability	83,656	105,516
Net pension liability	21,220	26,307
Other noncurrent liabilities	223,494	220,763
<b>Total Noncurrent Liabilities</b>	<b>3,310,923</b>	<b>3,200,116</b>
<b>TOTAL LIABILITIES</b>	<b>3,580,317</b>	<b>3,415,372</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
OPEB-related deferred inflows	28,133	4,974
Pension-related deferred inflows	4,242	1,306
Accumulated increase in fair value of hedging derivatives	3,890	3,458
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>36,265</b>	<b>9,738</b>
<b>NET POSITION</b>		
Net investment in capital assets	1,588	13,333
Restricted	145,215	149,670
Unrestricted, as restated (see Note 12)	603,595	566,798
<b>TOTAL NET POSITION</b>	<b>750,398</b>	<b>729,801</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 4,366,980</b>	<b>\$ 4,154,911</b>

See accompanying notes to financial statements.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2018 and 2017 (in thousands)

	<b>2018</b>	<b>2017</b> <b>(Restated)</b>
<b>Operating Revenues:</b>		
Interest income on mortgage loans	\$ 111,807	\$ 110,869
Program income and fees	55,518	61,554
Gain on sales of mortgage-backed securities	4,822	6,736
Investment income	12,231	3,998
Net increase in fair value of swaps	7,290	2,865
Gain on early extinguishment of debt	1,132	1,367
	<u>192,800</u>	<u>187,389</u>
<b>Total Operating Revenues</b>	<u>192,800</u>	<u>187,389</u>
<b>Operating Expenses:</b>		
Interest expense on bonds and notes	87,746	87,532
Financing and program expenses	15,255	18,464
Salaries and related benefits	36,434	45,968
General and administrative	22,531	21,042
Net decrease in fair value of investments	4,203	12,194
Provision for loan loss and real estate owned	6,034	13,026
	<u>172,203</u>	<u>198,226</u>
<b>Total Operating Expenses</b>	<u>172,203</u>	<u>198,226</u>
<b>Operating Income (Loss)</b>	20,597	(10,837)
<b>Non-operating Revenue</b>		
Federal program awards	431,212	436,531
<b>Non-operating Expense</b>		
Federal program expense	<u>431,212</u>	<u>436,531</u>
<b>Change in Net Position</b>	20,597	(10,837)
<b>Net Position - beginning of year, as restated (see note 12)</b>	<u>729,801</u>	<u>740,638</u>
<b>Net Position - end of year</b>	<u>\$ 750,398</u>	<u>\$ 729,801</u>

See accompanying notes to financial statements.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Statements of Cash Flows

Years Ended June 30, 2018 and 2017 (in thousands)

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities</b>		
Receipts of mortgage loan payments	\$ 578,557	\$ 555,240
Receipts of mortgage-backed security premiums	4,822	6,736
Receipts of fees and other income	55,518	61,554
Receipts of interest on mortgages	112,455	111,673
Receipts of escrow and development reserves	29,113	33,125
Payments for mortgages and purchases	(646,339)	(547,548)
Payments for salaries and related benefits	(34,529)	(40,947)
Payments for goods and services	(10,822)	(6,638)
<b>Net Cash Provided By Operating Activities</b>	<u>88,775</u>	<u>173,195</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Proceeds from the issuance of bonds	635,850	993,642
Payments for retirement of bonds and notes	(485,642)	(938,266)
Payments of bonds and notes interest	(85,351)	(89,532)
Payments of financing costs	(15,255)	(18,464)
Repayments of program advances	(1,041)	(2,370)
Receipts of federal program awards	431,212	436,531
Payments of federal program awards	(431,212)	(436,531)
<b>Net Cash Provided By (Used In) Noncapital Financing Activities</b>	<u>48,561</u>	<u>(54,990)</u>
<b>Cash Flows From Capital Financing Activities</b>		
Purchases of capital assets	(9,429)	(2,525)
Proceeds from the issuance of capital financing bond	40,000	-
Payments for retirement of capital financing bond	(19,905)	(380)
Interest paid on capital debt	(375)	(128)
<b>Net Cash Provided By (Used In) Capital Financing Activities</b>	<u>10,291</u>	<u>(3,033)</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from the sale or maturity of investments	163,780	67,782
Investment interest receipts	12,422	8,729
Purchases of investments	(79,169)	(152,754)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<u>97,033</u>	<u>(76,243)</u>
<b>Net Increase In Cash and Cash Equivalents</b>	244,660	38,929
Cash and cash equivalents, beginning of year	<u>409,835</u>	<u>370,906</u>
Cash and cash equivalents, end of year	<u>\$ 654,495</u>	<u>\$ 409,835</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Statements of Cash Flows (continued)

Years Ended June 30, 2018 and 2017 (in thousands)

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	<u>2018</u>	<u>2017</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</b>		
Operating Income (Loss)	\$ 20,597	\$ (10,837)
Investment income recognized	(12,231)	(3,998)
Net change in fair value of investments	4,203	12,194
Net change in fair value of swaps	(7,290)	(2,865)
Interest expense on bonds and notes	87,746	87,532
Financing expenses	15,255	18,464
Provision for loan loss and real estate owned	6,034	13,026
Depreciation	1,072	1,125
Early extinguishment of debt	(1,132)	(1,367)
Loss on disposal of capital assets	7	-
Changes in Assets and Liabilities:		
Mortgage loans receivable, net	(74,786)	7,692
Mortgage loans interest receivable	648	804
Real estate owned, net	15,073	29,612
Other assets	(236)	1,873
Accounts payable and accrued expenses	479	(16,091)
Escrow deposits and development reserves	8,392	4,330
Derivative instrument - interest rate swap	696	-
Other liabilities	<u>24,248</u>	<u>31,701</u>
<b>Net Cash Provided By Operating Activities</b>	<u><u>\$ 88,775</u></u>	<u><u>\$ 173,195</u></u>

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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#### **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, 2018 and 2017 (in thousands)

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### 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 various 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 various 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 to cover the risk of mortgage default 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 are derived 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, 2018 and 2017 (in thousands)

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### **Fair Value Application and Measurement**

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

### **Cash and Cash Equivalents**

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

### **Investments**

Investments are reported at fair value, determined by reference to published market prices and quotations. Changes in fair values are recognized separately within the Statement of Revenues, Expenses and Changes in Net Position.

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

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

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

Mortgage loans receivable consist primarily of single family and multifamily loans. The current portion of mortgage loans receivable represents the contractual amount due within the forthcoming year.

Mortgage loans that the Agency has the ability and intent to hold for the foreseeable future are deemed to be held for investment and are valued at amortized cost. Amortized cost includes the balances of principal outstanding, unamortized premiums and discounts and capitalized

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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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.

#### **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.

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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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; OPEB-related deferred outflows, which result from the Agency's post-employment healthcare benefits plan ("OPEB Plan"); and pension-related deferred outflows, which result from the Agency's Employees' Retirement Plan ("Pension Plan") and Governmental Excess Benefit Plan ("Excess Plan") (collectively "Pensions" or "Pension Plans"). OPEB-related and Pension-related deferred outflows of resources represent differences between expected and actual experience, changes in assumptions and amounts resulting from contributions made during the Agency's fiscal year subsequent to the OPEB Plan's or Pensions' measurement dates. Deferred outflows of resources are recognized over a closed period, and are amortized over the remaining average service life of all active and inactive employees who are provided OPEB or 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 discounts or premiums. The current portion of bonds and notes payable represents the scheduled principal payable within the forthcoming year.

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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### **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 OPEB Liability**

The Agency is required to measure and disclose amounts relating to net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense and the fiduciary net position of the Agency’s OPEB Plan. The Agency does not fund its OPEB liability; rather, the Agency provides health insurance for its retirees on a pay-as-you-go basis, therefore, the OPEB Plan has no fiduciary net position.

### **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.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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### **Other Liabilities**

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

### **Deferred Inflows of Resources**

Deferred inflows of resources include OPEB Plan-related and Pension Plan-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, and the accumulated increase in fair value of hedging derivatives, which represents the anticipated future utilization of the value of interest rate swap agreements deemed to be effective hedging derivatives.

### **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 and Commonwealth 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

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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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.

### **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 investments and investment interest income.

### **Pension and Other Postemployment Benefits Expense**

Pension expense and other postemployment benefit expense are reported as salaries and related benefits and represent the estimated cost of the benefits earned by employees during the period, with the addition or subtraction of amounts that are deferred and amortized into expense over time as required by GAAP.

### **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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), enhances previous standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenditures relating to OPEB provided to state and local government employees, and identifies the methods

## PENNSYLVANIA HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. The financial reporting effects of the implementation of GASB 75, effective for the Agency's fiscal year ended June 30, 2018 and applied retroactively, are discussed in greater detail within Note 12.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the Agency's fiscal year ended June 30, 2018, had no impact on the Agency's basic financial statements.

GASB Statement No. 85, *Omnibus 2017*, effective for the Agency's fiscal year ending June 30, 2018, addresses practice issues that have been identified during the implementation and application of certain GASB Statements and enhances consistency in the application of accounting and financial reporting requirements. Adoption of this standard did not have a significant impact on the Agency's basic financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the Agency's fiscal year ending June 30, 2018, improves consistency in accounting and financial reporting for in-substance defeasance of debt, prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Adoption of this standard did not have a significant impact on the Agency's basic financial statements.

#### **Accounting Standards Issued But Not Yet Adopted**

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

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016, effective for the Agency's fiscal year ending June 30, 2019.
- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017, effective for the Agency's fiscal year ending June 30, 2020.
- GASB Statement No. 87, *Leases*, issued June 2017, effective for the Agency's fiscal year ending June 30, 2021.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, issued April 2018, effective for the Agency's fiscal year ending June 30, 2020.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, issued June 2018, effective for the Agency's fiscal year ending June 30, 2021.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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### 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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Cash	\$ 268,287	\$ 56,670
Money market accounts	<u>386,208</u>	<u>353,165</u>
Total carrying amount of cash and cash equivalents	<u>\$ 654,495</u>	<u>\$ 409,835</u>
Bank balance of cash and cash equivalents	<u>\$ 636,462</u>	<u>\$ 413,803</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, 2018 and 2017, the fair value of the Agency's cash deposits equaled \$268,287 and \$56,670, respectively, with corresponding bank balances equal to \$252,549 and \$64,103, respectively, of which \$251,049 and \$63,103, 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, 2018 and 2017, the fair value of the Agency's money market accounts, reported as cash equivalents, equaled \$386,208 and \$353,165, respectively, with corresponding bank balances equal to \$384,731 and \$349,700, 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, 2018 and 2017 (in thousands)

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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;

## PENNSYLVANIA HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017 (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, 2018 and 2017 were as follows:

Investment	2018		2017	
	Level 1	Level 2	Level 1	Level 2
U.S. Treasury bonds	\$ -	\$ -	\$ 2,135	\$ -
U.S. Treasury bills	-	-	89,489	-
GNMA mortgage-backed securities	-	82,401	-	99,831
Refco strips	-	65	-	114
Freddie Mac corporate bonds	-	10,055	-	4,941
FNMA mortgage-backed securities	-	10,433	-	11,030
FNMA corporate bonds	-	3,363	-	1,500
HUD bond	-	1,804	-	1,806
Private Export Funding Corporation bonds	-	8,265	-	8,457
Tennessee Valley Authority bonds	-	68,875	-	65,259
Federal Farm Credit Bank bonds	-	46,943	-	30,383
Federal Home Loan Bank bonds	-	39,537	-	42,907
	<u>\$ -</u>	<u>\$271,741</u>	<u>\$ 91,624</u>	<u>\$266,228</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.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

The credit quality ratings of the Agency's investments for the years ended June 30, 2018 and 2017, as determined by Moody's Investors Service, are shown below. Amounts reported therein are comprised of securities implicitly guaranteed by the U.S. Government. At June 30, 2018 and 2017, \$161,410 and \$267,091, 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</u>	<b>Fair Value at June 30</b>		<b>Credit Rating</b>
	<b>2018</b>	<b>2017</b>	
Freddie Mac corporate bonds	10,055	4,941	Aaa
FNMA mortgage-backed securities	10,433	11,030	Aaa
FNMA corporate bonds	3,363	1,500	Aaa
Federal Farm Credit Bank bonds	46,943	30,383	Aaa
Federal Home Loan Bank bonds	39,537	42,907	Aaa
Total	<u>\$ 110,331</u>	<u>\$ 90,761</u>	

Money market accounts with fair values of \$386,208 and \$353,165 at June 30, 2018 and 2017, respectively, that were held by the Agency and reported as cash equivalents were rated as follows by Moody's Investors Service:

<b>Moody's Rating</b>	<b>Fair Value</b>	
	<b>2018</b>	<b>2017</b>
AAA	\$ 4,409	\$ -
Aaa	381,799	351,846
Not Rated		1,319
Total	<u>\$ 386,208</u>	<u>\$ 353,165</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.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (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, 2018 and 2017, the Agency had the following concentrations of credit risk:

<b>Investment Issuer</b>	<b>2018</b>		<b>2017</b>	
	<b>Fair Value</b>	<b>% of Total Investments</b>	<b>Fair Value</b>	<b>% of Total Investments</b>
U.S. Treasury Department	\$ -	0.00%	\$ 91,624	25.60%
GNMA	82,401	30.32%	99,831	27.90%
Tennessee Valley Authority	68,875	25.35%	65,259	18.24%
Federal Farm Credit Bank	46,943	17.27%	30,383	8.49%
Federal Home Loan Bank	39,537	14.55%	42,907	11.99%
	<u>\$ 237,756</u>	<u>87.49%</u>	<u>\$ 330,004</u>	<u>92.22%</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, 2018 and 2017, 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, 2018 and 2017, the Agency had investments with the following maturities:

<b>Investment Type</b>	<b>2018</b>				
	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>			
		<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More than 10</b>
U.S. Government Agency Mortgage-backed Securities	\$ 92,834	\$ -	\$ -	\$ 10,302	\$ 82,532
U.S. Government Agency Securities	178,907	1,824	62,717	45,491	68,875
	<u>\$ 271,741</u>	<u>\$ 1,824</u>	<u>\$ 62,717</u>	<u>\$ 55,793</u>	<u>\$ 151,407</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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>

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 \$386,208 and \$353,165 at June 30, 2018 and 2017, respectively, reported as cash equivalents.

**4. Mortgage Loans**

Amounts reported as mortgage loans receivable at June 30, 2018 and 2017 consisted of the following:

	2018				
	General Activities	Multifamily Program	Single Family Program	HEMAP	Total
Mortgage loans	\$ 7,303	\$ 450,156	\$ 2,929,679	\$ 74,887	\$ 3,462,025
Add:					
Loan premiums	-	-	-	-	-
Less:					
Loan discounts	-	2,738	-	-	2,738
Allowance for loan losses	3,842	115,695	11,575	37,873	168,985
Mortgage loans receivable	3,461	331,723	2,918,104	37,014	3,290,302
Current portion	-	11,336	85,118	5,691	102,145
Noncurrent portion	<u>\$ 3,461</u>	<u>\$ 320,387</u>	<u>\$ 2,832,986</u>	<u>\$ 31,323</u>	<u>\$ 3,188,157</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

	<b>2017</b>				
	<b>General Activities</b>	<b>Multifamily Program</b>	<b>Single Family Program</b>	<b>HEMAP</b>	<b>Total</b>
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>

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

During the years ended June 30, 2018 and 2017, the Agency securitized mortgage loans with a principal balance of \$290,185 and \$274,891, 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, 2018 and 2017 equaled \$4,822 and \$6,736, 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 \$21,784 and \$33,521 at June 30, 2018 and 2017, 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, 2018 and 2017, the Agency's Single Family Program mortgage loan servicing portfolio equaled \$4.9 billion and \$4.7 billion, respectively; this included the balances of mortgage loans reported as assets by the Agency and insured loans that have been sold through MBSs, which are not reported as Agency assets but represent loans for which the Agency purchased and retained

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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, 2018 and 2017, insurance coverage associated with Single Family Program mortgage loan servicing portfolio included the following:

	<b>2018</b>		<b>2017</b>	
Commercial Insurance	\$ 201,581	4.12%	\$ 147,931	3.14%
PHFA Insurance Program	116,025	2.37%	154,350	3.28%
FHA	2,545,827	52.04%	2,483,572	52.70%
VA	137,535	2.81%	135,831	2.88%
RD	439,590	8.99%	393,266	8.34%
FNMA	609,617	12.46%	599,310	12.72%
Uninsured	842,093	17.21%	798,604	16.95%
Total Single Family Program Servicing Portfolio:	\$ 4,892,268	100.00%	\$ 4,712,864	100.00%

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, 2018 and 2017, no mortgage loans reported within General Activities were either delinquent or in pending foreclosure actions.

At June 30, 2018 and 2017, 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 \$393 and \$245, respectively, and no Multifamily Program mortgage loans were in pending foreclosure actions.

At June 30, 2018 and 2017, 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 \$193,934 and \$234,130, respectively. Included within these June 30, 2018 and 2017 balances of loans delinquent 91 days or greater were loans with pending foreclosure actions with aggregate principal balances of \$96,182 and \$94,509, respectively.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

At June 30, 2018 and 2017, the principal balance of HEMAP mortgage loans delinquent 91 days or greater equaled \$24,725 and \$29,215, 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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Aggregate recorded loan balance	\$ 261,419	\$ 264,179
Gross interest revenue, if the mortgage loan had been current	14,593	14,739
Actual amount of interest received and included in net position	\$ 7,707	\$ 7,639

The number of mortgage loans deemed troubled debt restructurings as of June 30, 2018 and 2017 totaled 3,315 (three-thousand three-hundred fifteen) and 3,289 (three-thousand two-hundred eighty-nine), 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, 2018 and 2017 consisted of the following:

	<u>2018</u>				<u>Total</u>
	<u>General Activities</u>	<u>Multifamily Program</u>	<u>Single Family Program</u>	<u>HEMAP</u>	
Beginning balance	\$ 3,880	\$ 121,538	\$ 11,031	\$ 43,777	\$180,226
Loss provision	(38)	(2,220)	8,208	-	5,950
Net losses	-	(3,623)	(7,664)	(5,904)	(17,191)
Ending balance	<u>\$ 3,842</u>	<u>\$ 115,695</u>	<u>\$ 11,575</u>	<u>\$ 37,873</u>	<u>\$168,985</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

	<b>2017</b>				<b>Total</b>
	<b>General Activities</b>	<b>Multifamily Program</b>	<b>Single Family Program</b>	<b>HEMAP</b>	
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>

Included in amounts reported as provision for loan loss and real estate owned at June 30, 2018 and 2017 equal to \$6,034 and \$13,026, respectively, were amounts relating to the decrease in realizable value of real estate owned by the Agency totaling \$84 and \$3,815, 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 \$41,286 and \$35,525 for the years ended June 30, 2018 and 2017, respectively, and the Agency’s repurchase reserve for securitized loans equaled \$4,797 and \$4,517 at June 30, 2018 and 2017, 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 393 properties with a net realizable value of \$24,990 at June 30, 2018 and 562 properties with a net realizable value of \$40,024 at June 30, 2017.

**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, 2018 and 2017, the Agency capitalized mortgage servicing

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

rights/service release premiums totaling \$6,501 and \$5,593, respectively. Amortization of mortgage servicing rights/servicing release premiums totaled \$5,015 and \$4,740 for the years ended June 30, 2018 and 2017, respectively, and unamortized mortgage servicing rights/service release premiums totaling \$39,724 and \$38,238 were outstanding at June 30, 2018 and 2017, respectively. Included in unamortized mortgage servicing rights/service release premium balances at June 30, 2018 and 2017 were mortgage servicing rights totaling \$5,165 and \$5,178, 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, 2018 and 2017 and a summary of balances were as follows:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2018</u>
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 2,454	\$ -	\$ -	\$ 2,454
Construction in progress	2,136	8,838	-	10,974
Total nondepreciable capital assets	<u>4,590</u>	<u>8,838</u>	<u>-</u>	<u>13,428</u>
<b>Depreciable Capital Assets:</b>				
Building	32,079	12	-	32,091
Furniture, fixtures and equipment	9,905	579	(117)	10,367
Less accumulated depreciation:				
Building	(8,316)	(502)		(8,818)
Furniture, fixtures and equipment	(6,020)	(570)	110	(6,480)
Total depreciable capital assets, net	<u>27,648</u>	<u>(481)</u>	<u>(7)</u>	<u>27,160</u>
<b>Total Capital Assets, net</b>	<u>\$ 32,238</u>	<u>\$ 8,357</u>	<u>\$ (7)</u>	<u>\$ 40,588</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2017</u>
<b>Nondepreciable Capital Assets:</b>				
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>
<b>Depreciable Capital Assets:</b>				
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>
<b>Total Capital Assets, net</b>	<u>\$ 30,843</u>	<u>\$ 1,400</u>	<u>\$ (5)</u>	<u>\$ 32,238</u>

Depreciation expense for the years ended June 30, 2018 and 2017 totaled \$1,072 and \$1,125, 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, 2018, variable interest rates payable ranged from 1.54% to 3.34%. At June 30, 2017, variable interest rates payable ranged from 0.91% to 2.30%.

The aggregate principal amounts of bonds and notes payable outstanding at June 30, 2018 and 2017, maturity dates and corresponding interest rates at June 30, 2018 are illustrated in the following table.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

Bond Series	Interest Rates at June 30, 2018		Maturity Date	Amounts Outstanding at June 30,	
	Variable	Fixed		2018	2017
General Activities:					
Headquarters Bonds	204 bps	-	2037	\$ 39,000	\$ 18,905
Multifamily Program:					
Development Issue 2005K	234 bps	-	2036	9,457	9,799
Single Family Program:					
Bonds Payable					
Series 1999 - 67	260 bps	-	2029	10,760	\$ 11,560
Series 2000 - 69	249 bps	-	2031	16,565	17,305
Series 2000 - 70	226 bps	-	2028	11,205	11,990
Series 2001 - 72	226 bps	-	2032	34,250	35,720
Series 2002 - 73	222 bps	-	2032	16,445	17,245
Series 2002 - 75 *	154 bps	-	2032	30,000	30,000
Series 2003 - 77 *	-	-	-	-	14,855
Series 2003 - 78	224 bps	-	2024	28,305	32,205
Series 2003 - 79 *	154 bps	-	2033	52,150	54,300
Series 2004 - 81 *	154 bps	-	2024	16,470	19,275
Series 2004 - 82 *	-	-	-	-	37,435
Series 2004 - 83 *	154 bps	-	2026	11,530	13,865
Series 2004 - 84 *	160 bps	-	2021	2,775	5,440
Series 2004 - 86 *	154 bps	-	2027	22,435	24,275
Series 2005 - 88 *	-	-	-	-	40,205
Series 2005 - 89 *	154 bps	-	2026	41,055	45,930
Series 2005 - 91 *	-	-	-	-	63,490
Series 2006 - 92	-	-	-	-	37,910
Series 2006 - 93 *	154 bps	-	2036	22,935	26,045
Series 2006 - 94 *	154 bps	-	2025	18,960	21,520
Series 2006 - 95 *	-	-	-	-	2,330
Series 2007 - 98 *	154 bps	-	2034	16,470	18,240
Series 2007 - 99 *	154 bps	-	2023	9,040	30,455
Series 2007 - 100 *	154 bps	-	2036	19,790	21,340
Series 2007 - 101	334 bps	-	2023	10,685	12,730
Series 2009 - 105	-	3.40-4.25%	2024	29,470	36,810
Series 2010 - 108	-	3.50-4.00%	2021	27,505	32,750
Series 2010 - 109	-	3.05-4.50%	2028	31,030	49,980
Series 2010 - 110	-	3.05-4.35%	2025	45,540	63,455

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

<b>Bond Series</b>	<b>Interest Rates at June 30, 2018</b>		<b>Maturity Date</b>	<b>Amounts Outstanding at June 30,</b>	
	<b>Variable</b>	<b>Fixed</b>		<b>2018</b>	<b>2017</b>
Series 2011 - 112	-	3.875-5.00%	2028	38,950	50,095
Series 2011 - 113	-	2.90-4.13%	2041	17,790	24,670
Series 2012 - 114	-	2.10-3.70%	2042	170,900	178,115
Series 2013 - 115	-	2.05-4.20%	2043	88,365	107,430
Series 2013 - 116	-	1.45-4.00%	2045	103,300	107,245
Series 2015 - 117	-	1.55-4.15%	2045	127,995	133,685
Series 2015 - 118	-	1.40-4.10%	2045	208,375	216,265
Series 2016 - 119	-	1.05-3.50%	2041	143,370	151,415
Series 2016 - 120	-	1.30-3.50%	2046	204,380	209,300
Series 2016 - 121	-	0.85-3.50%	2046	244,040	248,760
Series 2017 - 122	-	2.05-4.00%	2046	230,645	236,400
Series 2017 - 123	-	1.30-4.00%	2042	184,490	261,390
Series 2017 - 124	-	1.10-4.00%	2042	201,585	-
Series 2017 - 125	-	1.55-3.70%	2047	294,610	-
Series 2018 - 126	207 bps	1.80-4.00%	2047	123,175	-
<b>Total Single Family Program Bonds Payable</b>				<b>2,907,340</b>	<b>2,753,430</b>
<b>Notes Payable</b>					
General Obligation Note	-	4.00%	2026	15,250	19,500
General Obligation Note	-	3.60%	2025	7,000	8,000
2009 Purchase Agreement	-	2.50%	2019	1,000	1,000
2009 Purchase Agreement	-	2.50%	2024	2,500	2,500
<b>Total Single Family Program Notes Payable</b>				<b>25,750</b>	<b>31,000</b>
Unamortized bond premiums				29,308	27,418
Total bonds and notes payable				3,010,855	2,840,552
Current portion				121,282	89,997
Noncurrent portion				<u>\$ 2,889,573</u>	<u>\$ 2,750,555</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, 2018 and 2017 (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, 2018 and 2017 were as follows:

<b>Bond Issue</b>	<b>Liquidity</b>			<b>Bond Balance</b>	
	<b>Provider at June 30, 2017</b>	<b>Effective Date</b>	<b>Expiration Date</b>	<b>Outstanding at June 30 2018</b>	<b>2017</b>
Hdqrtrs Bond	PNC Bank	12/23/2016	2/3/2018	\$ -	\$ 18,905
2002-75A	RBC	4/8/2014	4/8/2019	30,000	30,000
2003-77B	RBC	4/8/2014	4/8/2019	-	14,855
2003-79B	RBC	4/8/2014	4/8/2019	52,150	54,300
2004-81C	RBC	4/8/2014	4/8/2019	16,470	19,275
2004-82B	RBC	4/8/2014	4/8/2019	-	16,380
2004-82C	RBC	4/8/2014	4/8/2019	-	21,055
2004-83C	Bank of Tokyo	5/13/2014	8/16/2017	-	13,865
2004-83C	TD Bank	8/16/2017	8/16/2022	11,530	-
2004-84D	Bank of Tokyo	5/13/2014	5/13/2019	2,775	5,440
2004-86B	Bank of Tokyo	5/13/2014	8/16/2017	-	24,275
2004-86B	TD Bank	8/16/2017	8/16/2022	22,435	-
2005-88B	TD Bank	8/16/2017	8/16/2022	-	22,125
2005-88C	TD Bank	8/16/2017	8/16/2022	-	18,080
2005-89	Bank of Tokyo	5/13/2014	8/16/2017	-	45,930
2005-89	TD Bank	8/16/2017	8/16/2022	41,055	-
2005-91B	Bank of Tokyo	5/13/2014	5/13/2019	-	63,490
2006-93B	Sumitomo	7/8/2014	7/8/2019	22,935	26,045
2006-94B	TD Bank	8/16/2017	8/16/2022	18,960	21,520
2006-95C	Sumitomo	7/8/2014	7/8/2019	-	2,330
2007-98C	Sumitomo	7/8/2014	7/8/2019	16,470	17,905
2007-99C	Sumitomo	7/8/2014	7/8/2019	9,040	10,600
2007-100C	Sumitomo	7/8/2014	7/8/2019	19,790	21,340
			<b>Total</b>	<b>\$ 263,610</b>	<b>\$ 467,715</b>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

There were no failed remarketings or resultant liquidity draws during the years ended June 30, 2018 and 2017. 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, 2018, if the term-out agreements were exercised and assuming a term-out commencement date of July 1, 2018, respectively, were as follows:

<b>Liquidity Provider</b>	<b>Term-Out Provisions</b>	<b>Payment Date</b>	<b>Interest Rate</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payment</b>
RBC	Day 1 through 90:	4/1/2019	8% & 10%	9,862	6,903	16,765
	"base rate" equal to	10/1/2019	10%	9,862	4,438	14,300
	the greater of RBC's	4/1/2020	10%	9,862	3,945	13,807
	prime rate + 2.5%,	10/1/2020	10%	9,862	3,452	13,314
	Federal Funds Rate	4/1/2021	10%	9,862	2,959	12,821
	+ 3.5%, or 8%. Day	10/1/2021	10%	9,862	2,466	12,328
	91 and thereafter:	4/1/2022	10%	9,862	1,972	11,834
	base rate + 2%.	10/1/2022	10%	9,862	1,479	11,341
		4/1/2023	10%	9,862	986	10,848
	7/1/2022	10%	9,862	247	10,109	
			<b>Total</b>	<u>\$ 98,620</u>	<u>\$ 28,847</u>	<u>\$ 127,467</u>
Bank of Tokyo	Day 1 through 30:	1/1/2019	8% & 9%	\$ 277	\$ 123	\$ 400
	"bank rate" equal to	7/1/2019	9%	278	112	390
	the greater of Bank	1/1/2020	9%	277	100	377
	of Tokyo's prime	7/1/2020	9%	278	87	365
	rate + 2%, Federal	1/1/2021	9%	277	75	352
	Funds Rate + 4%, or	7/1/2021	9%	278	62	340
	8%. Day 31 and	1/1/2022	9%	277	50	327
	thereafter: bank	7/1/2022	9%	278	37	315
	rate + 1%.	1/1/2023	9%	277	25	302
	7/1/2023	9%	278	13	291	
			<b>Total</b>	<u>\$ 2,775</u>	<u>\$ 684</u>	<u>\$ 3,459</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

<b>Liquidity Provider</b>	<b>Term-Out Provisions</b>	<b>Payment Date</b>	<b>Interest Rate</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payment</b>
TD Bank	LIBOR + 2%	4/1/2019	4.09%	\$ 9,398	\$ 2,883	\$ 12,281
		10/1/2019	4.09%	9,398	1,730	11,128
		4/1/2020	4.09%	9,398	1,538	10,936
		10/1/2020	4.09%	9,398	1,345	10,743
		4/1/2021	4.09%	9,398	1,153	10,551
		10/1/2021	4.09%	9,398	961	10,359
		4/1/2022	4.09%	9,398	769	10,167
		10/1/2022	4.09%	9,398	577	9,975
		4/1/2023	4.09%	9,398	384	9,782
		7/1/2022	4.09%	9,398	96	9,494
		Total		<u>\$ 93,980</u>	<u>\$ 11,436</u>	<u>\$ 105,416</u>
Sumitomo	Day 1 through 30: "base rate" equal to the greater of Sumitomo's prime rate + 2%, Federal Funds Rate + 3%, or 6.5%. Day 31 through 90: base rate + 1%. Day 91 and thereafter: base rate + 2%.		6.5%, 7.5%			
		4/1/2019	& 8.5%	\$ 6,823	\$ 4,123	\$ 10,946
		10/1/2019	8.5%	6,824	2,610	9,434
		4/1/2020	8.5%	6,823	2,320	9,143
		10/1/2020	8.5%	6,824	2,030	8,854
		4/1/2021	8.5%	6,823	1,740	8,563
		10/1/2021	8.5%	6,824	1,450	8,274
		4/1/2022	8.5%	6,823	1,160	7,983
		10/1/2022	8.5%	6,824	870	7,694
		4/1/2023	8.5%	6,823	580	7,403
10/1/2023	8.5%	6,824	290	7,114		
		Total		<u>\$ 68,235</u>	<u>\$ 17,173</u>	<u>\$ 85,408</u>

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, 2018 and 2017 were as follows:

<b>Issue</b>	<b>Registered Owner</b>	<b>Effective Date</b>	<b>Expiration Date</b>	<b>Balance at June 30</b>	
				<b>2018</b>	<b>2017</b>
2006-92B	Wells Fargo	4/1/2014	4/1/2019	\$ -	\$ 37,910

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

**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, 2018 were as follows:

<b>June 30, 2018</b>								
<b>Fiscal Year</b>	<b>General Activities</b>		<b>Multifamily Program</b>		<b>Single Family Program</b>		<b>Total</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 2,000	\$ 784	\$ 357	\$ 220	\$ 118,925	\$ 91,342	\$ 121,282	\$ 92,346
2020	2,000	745	382	211	124,940	88,798	127,322	89,754
2021	2,000	702	400	202	126,775	85,552	129,175	86,456
2022	2,000	661	420	192	118,240	82,207	120,660	83,060
2033	2,000	619	442	182	110,925	79,413	113,367	80,214
2024-2028	10,000	2,479	2,516	745	540,420	355,779	552,936	359,003
2029-2033	10,000	1,446	3,159	420	597,050	268,435	610,209	270,301
2034-2038	9,000	417	1,781	61	571,005	166,432	581,786	166,910
2039-2043	-	-	-	-	382,305	81,533	382,305	81,533
2044-2048	-	-	-	-	238,925	20,225	238,925	20,225
2049-2053	-	-	-	-	3,580	72	3,580	72
	<u>\$ 39,000</u>	<u>\$ 7,853</u>	<u>\$ 9,457</u>	<u>\$ 2,233</u>	<u>\$ 2,933,090</u>	<u>\$ 1,319,788</u>	<u>\$ 2,981,547</u>	<u>\$ 1,329,874</u>

**Early Extinguishment of Debt**

During the years ended June 30, 2018 and 2017, the Agency redeemed principal amounts of certain bonds totaling \$419,320 and \$850,881, 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 \$1,132 and \$1,367, respectively. Gains or losses on early extinguishments of debt arise because of the immediate recognition of original issuance discounts or premiums that would have otherwise been amortized over the life of the related bond issues had they not been retired prior to scheduled maturity.

**Current Refunding****Year Ended June 30, 2018**

On September 28, 2017, the Agency issued Series 2017-124 single family mortgage revenue bonds in the amount of \$206,965. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$13,710 of Series 2003-77 bonds and \$71,940 of Series 2017-123C bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$9,877 and a reduction of future debt service payments equal to \$16,704.

On December 19, 2017, the Agency issued Series 2017-125 single family mortgage revenue bonds in the amount of \$300,205. A portion of the proceeds of this issuance and an Agency contribution

## PENNSYLVANIA HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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were used to refund \$14,695 of Series 2004-82B bonds, \$21,055 of Series 2004-82C bonds, \$21,540 of Series 2005-88B bonds, \$18,080 of series 2005-88C bonds, \$62,480 of series 2005-91B bonds and \$37,355 of series 2006-92B bonds. While successful at reducing the Agency's exposure to arbitrage liability, this refunding resulted in an economic loss equal to \$5,909 and an increase of future debt service payments equal to \$2,374.

#### ***Year Ended June 30, 2017***

On July 21, 2016 the Agency issued Series 2017-120 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 equal to \$8,062 and a reduction of future debt service payments equal to \$2,559.

On October 3, 2016, the Agency issued Series 2017-121 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 2018-122 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 2018-123 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.

#### **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, 2018 and 2017; 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, 2018 are displayed in the following schedule.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

The following incorporates variable rate values at June 30, 2018, 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.

<b>June 30, 2018</b>				
<b>Fiscal Year Ending June 30</b>	<b>Hedged</b>	<b>Hedged</b>	<b>Net Swap</b>	
	<b>Variable Rate Bond Principal</b>	<b>Variable Rate Bond Interest</b>	<b>Payments</b>	<b>Total</b>
2019	\$ 11,372	\$ 3,647	\$ 2,981	\$ 18,000
2020	15,739	3,436	2,715	21,890
2021	21,513	3,142	2,463	27,118
2022	22,093	2,782	2,201	27,076
2023	21,753	2,414	1,940	26,107
2024-2028	67,852	7,500	6,435	81,787
2029-2033	30,225	3,662	2,754	36,641
2034-2038	22,970	785	664	24,419
	<u>\$ 213,517</u>	<u>\$ 27,368</u>	<u>\$ 22,153</u>	<u>\$ 263,038</u>

**Conduit Debt Obligations**

During the year ended June 30, 2018, the Agency issued North Central CNI – Phase II, Blumberg Senior Apartments, 1315 North 8<sup>th</sup> Street, New Courtland at Henry Avenue Phase 1A and Allegheny Dwellings Phase 1 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, 2018 and 2017 include:

- Series 2003-J, 2008-M, 2008-O, 2014-X, 2014-Z, 2015-BB, 2015-CC, 2015-DD, Brinton Apartments, Carson Towers Apartments, 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.
- 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

## PENNSYLVANIA HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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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, 2018 and 2017, conduit debt outstanding aggregated \$301,655 and \$324,242, respectively.

#### **Bond Covenants**

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

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

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, 2018 and 2017.

#### **Bonds Authorized But Not Yet Issued**

On June 14, 2018, the Agency Board authorized the issuance of Single Family Mortgage Revenue bonds Series 2018-127 and Series 2018-128 in an amount not to exceed \$350,000 for each series. 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

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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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, 2018 and 2017. Changes in fair values are countered by reductions or increases in total interest payments required under variable rate bonds. Given that payments on the Agency's variable rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value.

Each of the Agency's swaps requires the Agency to post collateral in the event the fair value of the swap falls below specific thresholds of negative worth. As of and for the years ended June 30, 2018 and 2017, 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.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

Balances of the fair values of the Agency's interest rate swaps at June 30, 2018 and 2017 were as follows:

<b>2018</b>				
<b>Interest Rate Swap Type</b>	<b>General Activities</b>	<b>Multifamily Program</b>	<b>Single Family Program</b>	<b>Total</b>
Hedging Derivatives	\$ (696)	\$ (1,239)	\$ 5,825	\$ 3,890
Hedging Derivatives - Amended	-	-	(11,099)	(11,099)
Investment Derivatives	-	(1,143)	450	(693)
Total Interest Rate Swaps	<u>\$ (696)</u>	<u>\$ (2,382)</u>	<u>\$ (4,824)</u>	<u>\$ (7,902)</u>

<b>2017</b>			
<b>Interest Rate Swap Type</b>	<b>Multifamily Program</b>	<b>Single Family Program</b>	<b>Total</b>
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>

**Hedging Derivative Instruments**

The change in fair value of the Agency's hedging derivative instruments for the years ended June 30, 2018 and 2017 equaled \$3,875 and \$17,923, 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, 2018 and 2017 are detailed in the following schedule.

## PENNSYLVANIA HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

Bond Series	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received	Current Notional Amount	2017 Fair Value	Change In Fair Value	2018 Fair Value
2018-BLDG	3/2018	10/2037	3.150%	82% of LIBOR + 41 bps	\$ 39,000	\$ -	\$ (696)	\$ (696)
1999-67B	7/2002	4/2029	5.950	100% of LIBOR + 50 bps	10,410	(2,167)	748	(1,419)
2001-72C	9/2001	10/2023	5.695	100% of LIBOR	3,410	(543)	235	(308)
2003-77B <sup>1</sup>	10/2016	10/2033	1.702	Enhanced LIBOR	-	364	(364)	-
2003-79B <sup>1</sup>	10/2017	10/2027	3.253	65% of LIBOR + 25 bps	27,050	(3,354)	1,886	(1,468)
2004-81C <sup>1</sup>	10/2017	10/2034	2.801	Enhanced LIBOR	13,770	54	(190)	(136)
2004-82B <sup>1</sup>	4/2016	4/2030	1.615	61% of LIBOR + 39 bps	-	76	(76)	-
2004-82C <sup>1</sup>	10/2016	10/2033	1.885	61% of LIBOR + 39 bps	-	149	(149)	-
2004-83C <sup>1</sup>	10/2015	4/2027	3.830	65% of LIBOR + 25 bps	11,530	(1,725)	734	(991)
2004-84D <sup>1</sup>	10/2017	10/2034	3.240	Enhanced LIBOR	1,515	(159)	(92)	(251)
2004-86B <sup>1</sup>	10/2017	10/2033	3.357	Enhanced LIBOR	17,890	(1,077)	614	(463)
2005-88B <sup>1</sup>	10/2016	10/2035	1.645	61% of LIBOR + 39 bps	-	498	(498)	-
2005-88C <sup>1</sup>	10/2016	N/A	N/A	N/A	-	800	(800)	-
2005-89 <sup>1</sup>	10/2016	10/2035	1.718	Enhanced LIBOR	36,460	753	675	1,428
2005-91B	10/2016	N/A	N/A	N/A	-	600	(600)	-
2006-92B	10/2016	N/A	N/A	N/A	-	452	(452)	-
2006-93B	10/2016	N/A	N/A	N/A	-	113	(113)	-
2006-94B <sup>1</sup>	10/2016	4/2027	1.413	69% of LIBOR	18,960	(96)	550	454
2007-98C <sup>1</sup>	10/2014	10/2037	4.105	61% of LIBOR + 39 bps	7,945	(1,301)	354	(947)
2007-99C <sup>1</sup>	4/2016	10/2023	3.674	69% of LIBOR	9,040	(704)	446	(258)
2007-100C <sup>1</sup>	10/2017	10/2031	4.131	65% of LIBOR + 25 bps	7,080	(1,619)	704	(915)
MF2005-K	3/2005	1/2036	5.183	100% of LIBOR	9,457	(2,198)	959	(1,239)
Total:					<u>\$ 213,517</u>	<u>\$ (11,084)</u>	<u>\$ 3,875</u>	<u>\$ (7,209)</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, 2018, the Agency's hedging derivatives were not exposed to credit risk and at June 30, 2017, \$335 of the Agency's hedging derivatives were exposed to credit risk. 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.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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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, 2018 and 2017:

<b>Associated Bond Issue</b>	<b>Debt Maturity Dates</b>	<b>Swap Termination Dates</b>	<b>Exposure to Rollover Risk at</b>	
			<b>2018</b>	<b>2017</b>
2001-72C	10/2032	10/2023	Yes	Yes
2005-88C	4/2037	1/2018	No	Yes
2007-100C	10/2036	4/2032	Yes	Yes

### ***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, 2018 and 2017 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, 2018 and 2017 equaled \$1,312 and \$1,388, respectively.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

Amended hedging derivative activity for the years ended June 30, 2018 and 2017 reflected the following:

<b>2018</b>	
	<b>Single Family Program</b>
Amended hedging derivative balance at July 1, 2017	\$ (14,511)
Gain on 2017/2018 swap terminations	2,100
Amortization	1,312
Amended hedging derivative balance at June 30, 2018	<u>\$ (11,099)</u>
<b>2017</b>	
	<b>Single Family Program</b>
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>

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, 2018 and 2017 were as follows:

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

<b>Bond Series</b>	<b>Investment Notional at June 30</b>		<b>Effective Date</b>	<b>Maturity Date</b>	<b>Fixed Rate Paid</b>	<b>Variable Rate Received</b>
	<b>2018</b>	<b>2017</b>				
2003-77B	\$ 17,060	\$ -	10/2016	10/2033	1.702%	65% of LIBOR + 25 bps
2004-82B	13,490	-	4/2016	4/2030	1.615%	61% of LIBOR + 39 bps
2004-82C	22,750	-	10/2016	10/2033	1.885%	61% of LIBOR + 39 bps
2004-85C	18,315	19,755	10/2015	4/2027	2.908%	65% of LIBOR + 25 bps
2005-87C	16,930	18,525	10/2015	4/2027	2.937	65% of LIBOR + 25 bps
2005-88B	21,055	-	10/2016	10/2035	1.645%	61% of LIBOR + 39 bps
RH2008A&B	6,800	10,775	12/2011	1/2021	3.407	67% of one-week LIBOR
RH2008C	4,565	9,330	6/2008	7/2020	3.457	70% of LIBOR
RH2008D	2,735	5,590	6/2011	7/2020	3.440	70% of LIBOR
Total:	<u>\$123,700</u>	<u>\$63,975</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, 2018 and 2017. 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, 2018 and 2017 are detailed in the following schedule.

**2018**

<b>Bond Series</b>	<b>Investment Notional Amount</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Fixed Rate Paid</b>	<b>Variable Rate Received</b>
2004-83C	\$ 5,315	10/2015	4/2027	3.830	65% of LIBOR + 25 bps
2006-94B	9,390	10/2016	4/2027	1.413	69% of LIBOR
2007-99C	2,125	4/2016	10/2023	3.674	69% of LIBOR
MF2005K	5,528	7/2018	1/2036	5.183	100% of LIBOR
Total:	<u>\$ 22,358</u>				

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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<b>2017</b>					
<b>Bond Series</b>	<b>Investment Notional Amount</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Fixed Rate Paid</b>	<b>Variable Rate Received</b>
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>				

The fair values of the investment derivatives for the years ended June 30, 2018 and 2017 are shown in the table below, and the changes in fair value equal to \$4,875 and \$2,865, respectively, are presented as a net increase in fair value of swaps on the Statements of Revenues, Expenses and Changes in Net Position.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

<b>Bond Series</b>	<b>2018</b>		<b>2017</b>	
	<b>Investment Notional</b>	<b>Fair Value</b>	<b>Investment Notional</b>	<b>Fair Value</b>
2003-77B	\$ 17,060	\$ 796	\$ 1,855	\$ 45
2004-81C	-	-	525	2
2004-82B	13,490	312	-	-
2004-82C	22,750	643	2,325	16
2004-83C	5,315	(457)	4,325	(538)
2004-84D	-	-	12,310	(360)
2004-85C	18,315	(790)	19,755	(1,500)
2005-87C	16,930	(700)	18,525	(1,345)
2005-88B	21,055	481	2,235	50
2005-88C	-	-	915	40
2005-91B	-	-	6,510	62
2006-92B	-	-	4,085	49
2006-93B	-	-	11,140	48
2006-94B	9,390	225	9,155	(41)
2007-99C	2,125	(61)	565	(38)
MF2005K	5,528	(724)	6,331	(1,420)
RH2008A,B	6,800	(241)	10,775	(348)
RH2008C	4,565	(111)	9,330	(182)
RH2008D	2,735	(66)	5,590	(108)
Total:	<u>\$ 146,058</u>	<u>\$(693)</u>	<u>\$ 126,251</u>	<u>\$(5,568)</u>

***Credit Risk***

At June 30, 2018 and 2017, the Agency was exposed to \$2,396 and \$156, respectively, of 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.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

**10. Long-Term Liabilities**

Long-term liability activity for the years ended June 30, 2018 and 2017 was as follows:

	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Bonds payable, net	\$2,809,552	\$ 675,850	\$ 500,297	\$2,985,105	\$118,282
Notes payable	31,000	-	5,250	25,750	3,000
Derivative instrument – interest rate swaps	16,621	3,123	11,842	7,902	-
Escrow deposits and Development Reserves	151,505	289,444	281,052	159,897	74,819
Net OPEB Liability	105,516	9,146	31,006	83,656	-
Net Pension Liability	26,307	11,937	17,024	21,220	-
Other liabilities					
Accrued vacation and sick leave	3,099	80	-	3,179	50
Bond rebate	280	-	-	280	-
Borrower suspense accounts	3,400	97,287	97,360	3,327	3,327
Commonwealth grants	15,943	5,372	3,123	18,192	18,192
Federal grants	185,456	439,660	436,871	188,245	-
Other grants	13,957	20,818	17,039	17,736	5,123
GNMA/FNMA payables	14,462	17,627	14,462	17,627	17,627
Pennsylvania SERS	2,867	-	586	2,281	-
PHFA Insurance Program Claims	1,433	1,309	2,160	582	-
Project receipts	1,774	58,068	49,229	10,613	497
Unearned revenue	4,404	-	572	3,832	-
Other	2,541	5,467	5,592	2,416	-
Total Other Liabilities	<u>249,616</u>	<u>645,688</u>	<u>626,994</u>	<u>268,310</u>	<u>44,816</u>
Total	<u>\$3,390,117</u>	<u>\$1,635,188</u>	<u>\$1,473,465</u>	<u>\$3,551,840</u>	<u>\$240,917</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
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
Derivative instrument – interest rate swaps	37,440	-	20,819	16,621	-
Escrow deposits and Development Reserves	147,175	275,966	271,636	151,505	71,151
Net OPEB Liability	81,953	24,947	1,384	105,516	-
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
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>232,659</u>	<u>630,193</u>	<u>613,236</u>	<u>249,616</u>	<u>28,853</u>
Total	<u>\$3,310,308</u>	<u>\$1,937,097</u>	<u>\$1,857,288</u>	<u>\$3,390,117</u>	<u>\$190,001</u>

**11. Restricted and Designated Net Position**

The Multifamily and Single Family Programs' June 30, 2018 and 2017 net position restrictions equaling \$304 and \$295 and \$103,318 and \$100,303, 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 \$41,593 and \$49,072 at June 30, 2018 and 2017, respectively, represent amounts restricted for the purpose of making mortgage assistance loans.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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>2018</u>	<u>2017</u>
<b>General Activities:</b>		
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>
<b>Multifamily Housing Program:</b>		
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
Preservation from physical deterioration, financial or social distress	1,500	-
Total	<u>\$ 13,000</u>	<u>\$ 11,500</u>
<b>Single Family Mortgage Loan Program:</b>		
Closing Cost Assistance	\$ 1,500	\$ 1,000
Additional Single Family Insurance to reduce the risk of loan default	-	2,455
Total	<u>\$ 1,500</u>	<u>\$ 3,455</u>
<b>Insurance Program:</b>		
Risk Retention to provide single family mortgage insurance	<u>\$ 11,284</u>	<u>\$ 9,788</u>

**12. Restatement of Net Position**

Prior to the implementation of GASB 75, an OPEB Asset or Liability included within an employer's Balance Sheet equaled the cumulative difference resulting from an actuarially determined annual required contribution and adjustments thereto less the employee and employer contributions made for a given year. The implementation of GASB 75 requires the liability of employers to be measured as the portion of the present value of the total projected benefit payments to be provided through an OPEB plan to current active and inactive employees – the total OPEB liability – less the amount of the OPEB plan's fiduciary net position. In short, GASB 75 requires governments providing defined benefit OPEB to recognize their long-term obligation for OPEB and to more comprehensively and comparably measure the annual costs of OPEB.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

As a result of the adoption of GASB 75, Net Position of the Agency has been restated as follows:

July 1, 2016 Net Position, previously stated	\$ 787,769
Add Deferred Outflows *	4,274
Subtract Deferred Inflows **	(5,685)
Subtract Effects of OPEB Liability	<u>(45,720)</u>
July 1, 2016 Net Position, restated	<u>\$ 740,638</u>

\* – Deferred outflows at July 1, 2016 represented benefit payments made subsequent to the OPEB Plan measurement date of July 1, 2015, the effects of changes in actuarial assumptions relating to discount rate and mortality rates and the amortization of deferred outflows resulting from changes in those actuarial assumptions.

\*\* – Deferred inflows at July 1, 2016 represented the effects of changes in actuarial assumptions relating to benefit experience and the amortization of deferred inflows resulting from changes in those actuarial assumptions.

As of and for the year ended June 30, 2017, as a result of the adoption of GASB 75, previously reported amounts for salaries and related benefits, net OPEB liability, other noncurrent liabilities, OPEB-related deferred inflows, OPEB-related deferred outflows and unrestricted net position changed as follows:

	<u>Originally Reported</u>	<u>Adjusted</u>
Salaries and related benefits	\$ 43,375	\$ 45,968
Net OPEB liability	—	105,516
Other noncurrent liabilities (included OPEB liability)	262,103	220,763
OPEB-related deferred inflows	—	4,974
OPEB-related deferred outflows	—	19,426
Unrestricted net position	616,522	566,798

**13. Pension Plans****Plan Description**

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

## PENNSYLVANIA HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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#### **Benefits Provided**

A participant's benefits vest upon the completion of five years of service. Under the provisions of the Pensions, participants with prior military service may receive credit for their time of service providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service. A participant is eligible for normal retirement after attaining age 65, age 55 and completion of 30 years of service, or at any age after completion of 35 years of service. The normal retirement pension is payable monthly during the participant's lifetime with payments ceasing upon the participant's death.

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.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

**Employees Covered by Benefit Terms**

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

	<b>(not in thousands)</b>	
	<b>2017</b>	<b>2016</b>
Inactive employees or beneficiaries currently receiving benefits	184	172
Inactive employees entitled to but not yet receiving benefits	62	64
Active Employees	315	312
	<u>561</u>	<u>548</u>

**Contributions**

Contribution requirements and benefit provisions of the Pensions are established and may be amended by the Agency Board. The Pensions' funding policy provides for actuarially determined periodic contributions at amounts that will enable sufficient assets to be available to pay benefits when due. Employees hired on or after January 01, 2009 contribute 3% of compensation to the Plan. Employees hired on or before December 31, 2008 do not contribute to the Pensions. Contributions recognized by the Pensions during the reporting periods were \$4,100 and \$4,150 for the years ended December 31, 2017 and 2016, respectively. The Agency's average contribution rates for the years ended December 31, 2017 and 2016 equaled 20.23% and 21.11% 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, 2017 and 2016:

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

**PENNSYLVANIA HOUSING FINANCE AGENCY**

## Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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

<i>Cash Equivalents</i>	<i>Fixed Income Securities</i>
Money market mutual funds	U.S. governments
Short-term money market instruments	U.S. mortgage and asset-backed
	U.S. corporate bonds
<i>Equity Securities</i>	Taxable municipal bonds
U.S. common and preferred stocks	Fixed income mutual funds
U.S. equity mutual funds	Fixed income exchange-traded funds
Equity exchange traded funds	
International equity mutual funds	

At December 31, 2017 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, 2017 and 2016, the annual money-weighted rate of return on investments of the Agency's Pensions, net of investment expense, was 16.32% and 5.34%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

The fiduciary net position of the Agency's Pensions at December 31, 2017 and 2016 was invested as follows:

	<u>2017</u>	<u>2016</u>
Cash Equivalents	\$ 2,773	\$ 2,033
Equity Securities		
Equity exchange traded funds	15,093	15,022
U.S. and International equity mutual funds	12,283	10,597
U.S. common and preferred stocks	29,711	24,208
Fixed Income Securities		
Fixed income exchange traded funds	1,414	1,192
Fixed income mutual funds	26,959	23,116
Total:	<u>\$88,233</u>	<u>\$76,168</u>

## PENNSYLVANIA HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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#### Actuarial Assumptions

The Agency's net pension liability was measured as of December 31, 2017 and 2016, 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, 2017 and 2016 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<b><u>Rate</u></b>
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, 2017 and 2016 actuarial valuations were based upon the Adjusted RP-2014 White Collar Mortality Table for males and females; incorporated into the tables for the December 31, 2017 and 2016 actuarial valuations were rates projected using Scale MP-2017 and Scale MP-2016, respectively.

The long-term expected rate of return on the Pensions' investments was determined using a building-block method, in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the years ended December 31, 2017 and 2016 are summarized in the following table:

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>	<b><u>Long-Term Expected Rate of Return</u></b>
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, 2017 and 2016 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.

The Agency has not completed a recent experience study.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

**Changes in the Net Pension Liability**

	<b>2017</b>		
	<b>Total Pension Liability (A)</b>	<b>Pension Fiduciary Net Position (B)</b>	<b>Net Pension Liability (A)-(B)</b>
Balances at January 1, 2017	\$102,475	\$ 76,168	\$ 26,307
Service Cost	1,795	-	1,795
Interest Cost	7,652	-	7,652
Changes for Experience	2,489	-	2,489
Changes of Assumptions	(476)	-	(476)
Contributions - Employer	-	3,906	(3,906)
Contributions - Member	-	194	(194)
Net Investment Income	-	12,447	(12,447)
Benefit Payments, including			
refunds of member contributions	(4,482)	(4,482)	-
Net Changes	<u>6,978</u>	<u>12,065</u>	<u>(5,087)</u>
Balances at December 31, 2017	<u>\$109,453</u>	<u>\$ 88,233</u>	<u>\$ 21,220</u>
	<b>2016</b>		
	<b>Total Pension Liability (A)</b>	<b>Pension Fiduciary Net Position (B)</b>	<b>Net Pension Liability (A)-(B)</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>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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The changes in assumptions reflected in the Changes in the Net Pension Liability for the periods ended December 31, 2017 and 2016 equal to (\$476) and (\$927), respectively, were the result of incorporating mortality Scales MP-2017 and MP-2016, respectively. Prior to this change in assumption, Scale MP-2015 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:

<b>Plan's Net Pension Liability for Calendar Year Ended</b>	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
December 31, 2017	\$ 35,047	\$ 21,220	\$ 9,568
December 31, 2016	39,506	26,307	15,204

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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

For the years ended December 31, 2017 and 2016, the Pensions recognized pension expense of \$3,598 and \$4,489, respectively. At December 31, 2017 and 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2017</u>	<u>2016</u>
<b><u>Deferred Outflows</u></b>		
Differences between Expected and Actual Experience	\$ 5,439	\$ 3,481
Changes in Assumptions	5,032	5,982
Contributions made after measurement date	2,050	2,050
Net Difference Between Projected and Actual Earnings on Investments	-	<u>2,852</u>
Gross Deferred Outflows	<u>12,521</u>	<u>14,365</u>
<b><u>Deferred Inflows</u></b>		
Differences between Expected and Actual Experience	405	463
Changes in Assumptions	1,175	843
Net Difference Between Projected and Actual Earnings on Investments	<u>2,662</u>	<u>-</u>
Gross Deferred Inflows	<u>4,242</u>	<u>1,306</u>
Net Deferred Outflows	<u>\$ 8,279</u>	<u>\$ 13,059</u>

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

<u>Year Ended</u> <u>December 31</u>	
2018	\$ 3,365
2019	1,547
2020	525
2021	216
2022	1,483
Thereafter	<u>1,143</u>
	<u>\$ 8,279</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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**14. Postemployment Benefits Other than Pensions**

**Plan Description**

The Agency sponsors a single-employer defined benefit OPEB Plan to provide certain health care benefits to all former employees who are members of the Pension Plan currently receiving retirement income; as a result, eligibility requirements for benefits mirror those of the Pension Plan. The Agency is under no statutory or contractual obligation to provide these postretirement healthcare benefits. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

The OPEB Plan's financial reporting years end June 30. Because the OPEB 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.

**Benefits Provided**

The OPEB Plan provides healthcare benefits to all former employees who are members of the Pension Plan. Specific details of the OPEB Plan include the provision of limited hospitalization, major medical insurance, physician services and prescription drug coverage. Additionally, such benefits are available to members' spouses during the life of the retiree.

**Employees Covered by Benefit Terms**

At June 30, the following employees were covered by the benefit terms:

	<b>(not in thousands)</b>	
	<b>2017</b>	<b>2016</b>
Active Participants	323	308
Retired Participants	100	80
	<u>423</u>	<u>388</u>

**Total OPEB Liability**

The Agency's total OPEB liability equaling \$83,656 and \$105,516 at June 30, 2018 and 2017, respectively, were measured as of June 30, 2017 and 2016, respectively, using actuarial valuations as of June 30, 2017 and 2015, respectively. Update procedures were used to roll forward the total OPEB liability in the actuarial valuation at June 30, 2015 to the measurement date of June 30, 2016.

## PENNSYLVANIA HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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#### Actuarial Methods and Assumptions

The total OPEB liability in the June 30, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>2017</u>	<u>2016</u>
Inflation	3.00%	3.00%
Salary Increases (average, including inflation)	4.50%	4.50%
Discount Rate	3.13%	2.71%
Healthcare Cost Trend Rates	5.50%	6.00%
Retiree' Share of Benefit Costs	8.00%	5.00%

The discount rate for the June 30, 2017 and 2016 actuarial valuations was based on the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2017 and 2016, respectively.

Mortality rates used in the June 30, 2017 and 2016 actuarial valuations were based upon the Adjusted RP-2014 White Collar Mortality Table for males and females; incorporated into the tables for the June 30, 2017 and 2016 actuarial valuations were rates projected using Scale MP-2017 and Scale MP-2016, respectively.

The Agency has not completed a recent experience study.

#### Changes in the Total OPEB Liability

	<b>Total OPEB Liability at June 30</b>	
	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 105,516	\$ 81,953
Changes for the year:		
Service cost	6,143	4,498
Interest	3,003	3,197
Changes of benefit terms	(2,591)	-
Differences between expected and actual experience	(21,717)	-
Changes in assumptions or other inputs	(5,137)	17,252
Benefit payments	(1,561)	(1,384)
Net Changes	<u>(21,860)</u>	<u>23,563</u>
Ending Balance	<u>\$ 83,656</u>	<u>\$ 105,516</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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Changes of benefit terms reflect an increase in the retirees' share of health insurance premiums from 5% to 8% between the June 30, 2017 and June 30, 2018 actuarial valuations.

Changes of assumptions and other inputs reflect a change in the discount rate from 2.71% at June 30, 2016 to 3.13% at June 30, 2017 and a change in the health care cost trend from 6.0% at June 30, 2016 to 5% at June 30, 2017.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the Agency, as well as what the Agency's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the discount rate:

<b>Total OPEB Liability</b>	<b>1% Decrease</b>	<b>Discount Rate</b>	<b>1% Increase</b>
<u>at June 30</u>			
2018	\$ 100,258	\$ 83,656	\$ 70,683
2017	128,080	105,516	88,033

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate**

The following presents the total OPEB liability of the Agency, as well as what the Agency's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the healthcare cost trend rate:

<b>Total OPEB Liability</b>	<b>1% Decrease</b>	<b>Healthcare</b>	<b>1% Increase</b>
<u>at June 30</u>		<u>Cost Trend Rate</u>	
2018	\$ 68,739	\$ 83,656	\$ 103,248
2017	84,749	105,516	133,249

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the years ended June 30, 2018 and 2017, the OPEB Plan recognized OPEB expense of \$5,138 and \$9,263, respectively. At June 30, 2018 and 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

	<u>2018</u>	<u>2017</u>
<b><u>Deferred Outflows</u></b>		
Changes in Assumptions	\$ 15,586	\$ 17,864
Contributions made after measurement date	<u>1,521</u>	<u>1,562</u>
Gross Deferred Outflows	<u>17,107</u>	<u>19,426</u>
<b><u>Deferred Inflows</u></b>		
Differences between Expected and Actual Experience	23,567	4,974
Changes in Assumptions	<u>4,566</u>	<u>-</u>
Gross Deferred Inflows	<u>28,133</u>	<u>4,974</u>
Net Deferred (Inflows)/Outflows	<u><u>\$(11,026)</u></u>	<u><u>\$14,452</u></u>

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

<u>Year Ended June 30</u>	
2019	\$ (105)
2020	1,416
2021	1,416
2022	1,416
2023	1,416
Thereafter	<u>5,467</u>
	<u><u>\$11,026</u></u>

**15. Significant Contingencies and Commitments****Federally Assisted Programs**

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

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017 (in thousands)

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### **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.

### **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 \$37,894 and \$880, respectively, at June 30, 2018.

### **Construction**

As of June 30, 2018, PHFA had entered into construction contracts totaling \$26,106, of which \$13,834 was still outstanding.

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

On August 15, 2018, the Agency sold single family mortgage revenue bonds Series 2018-127 totaling \$173,450. Proceeds included a portion used for refunding certain single family mortgage revenue bonds previously issued by the Agency equal to \$23,450; the remainder was used to purchase new single family mortgage loans. Settlement and closing occurred on September 24, 2018.

On August 15, 2018, the Agency sold single family mortgage revenue bonds Series 101C totaling \$9,655. All proceeds of these fixed rate bonds were used to refund the entire outstanding balance of variable rate single family mortgage revenue bonds series 2008-101C equal to \$9,655. Settlement and closing occurred on September 24, 2018.

As of October 26, 2018, the effective date of these financial statements, \$10,677 of construction contracts totaling \$26,106 was 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)

	<b>December 31</b>			
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total Pension Liability</b>				
Service Cost	\$ 1,795	\$ 1,786	\$ 1,812	\$ 1,545
Interest	7,652	7,318	6,896	5,826
Differences Between Expected and Actual Experience	2,489	634	(604)	2,596
Changes of Assumptions	(476)	(927)	1,455	7,432
Benefit Payments, Including Refunds of Employee Contributions	(4,482)	(4,247)	(3,565)	(3,239)
<b>Net Change in Total Pension Liability</b>	<b>6,978</b>	<b>4,564</b>	<b>5,994</b>	<b>14,160</b>
<b>Total Pension Liability - Beginning</b>	<b>102,475</b>	<b>97,911</b>	<b>91,917</b>	<b>77,757</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 109,453</b>	<b>\$ 102,475</b>	<b>\$ 97,911</b>	<b>\$ 91,917</b>
<b>Pensions Fiduciary Net Position</b>				
Contributions - Employer	3,906	3,989	4,028	3,057
Contributions - Employee	194	161	123	92
Net Investment Income	12,447	3,879	281	6,071
Benefit Payments, Including Refunds of Employee Contributions	(4,482)	(4,247)	(3,565)	(3,239)
<b>Net Change in Pensions Fiduciary Net Position</b>	<b>12,065</b>	<b>3,782</b>	<b>867</b>	<b>5,981</b>
<b>Pensions Fiduciary Net Position - Beginning</b>	<b>76,168</b>	<b>72,386</b>	<b>71,519</b>	<b>65,538</b>
<b>Pensions Fiduciary Net Position - Ending (b)</b>	<b>88,233</b>	<b>76,168</b>	<b>72,386</b>	<b>71,519</b>
<b>Agency's Net Pension Liability (a) - (b)</b>	<b>\$ 21,220</b>	<b>\$ 26,307</b>	<b>\$ 25,525</b>	<b>\$ 20,398</b>
<b>Pensions Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>80.61%</b>	<b>74.33%</b>	<b>73.93%</b>	<b>77.81%</b>
<b>Covered-Employee Payroll</b>	<b>\$ 18,886</b>	<b>\$ 18,114</b>	<b>\$ 17,383</b>	<b>\$ 17,440</b>
<b>Pensions Fiduciary Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	<b>112.36%</b>	<b>145.23%</b>	<b>146.84%</b>	<b>116.96%</b>

**Notes to Schedule:**

The change of assumption reflected above for the period ended December 31, 2017 was the result of incorporating Scale MP-2017 to reflect mortality improvement, 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, and 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. This schedule will continue to be built up to ten years subsequent to the year of implementation of GASB 68.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

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

<b>Year</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions From Agency</b>	<b>Contribution Deficiency/ (Excess)</b>	<b>Covered Employee Payroll</b>	<b>Contribution as a % of Payroll</b>
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%
2017	3,821,037	3,906,123	(85,086)	18,886,398	20.23%

**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 through 2017 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)

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

<b>Year ended</b>	
<b><u>December 31</u></b>	<b><u>Rate</u></b>
2017	16.32%
2016	5.34%
2015	0.42%
2014	9.28%
2013	16.60%

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Schedule of Changes in Total OPEB Liability and Related Ratios

(in thousands) (unaudited)

	<b>June 30</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Total OPEB Liability</b>			
Service Cost	\$ 6,143	\$ 4,498	\$ 4,230
Interest	3,003	3,197	3,023
Changes in Benefit Terms	(2,591)	-	-
Differences Between Expected and Actual Experience	(21,717)	-	(6,396)
Changes of Assumptions	(5,137)	17,252	3,252
Benefit Payments	(1,561)	(1,384)	(1,149)
<b>Net Change in Total OPEB Liability</b>	<b>(21,860)</b>	<b>23,563</b>	<b>2,960</b>
<b>Total OPEB Liability - Beginning</b>	<b>105,516</b>	<b>81,953</b>	<b>78,993</b>
<b>Total OPEB Liability - Ending</b>	<b>\$ 83,656</b>	<b>\$ 105,516</b>	<b>\$ 81,953</b>
<b>Covered-Employee Payroll</b>	<b>\$ 20,204</b>	<b>\$ 18,523</b>	<b>\$ 18,523</b>
<b>Total OPEB Liability as a Percentage of Covered-Employee Payroll</b>	<b>414.06%</b>	<b>569.65%</b>	<b>442.44%</b>

**Notes to Schedule:**

Changes in benefit terms reflect an increase in retirees' share of the cost of health insurance premiums from 5% to 8%, effective as of the June 30, 2017 actuarial valuation.

Changes of assumptions include updated mortality tables and the effects of changes in the discount rate and health care cost trend rate each period. The following are the discount rates and health care cost trend rates used in each period:

	Discount	Healthcare Cost Trend
<u>Year</u>	<u>Rate</u>	<u>Rate</u>
2017	3.13%	5.5%
2016	2.71%	6.0%
2015	3.73%	6.5%

This schedule will continue to be built up to ten years subsequent to the implementation of GASB 75.

**SUPPLEMENTARY INFORMATION**

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Combining Balance Sheet

June 30, 2018 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Intra-Agency Eliminations	Total
<b>ASSETS</b>							
<b>Current assets:</b>							
Cash and cash equivalents	\$ 11,235	\$ 89,013	\$ 381,261	\$ 11,470	\$ 15,503	\$ -	\$ 508,482
Restricted cash and cash equivalents	1,529	52,478	92,006	-	-	-	146,013
Investments	10	-	1,804	-	-	-	1,814
Restricted investments	-	10	1,000	-	-	-	1,010
Accrued investment interest receivable	488	-	1,434	-	-	-	1,922
Mortgage loans receivable, net	-	11,336	85,118	-	5,691	-	102,145
Accrued mortgage loan interest receivable	-	3,746	15,169	-	225	-	19,140
Mortgages held for sale	-	-	21,784	-	-	-	21,784
Other current assets	2,585	3	16	-	2	-	2,606
<b>Total Current Assets</b>	<b>15,847</b>	<b>156,586</b>	<b>599,592</b>	<b>11,470</b>	<b>21,421</b>	<b>-</b>	<b>804,916</b>
<b>Noncurrent Assets:</b>							
Investments	68,545	351	96,658	-	-	-	165,554
Restricted investments	-	45	103,318	-	-	-	103,363
Mortgage loans receivable, net	3,461	320,387	2,832,986	-	31,323	-	3,188,157
Real estate owned	872	-	24,118	-	-	-	24,990
Capital assets, net	40,588	-	-	-	-	-	40,588
Intra-agency receivables	154,583	56,106	-	-	-	(210,689)	-
Other noncurrent assets	10,761	1,303	4,181	396	-	(10,207)	6,434
<b>Total Noncurrent Assets</b>	<b>278,810</b>	<b>378,192</b>	<b>3,061,261</b>	<b>396</b>	<b>31,323</b>	<b>(220,896)</b>	<b>3,529,086</b>
<b>TOTAL ASSETS</b>	<b>294,657</b>	<b>534,778</b>	<b>3,660,853</b>	<b>11,866</b>	<b>52,744</b>	<b>(220,896)</b>	<b>4,334,002</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
OPEB-related deferred outflows	17,107	-	-	-	-	-	17,107
Pension-related deferred outflows	12,521	-	-	-	-	-	12,521
Unamortized losses on bond refundings	-	-	3,350	-	-	-	3,350
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>29,628</b>	<b>-</b>	<b>3,350</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,978</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 324,285</b>	<b>\$ 534,778</b>	<b>\$ 3,664,203</b>	<b>\$ 11,866</b>	<b>\$ 52,744</b>	<b>\$ (220,896)</b>	<b>\$ 4,366,980</b>
<b>LIABILITIES</b>							
<b>Current Liabilities:</b>							
Bonds and notes payable, net	\$ 2,000	\$ 357	\$ 118,925	\$ -	\$ -	\$ -	\$ 121,282
Accrued interest payable	69	648	22,769	-	-	-	23,486
Accounts payable and accrued expenses	2,801	-	1,246	-	944	-	4,991
Escrow deposits and development reserves	905	16,795	57,119	-	-	-	74,819
Other current liabilities	21,152	497	23,167	-	-	-	44,816
<b>Total Current Liabilities</b>	<b>26,927</b>	<b>18,297</b>	<b>223,226</b>	<b>-</b>	<b>944</b>	<b>-</b>	<b>269,394</b>
<b>Noncurrent Liabilities:</b>							
Bonds and notes payable, net	37,000	9,100	2,843,473	-	-	-	2,889,573
Derivative instrument - interest rate swaps	696	2,382	4,824	-	-	-	7,902
Development reserves	-	85,078	-	-	-	-	85,078
Intra-agency payables	-	-	210,689	-	-	(210,689)	-
Net OPEB liability	83,656	-	-	-	-	-	83,656
Net pension liability	21,220	-	-	-	-	-	21,220
Other noncurrent liabilities	8,098	207,982	6,832	582	10,207	(10,207)	223,494
<b>Total Noncurrent Liabilities</b>	<b>150,670</b>	<b>304,542</b>	<b>3,065,818</b>	<b>582</b>	<b>10,207</b>	<b>(220,896)</b>	<b>3,310,923</b>
<b>TOTAL LIABILITIES</b>	<b>177,597</b>	<b>322,839</b>	<b>3,289,044</b>	<b>582</b>	<b>11,151</b>	<b>(220,896)</b>	<b>3,580,317</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
OPEB-related deferred inflows	28,133	-	-	-	-	-	28,133
Pension-related deferred inflows	4,242	-	-	-	-	-	4,242
Accumulated (decrease) increase in fair value of hedging derivatives	(696)	(1,240)	5,826	-	-	-	3,890
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>31,679</b>	<b>(1,240)</b>	<b>5,826</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,265</b>
<b>NET POSITION</b>							
Net investment in capital assets	1,588	-	-	-	-	-	1,588
Restricted	-	304	103,318	-	41,593	-	145,215
Unrestricted	113,421	212,875	266,015	11,284	-	-	603,595
<b>TOTAL NET POSITION</b>	<b>115,009</b>	<b>213,179</b>	<b>369,333</b>	<b>11,284</b>	<b>41,593</b>	<b>-</b>	<b>750,398</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 324,285</b>	<b>\$ 534,778</b>	<b>\$ 3,664,203</b>	<b>\$ 11,866</b>	<b>\$ 52,744</b>	<b>\$ (220,896)</b>	<b>\$ 4,366,980</b>

## PENNSYLVANIA HOUSING FINANCE AGENCY

### Combining Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2018 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
<b>Operating Revenues:</b>						
Interest income on mortgage loans	\$ 55	\$ 4,861	\$ 106,463	\$ -	\$ 428	\$ 111,807
Program income and fees	50,509	1,137	2,783	924	165	55,518
Gain on sales of mortgage-backed securities	4,822	-	-	-	-	4,822
Investment income	1,927	54	10,057	-	193	12,231
Increase in fair value of swaps	-	916	6,374	-	-	7,290
Gain on early extinguishment of debt	-	-	1,132	-	-	1,132
<b>Total Operating Revenues</b>	<b>57,313</b>	<b>6,968</b>	<b>126,809</b>	<b>924</b>	<b>786</b>	<b>192,800</b>
<b>Operating Expenses:</b>						
Interest expense on bonds and notes	430	1,155	86,161	-	-	87,746
Financing and program expenses	238	5	15,012	-	-	15,255
Salaries and related benefits	29,154	-	-	-	7,280	36,434
General and administrative	14,106	323	7,117	-	985	22,531
(Increase) decrease in fair value of	(3,474)	33	7,644	-	-	4,203
Provision for loan loss and real estate owned	(39)	(2,804)	9,431	(554)	-	6,034
<b>Total Operating Expenses</b>	<b>40,415</b>	<b>(1,288)</b>	<b>125,365</b>	<b>(554)</b>	<b>8,265</b>	<b>172,203</b>
<b>Operating Income (Loss)</b>	<b>16,898</b>	<b>8,256</b>	<b>1,444</b>	<b>1,478</b>	<b>(7,479)</b>	<b>20,597</b>
<b>Non-operating Revenue</b>						
Federal program awards	-	429,914	1,298	-	-	431,212
<b>Non-operating Expense</b>						
Federal program expense	-	429,914	1,298	-	-	431,212
<b>Income (Loss) Before Transfers</b>	<b>16,898</b>	<b>8,256</b>	<b>1,444</b>	<b>1,478</b>	<b>(7,479)</b>	<b>20,597</b>
Intra-agency transfers	19,459	376	(19,853)	18	-	-
<b>Change in Net Position</b>	<b>36,357</b>	<b>8,632</b>	<b>(18,409)</b>	<b>1,496</b>	<b>(7,479)</b>	<b>20,597</b>
<b>Net Position - beginning of year</b>	<b>78,652</b>	<b>204,547</b>	<b>387,742</b>	<b>9,788</b>	<b>49,072</b>	<b>729,801</b>
<b>Net Position - end of year</b>	<b>\$ 115,009</b>	<b>\$ 213,179</b>	<b>\$ 369,333</b>	<b>\$ 11,284</b>	<b>\$ 41,593</b>	<b>\$ 750,398</b>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Combining Statement of Cash Flows

Year Ended June 30, 2018 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
<b>Cash Flows From Operating Activities</b>						
Receipts of mortgage loan payments	\$ 26	\$ 22,775	\$ 548,404	\$ -	\$ 7,352	\$ 578,557
Receipts of mortgage-backed security premiums	4,822	-	-	-	-	4,822
Receipts of fees and other income	50,509	1,137	2,783	924	165	55,518
Receipts of interest on mortgages	55	4,899	107,090	-	411	112,455
Receipts of escrow and development reserves	9,674	10,507	8,932	-	-	29,113
Payments for mortgages and purchases	-	(13,241)	(627,600)	-	(5,498)	(646,339)
Payments for salaries and related benefits	(34,529)	-	-	-	-	(34,529)
Payments for goods and services	(9,756)	(323)	2,190	(693)	(2,240)	(10,822)
<b>Net Cash Provided By Operating Activities</b>	<b>20,801</b>	<b>25,754</b>	<b>41,799</b>	<b>231</b>	<b>190</b>	<b>88,775</b>
<b>Cash Flows From Noncapital Financing Activities</b>						
Proceeds from the issuance of bonds	-	-	635,850	-	-	635,850
Payments for retirement of bonds and notes	-	(342)	(485,300)	-	-	(485,642)
Payments of bonds and notes interest	-	(1,236)	(84,115)	-	-	(85,351)
Payments of financing costs	(238)	(5)	(15,012)	-	-	(15,255)
Payments (receipts) of program advances	(26,095)	3,621	22,456	18	(1,041)	(1,041)
Receipts of federal program awards	-	429,914	1,298	-	-	431,212
Payments of federal program awards	-	(429,914)	(1,298)	-	-	(431,212)
<b>Net Cash (Used In) Provided By Noncapital Financing Activities</b>	<b>(26,333)</b>	<b>2,038</b>	<b>73,879</b>	<b>18</b>	<b>(1,041)</b>	<b>48,561</b>
<b>Cash Flows From Capital Financing Activities</b>						
Purchases of capital assets	(9,429)	-	-	-	-	(9,429)
Proceeds from the issuance of capital financing bond	40,000	-	-	-	-	40,000
Payments for retirement of capital financing bond	(19,905)	-	-	-	-	(19,905)
Interest paid on capital debt	(375)	-	-	-	-	(375)
<b>Net Cash Provided By Capital Financing Activities</b>	<b>10,291</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,291</b>
<b>Cash Flows From Investing Activities</b>						
Proceeds from the sale or maturity of investments	2,126	6	161,648	-	-	163,780
Investment interest receipts	1,837	55	10,337	-	193	12,422
Purchases of investments	-	(121)	(79,048)	-	-	(79,169)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>3,963</b>	<b>(60)</b>	<b>92,937</b>	<b>-</b>	<b>193</b>	<b>97,033</b>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<b>8,722</b>	<b>27,732</b>	<b>208,615</b>	<b>249</b>	<b>(658)</b>	<b>244,660</b>
Cash and cash equivalents, beginning of year	4,042	113,759	264,652	11,221	16,161	409,835
Cash and cash equivalents, end of year	<u>\$ 12,764</u>	<u>\$ 141,491</u>	<u>\$ 473,267</u>	<u>\$ 11,470</u>	<u>\$ 15,503</u>	<u>\$ 654,495</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Combining Statement of Cash Flows

Year Ended June 30, 2018 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
<b>Reconciliation of Operating Income to</b>						
<b>Net Cash Provided By Operating Activities:</b>						
Operating Income (Loss)	\$ 16,898	\$ 8,256	\$ 1,444	\$ 1,478	\$(7,479)	\$ 20,597
Investment income recognized	(1,927)	(54)	(10,057)	-	(193)	(12,231)
Net change in fair value of investments	(3,474)	33	7,644	-	-	4,203
Net change in fair value of swaps	-	(916)	(6,374)	-	-	(7,290)
Interest expense on bonds and notes	430	1,155	86,161	-	-	87,746
Financing expenses	238	5	15,012	-	-	15,255
Provision for loan loss and real estate owned	(39)	(2,804)	9,431	(554)	-	6,034
Depreciation	1,072	-	-	-	-	1,072
Early extinguishment of debt	-	-	(1,132)	-	-	(1,132)
Loss on disposal of capital assets	7	-	-	-	-	7
Changes in Assets and Liabilities:						
Mortgage loans receivable, net	26	9,534	(86,200)	-	1,854	(74,786)
Mortgage loans interest receivable	-	38	627	-	(17)	648
Real estate owned, net	(477)	-	15,550	-	-	15,073
Other assets	(709)	-	869	(396)	-	(236)
Accounts payable and accrued expenses	(66)	-	(108)	-	653	479
Escrow deposits and development reserves	77	4,853	3,462	-	-	8,392
Derivative instrument - interest rate swap	696	-	-	-	-	696
Other liabilities	8,049	5,654	5,470	(297)	5,372	24,248
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 20,801</b>	<b>\$ 25,754</b>	<b>\$ 41,799</b>	<b>\$ 231</b>	<b>\$ 190</b>	<b>\$ 88,775</b>

**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
<b>ASSETS</b>							
<b>Current assets:</b>							
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
<b>Total Current Assets</b>	<b>9,217</b>	<b>130,426</b>	<b>487,850</b>	<b>11,221</b>	<b>21,393</b>	<b>-</b>	<b>660,107</b>
<b>Noncurrent Assets:</b>							
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	5,842	1,303	5,050	-	-	(4,695)	7,500
<b>Total Noncurrent Assets</b>	<b>216,014</b>	<b>386,553</b>	<b>2,992,485</b>	<b>-</b>	<b>33,846</b>	<b>(173,075)</b>	<b>3,455,823</b>
<b>TOTAL ASSETS</b>	<b>225,231</b>	<b>516,979</b>	<b>3,480,335</b>	<b>11,221</b>	<b>55,239</b>	<b>(173,075)</b>	<b>4,115,930</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
OPEB-related deferred outflows	19,426	-	-	-	-	-	19,426
Pension-related deferred outflows	14,365	-	-	-	-	-	14,365
Unamortized losses on bond refundings	-	-	5,190	-	-	-	5,190
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>33,791</b>	<b>-</b>	<b>5,190</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,981</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 259,022</b>	<b>\$ 516,979</b>	<b>\$ 3,485,525</b>	<b>\$ 11,221</b>	<b>\$ 55,239</b>	<b>\$ (173,075)</b>	<b>\$ 4,154,911</b>
<b>LIABILITIES</b>							
<b>Current Liabilities:</b>							
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
<b>Total Current Liabilities</b>	<b>13,564</b>	<b>18,235</b>	<b>181,162</b>	<b>958</b>	<b>1,337</b>	<b>-</b>	<b>215,256</b>
<b>Noncurrent Liabilities:</b>							
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 OPEB liability	105,516	-	-	-	-	-	105,516
Net pension liability	26,307	-	-	-	-	-	26,307
Other noncurrent liabilities	10,198	202,327	7,628	475	4,830	(4,695)	220,763
<b>Total Noncurrent Liabilities</b>	<b>160,526</b>	<b>296,395</b>	<b>2,910,965</b>	<b>475</b>	<b>4,830</b>	<b>(173,075)</b>	<b>3,200,116</b>
<b>TOTAL LIABILITIES</b>	<b>174,090</b>	<b>314,630</b>	<b>3,092,127</b>	<b>1,433</b>	<b>6,167</b>	<b>(173,075)</b>	<b>3,415,372</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
OPEB-related deferred inflows	4,974	-	-	-	-	-	4,974
Pension-related deferred inflows	1,306	-	-	-	-	-	1,306
Accumulated (decrease) increase in fair value of hedging derivatives	-	(2,198)	5,656	-	-	-	3,458
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>6,280</b>	<b>(2,198)</b>	<b>5,656</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,738</b>
<b>NET POSITION</b>							
Net investment in capital assets	13,333	-	-	-	-	-	13,333
Restricted	-	295	100,303	-	49,072	-	149,670
Unrestricted	65,319	204,252	287,439	9,788	-	-	566,798
<b>TOTAL NET POSITION</b>	<b>78,652</b>	<b>204,547</b>	<b>387,742</b>	<b>9,788</b>	<b>49,072</b>	<b>-</b>	<b>729,801</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 259,022</b>	<b>\$ 516,979</b>	<b>\$ 3,485,525</b>	<b>\$ 11,221</b>	<b>\$ 55,239</b>	<b>\$ (173,075)</b>	<b>\$ 4,154,911</b>

# 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
<b>Operating Revenues:</b>						
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
<b>Total Operating Revenues</b>	<b>57,590</b>	<b>9,228</b>	<b>112,636</b>	<b>1,185</b>	<b>6,750</b>	<b>187,389</b>
<b>Operating Expenses:</b>						
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	43,698	-	-	-	2,270	45,968
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
<b>Total Operating Expenses</b>	<b>64,321</b>	<b>(547)</b>	<b>127,943</b>	<b>801</b>	<b>5,708</b>	<b>198,226</b>
<b>Operating Income (Loss)</b>	<b>(6,731)</b>	<b>9,775</b>	<b>(15,307)</b>	<b>384</b>	<b>1,042</b>	<b>(10,837)</b>
<b>Non-operating Revenue</b>						
Federal program awards	-	436,397	134	-	-	436,531
<b>Non-operating Expense</b>						
Federal program expense	-	436,397	134	-	-	436,531
<b>Income (Loss) Before Transfers</b>	<b>(6,731)</b>	<b>9,775</b>	<b>(15,307)</b>	<b>384</b>	<b>1,042</b>	<b>(10,837)</b>
Intra-agency transfers	(14,265)	(7,608)	21,687	186	-	-
<b>Change in Net Position</b>	<b>(20,996)</b>	<b>2,167</b>	<b>6,380</b>	<b>570</b>	<b>1,042</b>	<b>(10,837)</b>
<b>Net Position - beginning of year</b>	<b>99,648</b>	<b>202,380</b>	<b>381,362</b>	<b>9,218</b>	<b>48,030</b>	<b>740,638</b>
<b>Net Position - end of year</b>	<b>\$ 78,652</b>	<b>\$ 204,547</b>	<b>\$ 387,742</b>	<b>\$ 9,788</b>	<b>\$ 49,072</b>	<b>\$ 729,801</b>

**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
<b>Cash Flows From Operating Activities</b>						
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)
<b>Net Cash Provided By Operating Activities</b>	<b>22,278</b>	<b>20,592</b>	<b>122,352</b>	<b>248</b>	<b>7,725</b>	<b>173,195</b>
<b>Cash Flows From Noncapital Financing Activities</b>						
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)
<b>Net Cash (Used In) Provided By Noncapital Financing Activities</b>	<b>(25,235)</b>	<b>(8,327)</b>	<b>(19,244)</b>	<b>186</b>	<b>(2,370)</b>	<b>(54,990)</b>
<b>Cash Flows From Capital Financing Activities</b>						
Purchases of capital assets	(2,525)	-	-	-	-	(2,525)
Payments for retirement of capital financing bond	(380)	-	-	-	-	(380)
Interest paid on capital debt	(128)	-	-	-	-	(128)
<b>Net Cash Used In Capital Financing Activities</b>	<b>(3,033)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,033)</b>
<b>Cash Flows From Investing Activities</b>						
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)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>2,766</b>	<b>1,665</b>	<b>(80,749)</b>	<b>-</b>	<b>75</b>	<b>(76,243)</b>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<b>(3,224)</b>	<b>13,930</b>	<b>22,359</b>	<b>434</b>	<b>5,430</b>	<b>38,929</b>
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
<b>Reconciliation of Operating Income to</b>						
<b>Net Cash Provided By Operating Activities:</b>						
Operating (Loss) Income	\$ (6,731)	\$ 9,775	\$ (15,307)	\$ 384	\$ 1,042	\$ (10,837)
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
Real estate owned, net	(356)	-	29,968	-	-	29,612
Other assets	2,511	(2)	(636)	-	-	1,873
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	19,605	10,545	2,020	(937)	468	31,701
<b>Net Cash Provided By Operating Activities</b>	<b><u>\$ 22,278</u></b>	<b><u>\$ 20,592</u></b>	<b><u>\$ 122,352</u></b>	<b><u>\$ 248</u></b>	<b><u>\$ 7,725</u></b>	<b><u>\$ 173,195</u></b>



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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, 2018, 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 26, 2018, which contained an unmodified opinion on those financial statements with an emphasis of matter paragraph regarding the Agency's implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our report includes a 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 26, 2018