



PENNSYLVANIA HOUSING FINANCE AGENCY

Basic Financial Statements and Supplementary Information

June 30, 2020 and 2019

(With Independent Auditors' Reports Thereon)

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Independent Auditors' Report

The Board of Directors
Pennsylvania Housing Finance Agency:

We have audited the accompanying financial statements of the Pennsylvania Housing Finance Agency (the Agency), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 4 percent and 5 percent, respectively, of total net position at June 30, 2020 and 2019, and less than 1 percent of total operating revenues for each of 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. 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 the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Housing Finance Agency as of June 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis, the schedules of changes in the Agency's net pension liability and related ratios, the schedules of employer contributions to Agency employees' retirement plan and government excess benefit plan, the schedules of investment returns of Agency employees' retirement plan and government excess benefit plan, and the schedules of changes in total OPEB liability and related ratios as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The 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, 2020 and 2019 as listed in the table of contents 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 relate 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.

KPMG LLP

Harrisburg, Pennsylvania
November 2, 2020

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2020 and 2019 (amounts rounded)

Management's Discussion and Analysis

Introduction

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

Understanding the Basic Financial Statements

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

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

The Statement of Revenues, Expenses and Changes in Net Position reflect 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 this statement 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, 2020 and 2019 (amounts rounded)

Condensed Summary Balance Sheets *(In thousands)*

	2020	2019	Increase/(Decrease)	
Assets:				
Mortgage loans receivable, net	\$ 3,496,084	\$ 3,409,161	\$ 86,923	2.5%
Capital assets, net	55,668	49,950	5,718	11.4%
Other assets	950,712	871,059	79,653	9.1%
Total Assets	4,502,464	4,330,170	172,294	4.0%
Deferred Outflows of Resources	40,061	36,798	3,263	8.9%
Total Assets and Deferred Outflows of Resources	\$ 4,542,525	\$ 4,366,968	\$ 175,557	(4.0%)
Liabilities:				
Current liabilities	301,361	260,596	40,765	15.6%
Noncurrent liabilities	3,422,570	3,307,758	114,812	3.5%
Total Liabilities	3,723,931	3,568,354	155,577	4.4%
Deferred Inflows of Resources	31,201	26,033	5,168	19.9%
Net Position				
Net Investment in Capital Assets	20,668	12,950	7,718	59.6%
Restricted	135,509	138,764	(3,255)	(2.3%)
Unrestricted	631,216	620,867	10,349	1.7%
Total Net Position	787,393	772,581	14,812	1.9%
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 4,542,525	\$ 4,366,968	\$ 175,557	(4.0%)

PENNSYLVANIA HOUSING FINANCE AGENCY
Management's Discussion and Analysis (unaudited)
June 30, 2020 and 2019 (amounts rounded)

Condensed Summary Balance Sheets *(In thousands)*

	2019	2018	Increase/(Decrease)	
Assets:				
Mortgage loans receivable, net	\$ 3,409,161	\$ 3,290,302	\$ 118,859	3.6%
Capital assets, net	49,950	40,588	9,362	23.1%
Other assets	871,059	1,003,112	(132,053)	(13.2%)
Total Assets	4,330,170	4,334,002	(3,832)	(0.1%)
Deferred Outflows of Resources	36,798	32,978	3,820	11.6%
Total Assets and Deferred Outflows of Resources	\$ 4,366,968	\$ 4,366,980	\$ (12)	0.0%
Liabilities:				
Current liabilities	260,596	269,394	(8,798)	(3.3%)
Noncurrent liabilities	3,307,758	3,310,923	(3,165)	(0.1%)
Total Liabilities	3,568,354	3,580,317	(11,963)	(0.3%)
Deferred Inflows of Resources	26,033	36,265	(10,232)	(28.2%)
Net Position				
Net Investment in Capital Assets	12,950	1,588	11,362	715.5%
Restricted	138,764	145,215	(6,451)	(4.4%)
Unrestricted	620,867	603,595	17,272	2.9%
Total Net Position	772,581	750,398	22,183	3.0%
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 4,366,968	\$ 4,366,980	\$ (12)	0.0%

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2020 and 2019 (amounts rounded)

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

	<u>2020</u>	<u>2019</u>	<u>Increase/(Decrease)</u>	
Revenues:				
Mortgage loan interest	\$ 111,534	\$ 116,064	\$ (4,530)	(3.9%)
Other operating revenues	128,526	92,785	35,741	38.5%
Federal program awards	<u>441,585</u>	<u>426,969</u>	<u>14,616</u>	<u>3.4%</u>
Total Revenues	681,645	635,818	45,827	7.2%
Expenses:				
Interest and financing expenses	113,377	111,879	1,498	1.3%
Other operating expenses	111,871	74,787	37,084	49.6%
Federal program expenses	<u>441,585</u>	<u>426,969</u>	<u>14,616</u>	<u>3.4%</u>
Total Expenses	<u>666,833</u>	<u>613,635</u>	<u>53,198</u>	<u>8.7%</u>
Change in Net Position	14,812	22,183	(7,371)	(33.2%)
Net Position - Beginning of Year	<u>772,581</u>	<u>750,398</u>	<u>22,183</u>	<u>3.0%</u>
Net Position - End of Year	<u><u>\$ 787,393</u></u>	<u><u>\$ 772,581</u></u>	<u><u>\$ 14,812</u></u>	<u><u>1.9%</u></u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2020 and 2019 (amounts rounded)

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

	<u>2019</u>	<u>2018</u>	<u>Increase/(Decrease)</u>	
Revenues:				
Mortgage loan interest	\$ 116,064	\$ 111,807	\$ 4,257	3.8%
Other operating revenues	92,785	80,993	11,792	14.6%
Federal program awards	<u>426,969</u>	<u>431,212</u>	<u>(4,243)</u>	<u>(1.0%)</u>
Total Revenues	635,818	624,012	11,806	1.9%
Expenses:				
Interest and financing expenses	111,879	103,001	8,878	8.6%
Other operating expenses	74,787	69,202	5,585	8.1%
Federal program expenses	<u>426,969</u>	<u>431,212</u>	<u>(4,243)</u>	<u>(1.0%)</u>
Total Expenses	<u>613,635</u>	<u>603,415</u>	<u>10,220</u>	<u>1.7%</u>
Change in Net Position	22,183	20,597	1,586	7.7%
Net Position - Beginning of Year	<u>750,398</u>	<u>729,801</u>	<u>20,597</u>	<u>2.8%</u>
Net Position - End of Year	<u><u>\$ 772,581</u></u>	<u><u>\$ 750,398</u></u>	<u><u>\$ 22,183</u></u>	<u><u>3.0%</u></u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2020 and 2019 (amounts rounded)

Analysis of Overall Financial Position and Results of Operations

In March 2020 there was a global outbreak of COVID-19, a respiratory disease declared to be a pandemic by the World Health Organization, which is affecting the national capital markets and may negatively impact the Commonwealth of Pennsylvania's housing market and its overall economy. To plan for and mitigate the impact of such an event on its operations, the Agency has developed, and continues to develop, a Continuity of Operations and Business Continuity Plan. This plan is designed to (i) provide for the continued execution of mission-essential functions of the Agency and minimize disruption if an emergency threatens, interrupts or incapacitates the Agency's operations, (ii) provide Agency leadership with timely direction, control and coordination before, during and after an emergency, and (iii) facilitate the return to normal operating conditions as soon as practical based on the circumstances surrounding any given emergency. The Agency utilized the plan and transitioned its operations to a remote environment and has remained fully operational throughout the pandemic.

Comparison of Years Ended June 30, 2020 and 2019

Assets increased by \$172 million from \$4.330 billion to \$4.502 billion. The increase in mortgage loans received was attributable to the Agency's continued ongoing effort to build its balance sheet by purchasing and holding mortgage loans receivable and utilizing capital funding provided by single family mortgage revenue bonds. The increase in capital assets was 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 cash equivalents, which resulted from the redemption of investments and the proceeds of the issuance of Series 2020-132 mortgage revenue bonds on June 2, 2020, leaving a sizable amount of proceeds yet to be utilized.

Deferred outflow of resources increased by \$3 million from \$37 million to \$40 million. The increase was primarily due the increase in unamortized losses on bond refundings due to the volume of variable rate bonds with associated interest rate swaps refunded by the Agency during the fiscal year, the increase also stemmed from the increase in the accumulated decrease in the fair value of hedging derivatives due to market conditions at the June 30, 2020 valuation date, offset by the decrease in pension-related deferred outflows due to projected investment income during the measurement period being less than actual.

Total liabilities increased by \$156 million from \$3.568 billion to \$3.724 billion. The increase is largely due to the increase in bonds and notes payable of \$109 million, which came as a result of the Agency's vigorous efforts to increase the size of its balance sheet by purchasing and holding mortgage loans receivable by utilizing capital provided by the single family mortgage revenue bonds. The increase in the other liabilities is due to an increase in the funds held by the Agency for various grant programs.

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2020 and 2019 (amounts rounded)

Total net position as of June 30, 2020 was \$787 million, an increase of \$15 million, over the total net position of \$773 million at June 30, 2019. Operating revenues increased by \$31 million, the increase is primarily due to an increase in grant funds received and disbursed by the Agency, along with an increase in the fair value of investments and mortgage servicing rights due to favorable market conditions on the June 30, 2020 valuation date. Operating expenses increased during the year, the increase was \$39 million, there was an increase in grant disbursements during the fiscal year which coincided with the increase in grant funds recorded as revenue, along with an increase in bond and note interest expense, and an increase in the provision for loan loss and real estate owned by \$12 million. Management considered the current economic situation, federally required forbearance programs, the moratorium on foreclosures, and the potential impact that COVID-19 may have on the Commonwealth of Pennsylvania's housing market when estimating the allowance for loan loss at June 30, 2020.

Comparison of Years Ended June 30, 2019 and 2018

Assets decreased by \$4 million from \$4.334 billion to \$4.330 billion. The increase in mortgage loans receivable was attributable to the Agency's continued ongoing effort to build its balance sheet by purchasing and holding mortgage loans receivable and utilizing capital funding 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 decrease in other assets was primarily attributable to decreases in cash and cash equivalents, which resulted from the proceeds of the issuance of Series 2018-126 mortgage revenue bonds during the year ended June 30, 2018 being utilized to purchase mortgage loans during the year ended June 30, 2019, and the decrease in real estate owned, which resulted from the Agency's continued effort to liquidate aging real estate owned properties.

Deferred outflow of resources increased by \$4 million from \$33 million to \$37 million. The increase was primarily due to an increase in the deferred outflows in the pension plans, which resulted from the net difference between the projected and actual investment earnings of the plans offset by the current year amortization of deferred outflows of the pension plans which resulted from the impact of changes in the prior year mortality rate assumption and the difference between expected and actual experience of the plans. This increase was partially offset by the amortization of the deferred outflows of other postemployment benefit ("OPEB") which resulted from the impact of changes in the discount rate, mortality, and trend assumptions in prior years.

Total liabilities decreased by \$12 million from \$3.580 billion to \$3.568 billion. The net decrease is largely due to the decrease in bonds and notes payable of \$54 million offset by an increase of \$8 million in the fair value of the derivative instrument – interest rate swaps, an increase of \$17 million in the total OPEB and net pension liabilities, and an increase of \$15 million in other liabilities. The net reduction to the balance of bonds and notes payable was enabled by timely payment of regularly scheduled debt service and advanced debt service which was offset by new bond issuances during the year. The increase in the fair value of interest rate swaps was a result

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2020 and 2019 (amounts rounded)

of the change in market conditions at the June 30, 2019 valuation date. The increase in the total OPEB liability is primarily due to the plan being unfunded, health insurance premiums are paid for retirees as they are due. The increase in the net pension liability is due to the decrease in the market value of the pension investments as of the December 31, 2018 valuation date. The increase in the other liabilities is due to an increase in the funds held by the Agency for various grant programs.

Total net position as of June 30, 2019 was \$772 million, an increase of \$22 million, over the total net position of \$750 million at June 30, 2018. Operating revenues increased by \$16 million, the increase is primarily due to the improvement in the fair value of investments of \$15 million at the valuation date of June 30, 2019, this was offset by the net decrease in the fair value of swaps of \$7 million also at the valuation date of June 30, 2019. The Agency also saw an increase in interest and investment income and gains on the early extinguishment of debt. Operating expenses increased during the year, the increase was \$14 million, interest expense increased by \$6 million, salaries and related benefits increased by \$6 million, the Agency recorded a \$4 million fair value adjustment to mortgage service rights, these increases were offset by a decrease in the provision for loan loss.

Analysis of Capital Asset Activity *(In thousands)*

	Balances at June 30		Increase/ (Decrease)
	2020	2019	
Nondepreciable Capital Assets:			
Land	\$ 2,454	\$ 2,454	\$ -
Construction in progress	-	21,164	(21,164)
Total nondepreciable capital assets	<u>2,454</u>	<u>23,618</u>	<u>(21,164)</u>
Depreciable Capital Assets:			
Building	59,161	32,096	27,065
Furniture, fixtures and equipment	11,654	10,513	1,141
Less accumulated depreciation:			
Building	(10,110)	(9,310)	(800)
Furniture, fixtures and equipment	(7,491)	(6,967)	(524)
Total depreciable capital assets, net	<u>53,214</u>	<u>26,332</u>	<u>26,882</u>
Total Capital Assets, net	<u>\$ 55,668</u>	<u>\$ 49,950</u>	<u>\$ 5,718</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2020 and 2019 (amounts rounded)

	Balances at June 30		Increase/ (Decrease)
	2019	2018	
Nondepreciable Capital Assets:			
Land	\$ 2,454	\$ 2,454	\$ -
Construction in progress	21,164	10,974	10,190
Total nondepreciable capital assets	<u>23,618</u>	<u>13,428</u>	<u>10,190</u>
Depreciable Capital Assets:			
Building	32,096	32,091	5
Furniture, fixtures and equipment	10,513	10,367	146
Less accumulated depreciation:			
Building	(9,310)	(8,818)	(492)
Furniture, fixtures and equipment	(6,967)	(6,480)	(487)
Total depreciable capital assets, net	<u>26,332</u>	<u>27,160</u>	<u>(828)</u>
Total Capital Assets, net	<u>\$ 49,950</u>	<u>\$ 40,588</u>	<u>\$ 9,362</u>

Increases in the balances attributable to building at June 30, 2020 and construction in progress at June 30, 2019 resulted from the Agency's headquarters expansion; the building expansion was completed and placed in service in January 2020. Increases in the balances of furniture, fixtures and equipment for the years ended June 30, 2020 and 2019 were primarily for the purchase of furniture and fixtures for the headquarters expansion.

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

Agency Program	Long-Term Debt at June 30		Increase (Decrease)
	2020	2019	
General Activities	\$ 35,000	\$ 37,000	\$ (2,000)
Multifamily Program	8,718	9,100	(382)
Single Family Program	3,021,721	2,909,979	111,742
Total Long-Term Debt	<u>\$ 3,065,439</u>	<u>\$ 2,956,079</u>	<u>\$ 109,360</u>

Agency Program	Long-Term Debt at June 30		Increase (Decrease)
	2019	2018	
General Activities	\$ 37,000	\$ 39,000	\$ (2,000)
Multifamily Program	9,100	9,457	(357)
Single Family Program	2,909,979	2,962,398	(52,419)
Total Long-Term Debt	<u>\$ 2,956,079</u>	<u>\$ 3,010,855</u>	<u>\$ (54,776)</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management’s Discussion and Analysis (unaudited)

June 30, 2020 and 2019 (amounts rounded)

Year Ended June 30, 2020

Additions

Additions to Agency bonds and notes payable for the year ended June 30, 2020 included the following:

<u>Date</u>	<u>Single Family Program Bond Series</u>	<u>General Obligation Note</u>	<u>Original Issue Premium</u>	<u>Total Proceeds</u>	<u>New Mortgage Loan Production Proceeds</u>	<u>Refunding Proceeds</u>	<u>Single Family Program Bond Series Refunded</u>
9/26/19	2019-130	-	\$ 2,076	\$ 174,925	\$ 124,996	\$ 16,340	2010-108B
9/26/19	2019-130	-	-	-	-	20,530	2010-109
9/26/19	2019-130	-	-	-	-	15,135	2010-110B
12/26/19	2019-131	-	1,763	137,035	124,998	13,800	2006-94B
6/5/20	2020-132	-	2,023	248,870	151,938	9,060	1999-67B
6/5/20	2020-132	-	-	-	-	14,915	2000-69B
6/5/20	2020-132	-	-	-	-	9,560	2000-70B
6/5/20	2020-132	-	-	-	-	31,050	2001-72C
6/5/20	2020-132	-	-	-	-	14,695	2002-73C
6/5/20	2020-132	-	-	-	-	19,675	2003-78
		General Obligation Note	-	25,000			-
			<u>\$ 5,862</u>	<u>\$ 585,830</u>			

Reductions

Reductions to Agency bonds and notes payable for the year ended June 30, 2020 included the following:

<u>Date</u>	<u>Single Family Program Bond Series Refunded</u>	<u>General Obligation Bond Series Refunded</u>	<u>Refunded Amount</u>	<u>Scheduled Debt Service</u>	<u>Advance Debt Service</u>	<u>Original Issue Premium Amortization</u>
9/26/19	2010-108B	-	\$ 16,340	\$ -	\$ -	\$ -
9/26/19	2010-109	-	20,530	-	-	-
9/26/19	2010-110B	-	15,135	-	-	-
12/26/19	2006-94B	-	13,800	-	-	-
6/5/20	2020-132	-	9,060	-	-	-
6/5/20	2020-132	-	14,915	-	-	-
6/5/20	2020-132	-	9,560	-	-	-
6/5/20	2020-132	-	31,050	-	-	-
6/5/20	2020-132	-	14,695	-	-	-
6/5/20	2020-132	-	19,675	-	-	-
Various	-	-	-	81,513	231,445	4,614
	Total Reductions:	<u>\$ -</u>	<u>\$ 164,760</u>	<u>\$ 81,513</u>	<u>\$ 231,445</u>	<u>\$ 4,614</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2020 and 2019 (amounts rounded)

Year Ended June 30, 2019

Additions

Additions to Agency bonds and notes payable for the year ended June 30, 2019 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	General Obligation Bond Series Refunded
9/24/18	2007-101	-	\$ -	\$ 9,655	\$ -	\$ 9,655	2007-101C	-
9/24/18	2018-127	-	-	173,450	150,000	15,215	2004-81C	-
9/24/18	2018-127	-	-	-	-	8,235	2007-99C	-
2/2/19	2018-128	-	4,444	201,595	100,000	30,000	2002-75	-
2/2/19	2018-128	-	-	-	-	51,000	2003-79	-
2/2/19	2018-128	-	-	-	-	25,040	2009-105	-
5/25/19	2019-129	-	-	125,000	125,000	-	-	-
4/1/19	-	Headquarters	-	17,000	-	17,000	-	Headquarters
Total Additions:			\$ 4,444	\$ 526,700				

Reductions

Reductions to Agency bonds and notes payable for the year ended June 30, 2019 included the following:

Date	Single Family Program Bond Series Refunded	General Obligation Bond Series Refunded	Refunded Amount	Scheduled Debt Service	Advance Debt Service	Original Issue Premium Amortization
9/24/18	2007-101C	-	\$ 9,655	\$ -	\$ -	\$ -
9/24/18	2004-81C	-	15,215	-	-	-
9/24/18	2007-99C	-	8,235	-	-	-
2/2/19	2002-75	-	30,000	-	-	-
2/2/19	2003-79	-	51,000	-	-	-
2/2/19	2009-105	-	25,040	-	-	-
4/1/19	-	Headquarters	17,000	-	1,500	-
Various	-	-	-	89,464	333,395	5,416
Total Reductions:			\$ -	\$ 89,464	\$ 334,895	\$ 5,416

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2020 and 2019 (amounts rounded)

Designated Net Position (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>2020</u>	<u>2019</u>
General Activities:		
Homeownership Choice to fund housing opportunity in urban areas	\$ 1,500	\$ 1,500
Single Family Insurance to fund homeowners' special hazard losses	16,500	16,500
Homebuyer Counseling for education of first-time homebuyers	1,500	1,500
Multifamily Insurance for Agency insured or coinsured developments	10,000	10,000
Disadvantaged Developers Guarantee Fund	10,000	-
Total	<u>\$ 39,500</u>	<u>\$ 29,500</u>
Multifamily Housing Program:		
Penn HOMES Program to lower development costs for apartments	\$ 10,000	\$ 10,000
Preservation from physical deterioration, financial or social distress	1,500	1,500
Total	<u>\$ 11,500</u>	<u>\$ 11,500</u>
Single Family Mortgage Loan Program:		
Closing Cost Assistance	\$ 3,000	\$ 3,000
Total	<u>\$ 3,000</u>	<u>\$ 3,000</u>
Insurance Program:		
Risk Retention to provide single family mortgage insurance	<u>\$ 34,777</u>	<u>\$ 32,720</u>

Additional Information

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Balance Sheets

June 30, 2020 and 2019 (in thousands)

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 475,460	\$ 393,217
Restricted cash and cash equivalents	203,729	144,717
Restricted investments	1,005	10
Accrued investment interest receivable	1,772	2,110
Mortgage loans receivable, net	114,978	109,617
Accrued mortgage loan interest receivable	17,507	18,536
Mortgages held for sale	21,626	10,571
Other current assets	2,352	2,690
Total Current Assets	<u>838,429</u>	<u>681,468</u>
Noncurrent Assets:		
Investments	155,226	179,433
Restricted investments	59,318	100,135
Mortgage loans receivable, net	3,381,106	3,299,544
Real estate owned	12,018	15,970
Capital assets, net	55,668	49,950
Other noncurrent assets	699	3,670
Total Noncurrent Assets	<u>3,664,035</u>	<u>3,648,702</u>
TOTAL ASSETS	<u>4,502,464</u>	<u>4,330,170</u>
DEFERRED OUTFLOWS OF RESOURCES		
OPEB-related deferred outflows	16,725	15,055
Pension-related deferred outflows	11,227	18,006
Unamortized losses on bond refundings	5,492	1,776
Accumulated decrease in fair value of hedging derivatives	6,617	1,961
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>40,061</u>	<u>36,798</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 4,542,525</u>	<u>\$ 4,366,968</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 2,802	\$ 4,040
Bonds and notes payable, net	90,418	101,571
Accrued interest payable	22,735	23,073
Escrow deposits and development reserves	78,159	75,365
Other current liabilities	107,247	56,547
Total Current Liabilities	<u>301,361</u>	<u>260,596</u>
Noncurrent Liabilities:		
Bonds and notes payable, net	2,975,021	2,854,508
Derivative instrument - interest rate swaps	21,186	15,648
Development reserves	88,046	87,191
Total OPEB liability	95,358	89,840
Net pension liability	22,670	32,148
Other noncurrent liabilities	220,289	228,423
Total Noncurrent Liabilities	<u>3,422,570</u>	<u>3,307,758</u>
TOTAL LIABILITIES	<u>3,723,931</u>	<u>3,568,354</u>
DEFERRED INFLOWS OF RESOURCES		
OPEB-related deferred inflows	25,438	24,456
Pension-related deferred inflows	5,763	1,577
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>31,201</u>	<u>26,033</u>
NET POSITION		
Net investment in capital assets	20,668	12,950
Restricted	135,509	138,764
Unrestricted	631,216	620,867
TOTAL NET POSITION	<u>787,393</u>	<u>772,581</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 4,542,525</u>	<u>\$ 4,366,968</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCYStatements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019 (in thousands)

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Interest income on mortgage loans	\$ 111,534	\$ 116,064
Program income and fees	85,102	54,508
Gain on sales of mortgage-backed securities	2,905	4,012
Investment income	12,662	15,776
Net increase in fair value of investments	20,108	15,331
Net increase in fair value of swaps	1,808	-
Increase in fair value of mortgage service rights	3,201	-
Gain on early extinguishment of debt	2,740	3,158
	<u>240,060</u>	<u>208,849</u>
Total Operating Revenues	<u>240,060</u>	<u>208,849</u>
Operating Expenses:		
Interest expense on bonds and notes	97,408	93,940
Financing and program expenses	49,299	17,939
Salaries and related benefits	43,893	42,340
General and administrative	19,180	21,570
Net decrease in fair value of swaps	-	3,108
Decrease in fair value of mortgage service rights	-	4,000
Provision for loan loss and real estate owned	15,468	3,769
	<u>225,248</u>	<u>186,666</u>
Total Operating Expenses	<u>225,248</u>	<u>186,666</u>
Operating Income	14,812	22,183
Non-operating Revenue		
Federal program awards	441,585	426,969
Non-operating Expense		
Federal program expense	441,585	426,969
	<u>441,585</u>	<u>426,969</u>
Change in Net Position	14,812	22,183
Net Position - beginning of year	<u>772,581</u>	<u>750,398</u>
Net Position - end of year	<u>\$ 787,393</u>	<u>\$ 772,581</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows

Years Ended June 30, 2020 and 2019 (in thousands)

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Receipts of mortgage loan payments	\$ 397,275	\$ 391,457
Receipts of mortgage-backed security premiums	2,905	4,012
Receipts of fees and other income	85,102	54,508
Receipts of interest on mortgages	111,927	116,668
Receipts of escrow and development reserves	36,292	19,343
Payments for mortgages and purchases	(495,602)	(501,702)
Payments for salaries and related benefits	(41,826)	(40,022)
Payments for goods and services	(43,147)	(7,007)
Net Cash Provided By Operating Activities	<u>52,926</u>	<u>37,257</u>
Cash Flows From Noncapital Financing Activities		
Proceeds from the issuance of bonds and notes	585,830	526,700
Payments for retirement of bonds and notes	(310,958)	(422,359)
Payments for refundings of bonds	(164,760)	(156,145)
Payments of bonds and notes interest	(93,847)	(94,420)
Payments of financing costs	(14,628)	(17,934)
Receipts (repayments) of program advances	(235)	1,020
Receipts of federal program awards	441,585	426,969
Payments of federal program awards	(441,585)	(426,969)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>1,402</u>	<u>(163,138)</u>
Cash Flows From Capital Financing Activities		
Purchases of capital assets	(7,051)	(10,370)
Payments for retirement of capital financing bond	(2,000)	(2,000)
Interest paid on capital debt	(1,159)	(1,219)
Net Cash Used In Capital Financing Activities	<u>(10,210)</u>	<u>(13,589)</u>
Cash Flows From Investing Activities		
Proceeds from the sale or maturity of investments	143,344	44,598
Investment interest receipts	12,972	15,083
Purchases of investments	(59,179)	(36,772)
Net Cash Provided By Investing Activities	<u>97,137</u>	<u>22,909</u>
Net Increase (Decrease) In Cash and Cash Equivalents	141,255	(116,561)
Cash and cash equivalents, beginning of year	<u>537,934</u>	<u>654,495</u>
Cash and cash equivalents, end of year	<u>\$ 679,189</u>	<u>\$ 537,934</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows (continued)

Years Ended June 30, 2020 and 2019 (in thousands)

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating Income	\$ 14,812	\$ 22,183
Investment income recognized	(12,662)	(15,776)
Net change in fair value of investments	(20,108)	(15,331)
Net change in fair value of swaps	(1,808)	3,108
Interest expense on bonds and notes	97,408	93,940
Financing expenses	14,628	17,939
Provision for loan loss and real estate owned	15,468	3,769
Depreciation	1,332	1,004
Gain on early extinguishment of debt	(2,740)	(3,158)
Loss on disposal of capital assets	1	4
Net change in fair value of mortgage servicing rights	(3,201)	4,000
Changes in Assets and Liabilities:		
Mortgage loans receivable, net	(118,123)	(110,715)
Mortgage loans interest receivable	1,029	604
Real estate owned, net	3,952	8,324
Other assets	6,866	(4,316)
Accounts payable and accrued expenses	(1,238)	(951)
Escrow deposits and development reserves	3,649	2,656
Other liabilities	53,661	29,973
Net Cash Provided By Operating Activities	<u>\$ 52,926</u>	<u>\$ 37,257</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

1. Organization

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

The Act was amended to authorize the Agency to make or purchase mortgage loans used to finance the purchase, construction, improvement or rehabilitation of owner-occupied single-family residences and to finance the construction and rehabilitation of housing units without requiring the housing units to be subsidized or assisted by a federal government program. The initial legislation and subsequent amendments grant the Agency the power to issue debt in order to finance its programs and operations. Debt obligations issued under the provisions of the Act are not a debt or liability of the Commonwealth or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth or of any of its political subdivisions. Additional powers have been provided by the General Assembly over the years to expand the Agency’s authority and to encourage related community activities.

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

2. Summary of Significant Accounting Policies

Basis of Accounting

The Agency presents its financial statements in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”), as established by GASB. For financial reporting purposes, the Agency is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-Agency transactions have been eliminated.

Description of Programs

The Agency accounts for its lending and operating activities in 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 and from program repayments and income from investments, 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, 2020 and 2019 (in thousands)

Fair Value Application and Measurement

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

Cash and Cash Equivalents

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

Investments

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

Restricted Cash, Cash Equivalents and Investments

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

Mortgage Loans Receivable, Net

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

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 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 cost 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 can serve the interests of both the creditor and the debtor and can lead to improved loan performance and reduced credit risk. In some instances, loan modifications are mandated by federal insurance programs. The Agency engages in troubled debt restructuring activities by affording modifications to the terms and interest rates of certain mortgage loans.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

Real Estate Owned

Real estate owned represents single-family real estate acquired as a result of foreclosure, acceptance of a deed in lieu of foreclosure or other defaults of nonperforming mortgage loans. Balances of real estate owned approximate net realizable value, based upon actual recoveries for similar asset disposals resulting from anticipated mortgage insurance settlement proceeds or estimated sales prices less costs to sell. Net realizable values of real estate owned also include an allowance for losses attributable to potentially foregone interest and corporate and escrow advances.

Capital Assets

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

Other Assets

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

Deferred Outflows of Resources

Deferred outflows of resources include unamortized losses on bond refundings, which are amortized over the shorter of the remaining life of the old debt or the life of the new debt; 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 Pension Plan's 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

Bonds and Notes Payable, Net

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

Escrow Deposits and Development Reserves

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

Derivative Instruments – Interest Rate Swaps

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

Swaps are reported at fair value and are classified as either hedging derivatives, amended hedging derivatives or investment derivatives. Hedging derivatives include swaps with critical terms that have not changed since their inception. Amended hedging derivatives include swaps with critical terms that have since been amended. The changes in fair values of hedging derivatives and amended hedging derivatives are reported as accumulated decrease 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.

Total OPEB Liability

The Agency is required to measure and disclose amounts relating to total 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

Net Pension Liability

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

Other Liabilities

Other liabilities consist mainly of unearned revenues, 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

Classification of Revenues and Expenses

Operating revenues include all revenue from mortgage and loan activity, mortgage servicing, investment income and gains on the sale of pooled loans via the Government National Mortgage Association (“GNMA”) and the Federal National Mortgage Association (“FNMA”). Operating revenues also include amounts received for the administration of grant programs, which includes administrative fees for the oversight of award distribution, monitoring of subrecipients and reporting to federal 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.

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

Interest Income on Mortgage Loans

Interest received for mortgage loans is based upon the constant yield method. Interest accrues on performing and nonperforming loans for up to 150 days or 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

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. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, was issued in May 2020 and was effective immediately. The statement extended the effective dates of certain accounting and financial reporting provisions that were first effective for reporting periods beginning after June 15, 2018. Due to this statement, the Agency did not adopt any new accounting standards during the year ended June 30, 2020.

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. 84, *Fiduciary Activities*, issued January 2017, effective for the Agency's fiscal year ending June 30, 2021.
- GASB Statement No. 87, *Leases*, issued June 2017, effective for the Agency's fiscal year ending June 30, 2022.
- 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, 2022.
- GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, issued August 2018, effective for the Agency's fiscal year ending June 30, 2021.
- GASB Statement No. 91, *Conduit Debt Obligations*, issued May 2019, effective for the Agency's fiscal year ending June 30, 2023.
- GASB Statement No. 92, *Omnibus 2020*, issued January 2020, effective for the Agency's fiscal year ending June 30, 2022.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, issued March 2020, effective for the Agency's fiscal year ending June 30, 2022.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

3. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

Cash and cash equivalents are reported at fair value, measured by Level 1 inputs based upon quoted prices in active markets. The Agency maintains a policy whereby cash and cash equivalents must be held in insured depositories satisfactory to the Agency. Balances of cash and equivalents at June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Cash	\$ 329,049	\$ 284,300
Money market accounts	350,140	253,634
Total carrying amount of cash and cash equivalents	<u>\$ 679,189</u>	<u>\$ 537,934</u>
Bank balance of cash and cash equivalents	<u>\$ 681,941</u>	<u>\$ 538,907</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, 2020 and 2019, the fair value of the Agency's cash deposits equaled \$329,049 and \$284,300, respectively, with corresponding bank balances equal to \$332,008 and \$283,990, respectively, of which \$330,258 and \$282,240, 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, 2020 and 2019, the fair value of the Agency's money market accounts, reported as cash equivalents, equaled \$350,140 and \$253,634, respectively, with corresponding bank balances equal to \$349,933 and \$254,917, respectively. These do not expose the Agency to custodial credit risk because they represent investments in open-end mutual funds and are held in the name of the Agency by a party other than the issuer of the security.

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, 1959, Dec. 3, P.L. 1688 as amended Dec. 5, 1972, P.L.1259, No. 282 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, 2020 and 2019 (in thousands)

Fair Value

Fair value of the Agency's investments are measured by 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, 2020 and 2019 were as follows:

Investment	2020 Level 2	2019 Level 2
GNMA mortgage-backed securities	68,340	74,270
Refco strips	39	47
Freddie Mac corporate bonds	-	5,970
FNMA mortgage-backed securities	20,953	10,946
FNMA corporate bonds	-	3,479
Private Export Funding Corporation bonds	8,393	8,388
Tennessee Valley Authority bonds	94,673	77,646
Federal Farm Credit Bank bonds	15,120	56,640
Federal Home Loan Bank bonds	8,031	42,192
	\$215,549	\$279,578

Credit Risk

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

The credit quality ratings of the Agency's investments for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, \$76,772 and \$82,705, respectively, of U.S. Government Agency Mortgage-Backed Securities, U.S. Government Agency Securities and U.S. Treasury securities, which are explicitly guaranteed by the U.S. Government, were not considered to have credit risk and, therefore, are not included in the summary.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

<u>Investment</u>	<u>Fair Value at June 30</u>		<u>Credit Rating</u>
	<u>2020</u>	<u>2019</u>	
Freddie Mac corporate bonds	-	5,970	Aaa
FNMA mortgage-backed securities	20,953	10,946	Aaa
FNMA corporate bonds	-	3,479	Aaa
Tennessee Valley Authority bonds	94,673	77,646	Aaa
Federal Farm Credit Bank bonds	15,120	56,640	Aaa
Federal Home Loan Bank bonds	8,031	42,192	Aaa
Total	<u>\$ 138,777</u>	<u>\$ 196,873</u>	

Money market accounts with fair values of \$350,140 and \$253,634 at June 30, 2020 and 2019, respectively, that were held by the Agency and reported as cash equivalents were rated as follows by Moody's or Standard and Poor's (S&P) Investors Service:

<u>Moody's / S&P's Rating</u>	<u>Fair Value</u>	
	<u>2020</u>	<u>2019</u>
AAA	\$ 2,143	\$ 3,596
Aaa	336,899	235,956
Not Rated	11,098	14,082
Total	<u>\$ 350,140</u>	<u>\$ 253,634</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Agency will not be able to recover the value of the investment. The Agency has not established a formal custodial credit risk policy for its investments. All of the Agency's investment balances are in book-entry form in the Agency's name and are held by bank trust departments, acting as the counterparty; accordingly, these investments are not subject to custodial credit risk.

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of the Agency's investment in a single investment issuer. The Agency has various maximum investment limits both by the type of investment and by issuer to prevent inappropriate concentration of credit risk. At June 30, 2020 and 2019, the Agency had the following concentrations of credit risk:

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

Investment Issuer	2020		2019	
	Fair Value	% of Total Investments	Fair Value	% of Total Investments
GNMA	\$ 68,340	31.71%	\$ 74,270	26.57%
Tennessee Valley Authority	94,673	43.92%	77,646	27.77%
Federal Farm Credit Bank	15,120	7.01%	56,640	20.26%
Federal Home Loan Bank	8,031	3.73%	42,192	15.09%
	<u>\$ 186,164</u>	<u>86.37%</u>	<u>\$ 250,748</u>	<u>89.69%</u>

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. Investments in mortgage-backed securities are sensitive to interest rate changes. For the year ended June 30, 2020 and 2019, the Agency had investments with the following maturities:

Investment Type	2020				
	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Agency Mortgage-backed Securities	\$ 89,293	\$ -	\$ 12,890	\$ 7,942	\$ 68,461
U.S. Government Agency Securities	126,256	8,403	29	13,071	104,753
	<u>\$ 215,549</u>	<u>\$ 8,403</u>	<u>\$ 12,919</u>	<u>\$ 21,013</u>	<u>\$ 173,214</u>

Investment Type	2019				
	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Agency Mortgage-backed Securities	\$ 85,216	\$ -	\$ 2,980	\$ 7,840	\$ 74,396
U.S. Government Agency Securities	194,362	10	95,683	21,024	77,645
	<u>\$ 279,578</u>	<u>\$ 10</u>	<u>\$ 98,663</u>	<u>\$ 28,864</u>	<u>\$ 152,041</u>

In addition to the amounts listed above, the Agency held money market accounts with a fair value of \$350,140 and \$253,634 at June 30, 2020 and 2019, respectively, reported as cash equivalents.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

4. Mortgage Loans

Amounts reported as mortgage loans receivable at June 30, 2020 and 2019 consisted of the following:

	2020				Total
	General Activities	Multifamily Program	Single Family Program	HEMAP	
Mortgage loans	\$ 8,187	\$ 433,550	\$ 3,150,753	\$ 67,683	\$ 3,660,173
Add:					
Loan premiums	-	-	-	-	-
Less:					
Loan discounts	-	2,738	-	-	2,738
Allowance for loan losses	4,867	109,753	13,348	33,383	161,351
Mortgage loans receivable	3,320	321,059	3,137,405	34,300	3,496,084
Current portion	-	3,379	106,065	5,534	114,978
Noncurrent portion	<u>\$ 3,320</u>	<u>\$ 317,680</u>	<u>\$ 3,031,340</u>	<u>\$ 28,766</u>	<u>\$ 3,381,106</u>
	2019				Total
	General Activities	Multifamily Program	Single Family Program	HEMAP	
Mortgage loans	\$ 7,235	\$ 432,603	\$ 3,068,375	\$ 70,779	\$ 3,578,992
Add:					
Loan premiums	-	-	-	-	-
Less:					
Loan discounts	-	2,738	-	-	2,738
Allowance for loan losses	3,842	111,365	16,807	35,079	167,093
Mortgage loans receivable	3,393	318,500	3,051,568	35,700	3,409,161
Current portion	-	12,185	91,829	5,603	109,617
Noncurrent portion	<u>\$ 3,393</u>	<u>\$ 306,315</u>	<u>\$ 2,959,739</u>	<u>\$ 30,097</u>	<u>\$ 3,299,544</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

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

During the years ended June 30, 2020 and 2019, the Agency securitized mortgage loans with a principal balance of \$85,532 and \$123,251, 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, 2020 and 2019 equaled \$2,905 and \$4,012, 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 \$21,626 and \$10,571 at June 30, 2020 and 2019, 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, 2020 and 2019, the Agency's Single Family Program mortgage loan servicing portfolio equaled \$4.9 billion; this included the balances of mortgage loans reported as assets by the Agency and insured loans that have been sold through MBSs, which are not reported as Agency assets but represent loans for which the Agency purchased and retained servicing rights. Single Family Program mortgage loans are secured by liens on the related real property, and private mortgage insurance is generally required on all mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property. Private mortgage insurance for Single Family Program mortgage loans is provided by commercial companies, the Agency's Insurance Program, certain federal programs through the Federal Housing Administration ("FHA"), United States Department of Veterans Affairs ("VA") and United States Department of Agriculture – Rural Development ("RD"), FNMA and varying other sources.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

At June 30, 2020 and 2019, insurance coverage associated with Single Family Program mortgage loan servicing portfolio included the following:

	2020		2019	
Commercial Insurance	\$ 325,595	6.64%	\$ 361,076	7.30%
PHFA Insurance Program	317,269	6.47%	245,925	4.97%
FHA	2,510,919	51.22%	2,542,772	51.38%
VA	144,493	2.95%	136,839	2.76%
RD	509,285	10.39%	476,672	9.63%
FNMA	491,181	10.02%	574,268	11.60%
Uninsured	603,157	12.30%	611,448	12.35%
Total Single Family Program Servicing Portfolio:	<u>\$ 4,901,899</u>	<u>100.00%</u>	<u>\$ 4,949,001</u>	<u>100.00%</u>

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

Loan Delinquency and Foreclosure

At June 30, 2020 and 2019, no mortgage loans reported within General Activities were either delinquent or in pending foreclosure actions.

At June 30, 2020 and 2019, 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 \$723 and \$492, respectively, and no Multifamily Program mortgage loans were in pending foreclosure actions.

At June 30, 2020 and 2019, 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 \$214,339 and \$171,295, respectively. Included within these June 30, 2020 and 2019 balances of loans delinquent 91 days or greater were loans with pending foreclosure actions with aggregate principal balances of \$53,734 and \$62,584, respectively.

At June 30, 2020 and 2019, the principal balance of HEMAP mortgage loans delinquent 91 days or greater equaled \$23,182 and \$23,705, respectively.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

Troubled Debt Restructurings

The Agency engages in troubled debt restructuring activities by 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, to 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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Aggregate recorded loan balance	\$ 199,325	\$ 253,321
Gross interest revenue, if the mortgage loan had been current	11,102	14,177
Actual amount of interest received and included in net position	\$ 7,396	\$ 7,826

The number of mortgage loans deemed troubled debt restructurings as of June 30, 2020 and 2019 totaled 2,745 (two-thousand seven-hundred forty-five) and 3,316 (three-thousand three-hundred sixteen), 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, 2020 and 2019 consisted of the following:

	<u>2020</u>				
	<u>General</u>	<u>Multifamily</u>	<u>Single</u>	<u>HEMAP</u>	<u>Total</u>
	<u>Activities</u>	<u>Program</u>	<u>Family</u>		
			<u>Program</u>		
Beginning balance	\$ 3,842	\$ 111,365	\$ 16,807	\$ 35,079	\$ 167,093
Loss provision	1,063	1,359	9,953	893	13,268
Net losses	(38)	(2,971)	(13,412)	(2,589)	(19,010)
Ending balance	<u>\$ 4,867</u>	<u>\$ 109,753</u>	<u>\$ 13,348</u>	<u>\$ 33,383</u>	<u>\$ 161,351</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

	2019				
	General	Multifamily	Single		
	Activities	Program	Family	HEMAP	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Beginning balance	3,842	115,695	11,575	37,873	168,985
Loss provision	-	(2,142)	16,525	543	14,926
Net losses	-	(2,188)	(11,293)	(3,337)	(16,818)
Ending balance	<u>3,842</u>	<u>111,365</u>	<u>16,807</u>	<u>35,079</u>	<u>167,093</u>

Included in amounts reported as provision for loan loss and real estate owned for the years ended June 30, 2020 and 2019 equal to \$15,468 and \$3,769, respectively, were estimated losses for self-insured loans through the Agency's insurance program of \$990 for the year ended June 30, 2020, amounts relating to the change in realizable value of real estate owned by the Agency totaling \$609 and \$678, respectively, along with \$601 and \$(11,835), respectively, relating to the collection or expected collection of accrued interest on multifamily program loans.

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 repurchase reserve for these securitized loans. Securitized loans repurchased by the Agency totaled \$20,622 and \$30,971 for the years ended June 30, 2020 and 2019, respectively, and the Agency's repurchase reserve for securitized loans equaled \$8,868 and \$6,625 at June 30, 2020 and 2019, respectively.

5. Real Estate Owned by the Agency

Real estate owned by the Agency included 212 properties with a net realizable value of \$12,018 at June 30, 2020 and 241 properties with a net realizable value of \$15,970 at June 30, 2019.

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, 2020 and 2019, the Agency capitalized mortgage servicing rights/service release premiums totaling \$5,359 and \$6,096, respectively. Amortization and disposition of mortgage servicing rights/servicing release premiums totaled \$10,188 and \$4,663 for the years ended June 30, 2020 and 2019, respectively.

PENNSYLVANIA HOUSING FINANCE AGENCY

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June 30, 2020 and 2019 (in thousands)

Unamortized mortgage servicing rights, relating to loans sold by the Agency for which the Agency retained the servicing rights, totaling \$14,622 and \$18,318 were outstanding at June 30, 2020 and 2019, respectively. Mortgage servicing rights are included within mortgage loans receivable, net on the balance sheets. The Agency recorded a fair value adjustment of \$3,201 and (\$4,000) on mortgage servicing rights for the years ended June 30, 2020 and 2019, respectively.

Service release premiums, relating to loans purchased by the Agency, totaling \$20,941 and \$18,874 were outstanding at June 30, 2020 and 2019, respectively. Service release premiums are included within mortgage loans receivable, net on the balance sheets.

7. Capital Assets

Capital assets activity for the years ended June 30, 2020 and 2019 and a summary of balances were as follows:

	<u>July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2020</u>
Nondepreciable Capital Assets:				
Land	\$ 2,454	\$ -	\$ -	\$ 2,454
Construction in progress	21,164	5,893	(27,057)	-
Total nondepreciable capital assets	<u>23,618</u>	<u>5,893</u>	<u>(27,057)</u>	<u>2,454</u>
Depreciable Capital Assets:				
Building	32,096	27,065	-	59,161
Furniture, fixtures and equipment	10,513	1,150	(9)	11,654
Less accumulated depreciation:				
Building	(9,310)	(800)	-	(10,110)
Furniture, fixtures and equipment	(6,967)	(532)	8	(7,491)
Total depreciable capital assets, net	<u>26,332</u>	<u>26,883</u>	<u>(1)</u>	<u>53,214</u>
Total Capital Assets, net	<u>\$ 49,950</u>	<u>\$ 32,776</u>	<u>\$ (27,058)</u>	<u>\$ 55,668</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2019</u>
Nondepreciable Capital Assets:				
Land	\$ 2,454	\$ -	\$ -	\$ 2,454
Construction in progress	10,974	10,190	-	21,164
Total nondepreciable capital assets	<u>13,428</u>	<u>10,190</u>	<u>-</u>	<u>23,618</u>
Depreciable Capital Assets:				
Building	32,091	5	-	32,096
Furniture, fixtures and equipment	10,367	175	(29)	10,513
Less accumulated depreciation:				
Building	(8,818)	(492)	-	(9,310)
Furniture, fixtures and equipment	<u>(6,480)</u>	<u>(512)</u>	<u>25</u>	<u>(6,967)</u>
Total depreciable capital assets, net	<u>27,160</u>	<u>(824)</u>	<u>(4)</u>	<u>26,332</u>
Total Capital Assets, net	<u><u>\$ 40,588</u></u>	<u><u>\$ 9,366</u></u>	<u><u>\$ (4)</u></u>	<u><u>\$ 49,950</u></u>

Depreciation expense for the years ended June 30, 2020 and 2019 totaled \$1,332 and \$1,004, 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"), which is scheduled to be retired in 2021, an alternative index may be substituted for the LIBOR at the time of retirement. At June 30, 2020, variable interest rates payable ranged from .14% to 1.73%. At June 30, 2019, variable interest rates payable ranged from 1.92% to 2.91%.

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Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

The aggregate principal amounts of bonds and notes payable outstanding at June 30, 2020 and 2019, maturity dates and corresponding interest rates at June 30, 2020 are illustrated in the following table.

Bond Series	Interest Rates at June 30, 2020		Maturity Date	Amounts Outstanding at June 30,	
	Variable	Fixed		2020	2019
General Activities:					
Headquarters Bonds	55.2 bps	-	2037	\$ 35,000	\$ 37,000
Multifamily Program:					
Development Issue 2005K	173 bps	-	2036	8,718	9,100
Single Family Program:					
Bonds Payable					
Series 1999 - 67	-	-	-	-	9,925
Series 2000 - 69	-	-	-	-	15,770
Series 2000 - 70	-	-	-	-	10,390
Series 2001 - 72	-	-	-	-	32,695
Series 2002 - 73	-	-	-	-	15,595
Series 2003 - 78	-	-	-	-	24,125
Series 2004 - 83 *	16 bps	-	2026	6,785	8,770
Series 2004 - 86 *	16 bps	-	2027	18,140	19,735
Series 2005 - 89 *	16 bps	-	2026	31,665	36,445
Series 2006 - 93 *	14 bps	-	2036	15,815	18,715
Series 2006 - 94 *	-	-	-	-	15,285
Series 2007 - 98 *	14 bps	-	2034	10,655	12,955
Series 2007 - 100 *	14 bps	-	2036	12,580	15,230
Series 2007 - 101	-	3.0-3.28%	2023	6,510	8,610
Series 2010 - 108	-	-	-	-	18,250
Series 2010 - 109	-	-	-	-	22,215
Series 2010 - 110	-	-	-	-	16,745
Series 2011 - 112	-	5.00%	2028	6,345	16,530
Series 2011 - 113	-	3.15-4.00%	2041	4,755	8,635
Series 2012 - 114	-	2.65-3.70%	2042	147,830	157,780

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2020 and 2019 (in thousands)

Bond Series	Interest Rates at June 30, 2020		Maturity Date	Amounts Outstanding at June 30,	
	Variable	Fixed		2020	2019
Series 2013 - 115	-	2.65-4.00%	2038	32,925	41,320
Series 2013 - 116	-	2.15-4.00%	2045	65,955	71,830
Series 2015 - 117	-	2.30-3.95%	2040	54,260	79,175
Series 2015 - 118	-	2.10-3.85%	2040	84,145	150,035
Series 2016 - 119	-	1.45-3.50%	2041	118,960	131,280
Series 2016 - 120	-	1.30-3.50%	2046	180,795	191,065
Series 2016 - 121	-	1.15-3.50%	2046	215,900	229,600
Series 2017 - 122	-	2.05-4.00%	2046	205,985	217,260
Series 2017 - 123	-	1.80-4.00%	2039	135,600	173,040
Series 2017 - 124	-	1.55-4.00%	2042	175,510	190,720
Series 2017 - 125	-	2.375-3.70%	2047	276,755	284,540
Series 2018 - 126	72 bps	2.05-4.00%	2048	113,575	121,435
Series 2018 - 127	70 bps	2.15-3.95%	2047	167,510	172,030
Series 2019 - 128	-	2.25-4.75%	2047	183,760	199,945
Series 2019 - 129	-	2.10-3.40%	2049	125,000	125,000
Series 2019 - 130	-	1.05-4.00%	2049	169,735	-
Series 2019 - 131	-	1.60-3.50%	2049	135,505	-
Series 2020 -132*	14 bps	0.30-3.50%	2051	248,870	-
Total Single Family Program Bonds Payable				<u>2,951,825</u>	<u>2,862,675</u>
Notes Payable from Direct Borrowings					
General Obligation Note	-	2.60%	2024	13,229	16,468
General Obligation Note	-	2.75%	2034	24,583	-
2009 Purchase Agreement	-	2.50%	2024	2,500	2,500
Total Single Family Program Notes Payable from Direct Borrowings				<u>40,312</u>	<u>18,968</u>
Unamortized bond premiums				<u>29,584</u>	<u>28,336</u>
Total bonds and notes payable				<u>3,065,439</u>	<u>2,956,079</u>
Current portion				<u>90,418</u>	<u>101,571</u>
Noncurrent portion				<u>\$ 2,975,021</u>	<u>\$ 2,854,508</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.

Variable Rate Demand Obligations

The balances of certain Single Family Program bonds payable include variable rate demand obligations (“VRDO”). 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

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agreement provider as a term loan to the Agency. Details of certain Agency VRDO standby purchase agreements at June 30, 2020 were as follows:

Bond Issue	Liquidity Provider at June 30, 2020	Effective Date	Expiration Date	Bond Balance	
				Outstanding at June 30 2020	2019
2004-83C	TD Bank	8/16/2017	8/16/2022	6,785	8,770
2004-86B	TD Bank	8/16/2017	8/16/2022	18,140	19,735
2005-89	TD Bank	8/16/2017	8/16/2022	31,665	36,445
2006-93B	Wells Fargo Bank	7/8/2014	11/20/2023	15,815	18,715
2006-94B	TD Bank	8/16/2017	8/16/2022	-	15,285
2007-98C	Wells Fargo Bank	7/8/2014	11/20/2023	10,655	12,955
2007-100C	Wells Fargo Bank	7/8/2014	11/20/2023	12,580	15,230
2020-132B	TD Bank	9/29/2020	6/20/2025	30,000	-
			Total	<u>\$ 125,640</u>	<u>\$ 127,135</u>

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There were no failed remarketings or resultant liquidity draws during the years ended June 30, 2020 and 2019. 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, 2020, if the term-out agreements were exercised and assuming a term-out commencement date of July 1, 2019, respectively, were as follows:

Liquidity Provider	Term-Out Provisions	Payment Date	Interest Rate	Principal	Interest	Total Payment
Wells Fargo	Day 1 through 180: "Base Rate" equal to the greater of the bank's Prime Rate + 1%, Fed Funds Rate + 2% and 7%. Day 181 and after: Base Rate + 1%	4/1/2021	4.25% & 5.25%	\$ 3,905	\$ 1,358	\$ 5,263
		10/1/2021	5.25%	3,905	923	4,828
		4/1/2022	5.25%	3,905	820	4,725
		10/1/2022	5.25%	3,905	718	4,623
		4/1/2023	5.25%	3,905	615	4,520
		10/1/2023	5.25%	3,905	513	4,418
		4/1/2024	5.25%	3,905	410	4,315
		10/1/2024	5.25%	3,905	308	4,213
		4/1/2025	5.25%	3,905	205	4,110
		10/1/2025	5.25%	3,905	103	4,008
			Total	\$ 39,050	\$ 5,973	\$ 45,023
TD Bank	LIBOR + 2%	4/1/2021	2.16%	\$ 8,659	\$ 936	\$ 9,595
		10/1/2021	2.16%	8,659	843	9,502
		4/1/2022	2.16%	8,659	749	9,408
		10/1/2022	2.16%	8,659	655	9,314
		4/1/2023	2.16%	8,659	562	9,221
		10/1/2023	2.16%	8,659	468	9,127
		4/1/2024	2.16%	8,659	371	9,030
		10/1/2024	2.16%	8,659	281	8,940
		4/1/2025	2.16%	8,659	187	8,846
		10/1/2025	2.16%	8,659	94	8,753
			Total	\$ 86,590	\$ 5,146	\$ 91,736

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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, 2020 were as follows:

June 30, 2020										
Fiscal Year	General Activities		Multifamily Program		Single Family Program - Bonds		Single Family Program - Notes Payable from Direct Borrowings		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 2,000	\$ 187	\$ 400	\$ 149	\$ 83,860	\$ 86,815	\$ 4,158	\$ 1,041	\$ 90,418	\$ 88,192
2022	2,000	174	420	142	109,680	85,838	4,246	930	116,346	87,084
2023	2,000	163	442	134	114,220	83,519	4,336	817	120,998	84,633
2024	2,000	153	467	127	106,790	81,121	6,322	673	115,579	82,074
2025	2,000	142	495	119	104,495	78,837	833	581	107,823	79,679
2026-2030	10,000	545	2,717	459	588,445	349,884	4,167	2,557	605,329	353,445
2031-2035	10,000	273	3,509	196	667,400	254,262	16,250	1,718	697,159	256,449
2036-2040	5,000	34	268	3	544,565	146,855	-	-	549,833	146,892
2041-2045	-	-	-	-	388,850	71,786	-	-	388,850	71,786
2046-2050	-	-	-	-	239,250	16,189	-	-	239,250	16,189
2051-2055	-	-	-	-	4,270	77	-	-	4,270	77
	<u>\$ 35,000</u>	<u>\$ 1,671</u>	<u>\$ 8,718</u>	<u>\$ 1,329</u>	<u>\$ 2,951,825</u>	<u>\$ 1,255,183</u>	<u>\$ 40,312</u>	<u>\$ 8,317</u>	<u>\$ 3,035,855</u>	<u>\$ 1,266,500</u>

Early Extinguishment of Debt

During the years ended June 30, 2020 and 2019, the Agency redeemed principal amounts of certain bonds and notes totaling \$396,205 and \$491,040, respectively, prior to their scheduled maturity. The early extinguishments were enabled by the refunding proceeds resulting from the issuance of certain single family mortgage revenue bonds and through the use of mortgage prepayments received from borrowers. The early extinguishments of debt resulted in net gains for the years ended June 30, 2020 and 2019 totaling \$2,740 and \$3,158, 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, 2020

On September 26, 2019 the Agency issued Series 2019-130 single family mortgage revenue bonds in the amount of \$174,925. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$20,530, of Series 2010-109 bonds, \$15,135 of Series 2010-110B bonds and \$16,340 of Series 2010-108B bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$1,352.

On December 26, 2019 the Agency issued Series 2019-131 single family mortgage revenue bonds in the amount of \$137,035. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$13,800 of Series 2006-94B bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$1,384 and a reduction of future debt service payments equal to \$1,818.

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On June 2, 2020 the Agency issued Series 2020-132 single family mortgage revenue bonds in the amount of \$248,870. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$9,060 of Series 1999-67B bonds, \$14,915 of Series 2000-69B bonds, \$9,560 of Series 2000-70B bonds, \$31,050 of Series 2001-72C bonds, \$14,695 of Series 2002-73C bonds and \$19,675 of Series 2003-78 bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$2,126 and a reduction of future debt service payments equal to \$2,575.

Year Ended June 30, 2019

On September 24, 2018, the Agency issued Series 2018-127 single family mortgage revenue bonds in the amount of \$173,450. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$15,215 of Series 2004-81C bonds and \$8,235 of Series 2007-99C bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$643 and a reduction of future debt service payments equal to \$140.

On September 24, 2018, the Agency issued Series 101C single family mortgage revenue bonds in the amount of \$9,655. The proceeds of this issuance and an Agency contribution were used to refund \$9,655 of Series 2008-101C bonds. This refunding resulted in an economic gain of \$247 and a reduction of future debt service payments equal to \$2,364.

On February 25, 2019, the Agency issued Series 2019-128 single family mortgage revenue bonds in the amount of \$201,595. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$30,000 of Series 2002-754A bonds, \$51,000 of Series 2003-79B bonds, and \$24,040 of Series 2009-105B bonds. While successful at reducing the Agency's exposure to arbitrage liability, this refunding resulted in an economic loss equal to \$5,166 and a reduction of future debt service payments equal to \$7,626.

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, 2020 and 2019; no defeased principal is scheduled to be retired until May 2023, at which time all defeased principal outstanding will be retired.

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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, 2020 are displayed in the following schedule. The following incorporates variable rate values at June 30, 2020, which are subject to change in future periods. The net swap payment equals the difference between the fixed rate of interest paid to the counterparties and the variable rate of interest received by the Agency. See note 9 Derivatives for further information relative to derivative instruments.

June 30, 2020				
Fiscal Year	Hedged	Hedged	Net Swap	
Ending June 30	Variable Rate	Variable Rate	Payments	Total
	Bond Principal	Bond Interest		
2021	\$ 7,331	\$ 450	\$ 3,065	\$ 10,846
2022	8,200	423	2,840	11,463
2023	11,595	394	2,620	14,609
2024	12,119	361	2,406	14,886
2025	12,504	326	2,194	15,024
2026-2030	26,146	1,190	7,926	35,262
2031-2035	26,669	611	3,208	30,488
2036-2040	15,343	48	402	15,793
	<u>\$ 119,907</u>	<u>\$ 3,803</u>	<u>\$ 24,661</u>	<u>\$ 148,371</u>

Conduit Debt Obligations

During the year ended June 30, 2020, the Agency issued Episcopal House Apartments, Lillia Crippen, Norris Homes Phase V, Presbyterian Portfolio, Sandy Hill, and Susquehanna Square 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, 2020 and 2019 include:

- Series Belmont Specialty, Berkshire Gardens, Blumberg Senior Apartments Phase III, Breslyn House Apartments, Brinton Manor/Towers Apartments, Carson Towers Apartments, Central Pennsylvania Development, Country Commons, Courtyard Preservation, Four Freedoms House and Philip Murray House, Foxwood Manor Apartments, Glen Hazel RAD, Hershey Plaza Apartments, John Fox Towers, Lehigh Park Apartments, Maple Mount Vernon, Multifamily Issue 2005-K, New Courtland Apartments, North Central CNI, Parkview Knoll Apartments, Pleasant Valley Apartments, Sharpsburg Towers, and Urban Allied Portfolio special limited obligation multifamily housing development bonds in order to provide financing for the construction or preservation of

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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 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, 2020 and 2019, conduit debt outstanding aggregated \$460,688 and \$363,934, 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, 2020 and 2019.

Bonds Authorized But Not Yet Issued

On February 13, 2020, the Agency Board authorized the issuance of Single Family Mortgage Revenue bonds Series 134 in an amount not to exceed \$350,000. Proceeds are expected to include a portion for refunding certain Single Family Mortgage Revenue Bonds of the Agency issued previously and a portion for purchasing new single family mortgage loans.

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9. Derivatives

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

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

The fair values of both hedging derivative instruments and investment derivative instruments are reported as Derivative Instruments – Interest Rate Swaps. The changes in fair values of hedging derivative instruments are reported within Deferred Outflows of Resources; the changes in fair values of investment derivative instruments are reported as either an investment revenue or expense. Fair values are obtained from mark-to-market calculations prepared by a valuation provider and approximate the current economic value using market indexes, interest rates and cash flow models.

Interest rates have generally decreased since the swaps became effective, therefore, the Agency's portfolio of swaps had a negative fair value at June 30, 2020 and 2019. 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, 2020 and 2019, the Agency was not required to post collateral for any of its swaps.

The Agency's swaps utilize the LIBOR, which is scheduled to be retired in 2021, an alternative index may be substituted for the LIBOR at the time of retirement.

Fair Value

Interest rate swaps are reported at fair value, reflecting the nonperformance risk of the Agency relating to the liability and the nonperformance risk of the bank counterparty relating to the asset, measured by Level 2 inputs based on observable values other than quoted prices, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and other market-corroborated inputs.

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Balances of the fair values of the Agency's interest rate swaps at June 30, 2020 and 2019 were as follows:

2020				
Interest Rate Swap Type	General Activities	Multifamily Program	Single Family Program	Total
Hedging Derivatives	\$ (4,469)	\$ (4,306)	\$ 2,158	\$ (6,617)
Hedging Derivatives - Amended	-	-	(6,231)	(6,231)
Investment Derivatives	-	(49)	(8,289)	(8,338)
Total Interest Rate Swaps	<u>\$ (4,469)</u>	<u>\$ (4,355)</u>	<u>\$ (12,362)</u>	<u>\$ (21,186)</u>
2019				
Interest Rate Swap Type	General Activities	Multifamily Program	Single Family Program	Total
Hedging Derivatives	\$ (2,683)	\$ (2,235)	\$ 2,696	\$ (2,222)
Hedging Derivatives - Amended	-	-	(9,917)	(9,917)
Investment Derivatives	-	(1,396)	(2,113)	(3,509)
Total Interest Rate Swaps	<u>\$ (2,683)</u>	<u>\$ (3,631)</u>	<u>\$ (9,334)</u>	<u>\$ (15,648)</u>

Hedging Derivative Instruments

The change in fair value of the Agency's hedging derivative instruments for the years ended June 30, 2020 and 2019 equaled \$710 and \$4,930, 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, 2020 and 2019 are detailed in the following schedule:

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<u>Bond Series</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Current Notional Amount</u>	<u>2019 Fair Value</u>	<u>Change In Fair Value</u>	<u>2020 Fair Value</u>
2018-BLDG	3/2018	10/2037	3.150%	82% of USD-LIBOR + 41 bps	\$ 35,000	\$ (2,683)	\$ (1,786)	\$ (4,469)
1999-67B	7/2002	4/2029	5.950	100% of USD-LIBOR + 50 bps	-	(1,663)	1,663	-
2001-72C	9/2001	10/2023	5.695	100% of USD-LIBOR	-	(280)	280	-
2003-79B ¹	4/2019	10/2027	3.253	65% of USD-LIBOR + 25 bps	-	(1,876)	1,876	-
2004-81C ¹	10/2017	10/2034	2.801	Enhanced LIBOR	-	(43)	43	-
2004-83C ¹	10/2015	4/2027	3.830	65% of USD-LIBOR + 25 bps	6,785	(1,233)	323	(910)
2004-84D ¹	10/2017	10/2034	3.240	Enhanced LIBOR	-	(10)	10	-
2004-86B ¹	10/2017	10/2033	3.357	Enhanced LIBOR	14,235	(334)	181	(153)
2005-89 ¹	4/2020	10/2035	1.404	Enhanced LIBOR	31,665	494	(539)	(45)
2006-94B ¹	10/2016	4/2027	1.413	69% of USD-LIBOR	-	64	(64)	-
2007-98C ¹	10/2014	10/2037	4.105	61% of USD-LIBOR + 39 bps	7,945	(1,152)	(333)	(1,485)
2007-99C ¹	4/2016	10/2023	3.674	69% of USD-LIBOR	-	(183)	183	-
2007-100C ¹	4/2018	10/2031	4.131	65% of USD-LIBOR + 25 bps	5,265	(1,005)	(212)	(1,217)
2020-132B	10/2020	10/2050	1.704	SIFMA Swap Index	30,000	-	(263)	(263)
MF2005-K	5/2005	1/2036	5.183	100% of USD-LIBOR	13,415	(2,235)	(2,071)	(4,306)
Total:					<u>\$ 144,310</u>	<u>\$ (12,139)</u>	<u>\$ (709)</u>	<u>\$ (12,848)</u>

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

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

Enhanced LIBOR = 67% of one-month USD-LIBOR

Credit Risk

At June 30, 2020 and 2019, the Agency's hedging derivatives were not 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.

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, 2020 and 2019:

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Associated Bond Issue	Debt Maturity Dates	Swap Termination Dates	Exposure to Rollover Risk at	
			2020	2019
2004-83C	4/1/2027	10/1/2035	Yes	Yes
2004-86B	10/1/2033	4/1/2035	Yes	Yes
2007-100C	10/1/2031	4/1/2038	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, 2020 and 2019 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, 2020 and 2019 equaled \$972 and \$903, respectively.

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Amended hedging derivative activity for the years ended June 30, 2020 and 2019 reflected the following:

2020	
	Single Family Program
Amended hedging derivative balance at July 1, 2019	\$ (9,917)
Gain on 2019/2020 swap terminations	2,714
Amortization	972
Amended hedging derivative balance at June 30, 2020	<u>\$ (6,231)</u>
2019	
	Single Family Program
Amended hedging derivative balance at July 1, 2018	\$ (11,099)
Gain on 2018/2019 swap terminations	279
Amortization	903
Amended hedging derivative balance at June 30, 2019	<u>\$ (9,917)</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.

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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, 2020 and 2019 were as follows:

Bond Series	Investment Notional at June 30		Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
	2020	2019				
1999-67B	\$ 8,410	\$ -	7/2002	4/2029	5.950%	100% of USD-LIBOR + 50 bps
2001-72C	2,165	-	9/2001	10/2023	5.695%	100% of USD-LIBOR
2003-77B	-	16,245	10/2016	10/2033	1.702%	Enhanced LIBOR
2003-79B	20,850	-	4/2020	10/2027	3.253%	65% of USD-LIBOR + 25 bps
2004-82B	-	11,090	4/2016	4/2030	1.615%	61% of USD-LIBOR + 39 bps
2004-82C	21,160	21,965	4/2020	10/2033	1.380%	61% of USD-LIBOR + 39 bps
2004-84D	12,185	-	4/2020	10/2034	1.639%	Enhanced LIBOR
2004-85C	15,225	16,805	10/2015	4/2027	2.908%	65% of USD-LIBOR + 25 bps
2005-87C	13,545	15,270	10/2015	4/2027	2.937%	65% of USD-LIBOR + 25 bps
2005-88B	-	18,140	10/2016	10/2035	1.645%	61% of USD-LIBOR + 39 bps
2007-99C	4,725	-	4/2020	10/2023	1.500%	69% of USD-LIBOR
RH2008A&B	1,890	4,330	7/2011	1/2021	3.407%	67% of one-week USD-LIBOR
RH2008C	190	1,380	6/2003	7/2020	3.457%	70% of USD-LIBOR
RH2008D	115	825	6/2011	7/2020	3.440%	70% of USD-LIBOR
Total:	\$ 100,460	\$ 106,050				

USD-LIBOR = 1-month London Interbank Offered Rate in American Dollars.

Enhanced LIBOR = 67% of one-month USD-LIBOR

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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, 2020 and 2019. 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, 2020 and 2019 are detailed in the following schedule.

2020					
Bond Series	Investment Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2004-83C	\$ 7,150	10/2015	4/2027	3.830%	65% of USD-LIBOR + 25 bps
2005-89	155	4/2020	10/2035	1.404%	Enhanced LIBOR
Total:	<u>\$ 7,305</u>				

USD-LIBOR = 1-month London Interbank Offered Rate in American Dollars.

Enhanced LIBOR = 67% of one-month USD-LIBOR

2019					
Bond Series	Investment Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2004-83C	\$ 3,895	10/2015	4/2027	3.830%	65% of USD-LIBOR + 25 bps
2004-84D	10,045	10/2017	10/2034	3.240%	Enhanced LIBOR
2006-94B	6,930	10/2016	4/2027	1.413%	69% of USD-LIBOR
2007-99C	1,085	4/2016	10/2023	3.674%	69% of USD-LIBOR
MF2005K	5,153	1/2019	1/2036	5.183%	100% of USD-LIBOR
Total:	<u>\$ 27,108</u>				

USD-LIBOR = 1-month London Interbank Offered Rate in American Dollars.

Enhanced LIBOR = 67% of one-month USD-LIBOR

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The fair values of the investment derivatives for the years ended June 30, 2020 and 2019 are shown in the table below, and the changes in fair value equal to \$1,697 and \$(2,816), respectively, are presented as a net increase (decrease) in fair value of swaps on the Statements of Revenues, Expenses and Changes in Net Position.

Bond Series	2020		2019	
	Investment Notional	Fair Value	Investment Notional	Fair Value
1999-67B	\$ 8,410	\$ (1,916)	\$ -	\$ (1,663)
2001-72C	2,165	(245)	-	(280)
2003-77B	-	-	16,245	251
2003-79B	20,850	(2,277)	-	-
2004-82B	-	-	11,090	61
2004-82C	21,160	(40)	21,965	65
2004-83C	7,150	(959)	3,895	(1,650)
2004-84D	12,185	(27)	10,045	(48)
2004-85C	15,225	(1,518)	16,805	(1,144)
2005-87C	13,545	(1,250)	15,270	(971)
2005-88B	-	-	18,140	77
2005-89	155	-	370	495
2006-94B	-	-	6,930	87
2007-99C	4,725	(57)	1,085	(205)
RH2008A,B	1,890	(44)	4,330	(133)
RH2008C	190	(3)	1,380	(28)
RH2008D	115	(2)	825	(17)
Total:	<u>\$ 107,765</u>	<u>\$ (8,338)</u>	<u>\$ 128,375</u>	<u>\$ (5,103)</u>

Credit Risk

At June 30, 2020 and 2019, the Agency was exposed to \$0 and \$203, 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.

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10. Liabilities

Liability activity for the years ended June 30, 2020 and 2019 was as follows:

	2020				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	\$2,937,111	\$ 566,692	\$ 478,676	\$3,025,127	\$ 86,260
Notes payable from direct borrowings	18,968	25,000	3,656	40,312	4,158
Derivative instrument – interest rate swaps	15,648	16,447	10,909	21,186	-
Escrow deposits and Development Reserves	162,556	281,551	277,902	166,205	78,159
Net OPEB Liability	89,840	12,529	7,011	95,358	-
Net Pension Liability	32,148	12,996	22,474	22,670	-
Other liabilities					
Accrued vacation and sick leave	3,287	119	-	3,406	59
Bond rebate	280	-	-	280	-
Borrower suspense accounts	21,328	39,199	57,770	2,757	2,757
Commonwealth grants	56,015	53,700	40,373	69,342	67,070
Federal grants	168,257	464,576	438,939	193,894	-
Other grants	927	2,590	2,430	1,087	-
GNMA/FNMA payables	17,857	99,684	89,048	28,493	28,493
Pennsylvania SERS	2,080	637	275	2,442	-
PHFA Insurance Program Claims	420	-	(790)	1,210	-
Project receipts	11,772	713	-	12,485	-
Unearned revenue	1,816	103	736	1,183	-
Other	931	14,296	4,270	10,957	8,868
Total Other Liabilities	<u>284,970</u>	<u>675,617</u>	<u>633,051</u>	<u>327,536</u>	<u>107,247</u>
Total	<u><u>\$3,541,241</u></u>	<u><u>\$1,590,832</u></u>	<u><u>\$1,433,679</u></u>	<u><u>\$3,698,394</u></u>	<u><u>\$275,824</u></u>

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	2019				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	\$2,985,105	\$ 514,145	\$ 562,139	\$2,937,111	\$ 98,332
Notes payable from direct borrowings	25,750	17,000	23,782	18,968	3,239
Derivative instrument – interest rate swaps	7,902	11,260	3,514	15,648	-
Escrow deposits and Development Reserves	159,897	284,204	281,545	162,556	75,365
Net OPEB Liability	83,656	7,724	1,540	89,840	-
Net Pension Liability	21,220	15,250	4,322	32,148	-
Other liabilities					
Accrued vacation and sick leave	3,179	108	-	3,287	49
Bond rebate	280	-	-	280	-
Borrower suspense accounts	3,327	152,220	134,219	21,328	9,280
Commonwealth grants	18,192	40,756	2,933	56,015	29,361
Federal grants	188,245	590,059	610,047	168,257	-
Other grants	17,736	1,690	18,499	927	-
GNMA/FNMA payables	17,627	17,857	17,627	17,857	17,857
Pennsylvania SERS	2,281	53	254	2,080	-
PHFA Insurance Program Claims	582	630	792	420	-
Project receipts	10,613	2,772	1,613	11,772	-
Unearned revenue	3,832	23	2,039	1,816	-
Other	2,416	2,786	4,271	931	-
Total Other Liabilities	<u>268,310</u>	<u>808,954</u>	<u>792,294</u>	<u>284,970</u>	<u>56,547</u>
Total	<u>\$3,551,840</u>	<u>\$1,658,537</u>	<u>\$1,669,136</u>	<u>\$3,541,241</u>	<u>\$233,483</u>

11. Restricted Net Position

The Multifamily and Single Family Programs' June 30, 2020 and 2019 net position restrictions equaling \$218 and \$259 and \$100,757 and \$100,097, 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 \$34,534 and \$38,408 at June 30, 2020 and 2019, respectively, represent amounts restricted for the purpose of making mortgage assistance loans.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

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12. Pension Plans

Plan Description

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

Benefits Provided

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

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.

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Employees Covered by Benefit Terms

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

	(not in thousands)	
	2019	2018
Inactive employees or beneficiaries currently receiving benefits	208	196
Inactive employees entitled to but not yet receiving benefits	72	59
Active Employees	312	313
	<u>592</u>	<u>568</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 1, 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 \$5,125 and \$4,100 for the years ended December 31, 2019 and 2018, respectively. The Agency's average contribution rates for the years ended December 31, 2019 and 2018 equaled 21.70% and 21.02% 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, 2019 and 2018:

Investment Type	% Range of Allocation		
	Minimum	Target	Maximum
Equity Securities	55%	65%	75%
Fixed Income Securities	25%	35%	45%
Cash Equivalents	0%	0%	20%

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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, 2019 and 2018, 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, 2019 and 2018, the annual money-weighted rate of return on investments of the Agency's Pensions, net of investment expense, was 20.18% and (5.96%), 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, 2019 and 2018 was invested as follows:

	<u>2019</u>	<u>2018</u>
Cash Equivalents	\$ 2,850	\$ 2,965
Equity Securities		
Equity exchange traded funds	21,842	17,689
U.S. and International equity mutual funds	8,696	6,650
U.S. common and preferred stocks	33,930	26,388
Fixed Income Securities		
Fixed income exchange traded funds	1,427	1,410
Fixed income mutual funds	29,110	26,707
Total:	<u>\$97,855</u>	<u>\$81,809</u>

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Actuarial Assumptions

The Agency's net pension liability was measured as of December 31, 2019 and 2018, 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, 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates used in the December 31, 2019 and 2018 actuarial valuations were based upon the Pri-2012 White Collar Mortality Table including rates for contingent survivors and the Adjusted RP-2014 White Collar Mortality Table, respectively, for males and females; incorporated into the tables for the December 31, 2019 and 2018 actuarial valuations were rates projected using Scale MP 2019 and Scale MP-2018, 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, 2019 and 2018 are summarized in the following table:

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

The discount rate used to measure the total pension liability at December 31, 2019 and 2018 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.

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Changes in the Net Pension Liability

	2019		
	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension Liability (A)-(B)
Balances at January 1, 2018	\$114,012	\$ 81,864	\$ 32,148
Service Cost	1,839	-	1,839
Interest Cost	8,482	-	8,482
Changes for Experience	2,676	-	2,676
Changes of Assumptions	(969)	-	(969)
Contributions - Employer	-	4,881	(4,881)
Contributions - Member	-	244	(244)
Net Investment Income	-	16,381	(16,381)
Benefit Payments, including			
refunds of member contributions	(5,515)	(5,515)	-
Net Changes	<u>6,513</u>	<u>15,991</u>	<u>(9,478)</u>
Balances at December 31, 2018	<u>\$ 120,525</u>	<u>\$ 97,855</u>	<u>\$ 22,670</u>
	2018		
	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension Liability (A)-(B)
Balances at January 1, 2017	\$109,453	\$ 88,233	\$ 21,220
Service Cost	1,817	-	1,817
Interest Cost	8,146	-	8,146
Changes for Experience	120	-	120
Changes of Assumptions	(222)	-	(222)
Contributions - Employer	-	3,891	(3,891)
Contributions - Member	-	209	(209)
Net Investment Income	-	(5,167)	5,167
Benefit Payments, including			
refunds of member contributions	(5,302)	(5,302)	-
Net Changes	<u>4,559</u>	<u>(6,369)</u>	<u>10,928</u>
Balances at December 31, 2017	<u>\$ 114,012</u>	<u>\$ 81,864</u>	<u>\$ 32,148</u>

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The changes in assumptions reflected in the Changes in the Net Pension Liability for the periods ended December 31, 2019 and 2018 equal to (\$969) and (\$222), respectively, were the result of incorporating mortality Scales MP-2019 and MP-2018, respectively. Prior to this change in assumption, Scale MP-2017 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:

Plan's Net Pension Liability for Calendar Year Ended	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
December 31, 2019	\$ 37,289	\$ 22,670	\$ 10,307
December 31, 2018	46,376	32,148	20,143

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

For the years ended December 31, 2019 and 2018, the Pensions recognized pension expense of \$6,367 and \$6,669, respectively. At December 31, 2019 and 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	2018
<u>Deferred Outflows</u>		
Differences between Expected and Actual Experience	\$ 6,045	\$ 4,892
Changes in Assumptions	3,132	4,083
Contributions made after measurement date	2,050	2,050
Net Difference Between Projected and Actual Earnings on Investments	-	6,981
Gross Deferred Outflows	<u>11,227</u>	<u>18,006</u>
<u>Deferred Inflows</u>		
Differences between Expected and Actual Experience	289	347
Changes in Assumptions	1,922	1,230
Net Difference Between Projected and Actual Earnings on Investments	3,552	-
Gross Deferred Inflows	<u>5,763</u>	<u>1,577</u>
Net Deferred Outflows	<u>\$ 5,464</u>	<u>\$ 16,429</u>

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

Year Ended	
December 31	
2020	\$ 3,024
2021	665
2022	1,932
2023	(1,567)
2024	484
Thereafter	925
	<u>\$ 5,464</u>

13. 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. 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, therefore 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.

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Employees Covered by Benefit Terms

At the June 30, 2019 and 2017 valuation date, the following employees were covered by the benefit terms:

	(not in thousands)	
	2019	2017
Active Participants	320	323
Retired Participants	118	100
	<u>438</u>	<u>423</u>

Total OPEB Liability

The Agency's total OPEB liability equaling \$95,358 and \$89,840 at June 30, 2020 and 2019, respectively, were measured as of June 30, 2019 and 2018, respectively, using an actuarial valuations as of June 30, 2019 and 2017, respectively. Update procedures were used to roll forward the total OPEB liability in the actuarial valuation at June 30, 2017 to the measurement date of June 30, 2018.

Actuarial Methods and Assumptions

The total OPEB liability in the June 30, 2019 and 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	2019	2018
Salary Increases (average, including inflation)	4.50%	4.50%
Discount Rate	2.79%	2.98%
Retiree' Share of Benefit Costs	8.00%	8.00%
Healthcare Cost Trend Rates	5.5% in 2019 - 2021; gradually decreasing to 3.8% in 2075 and later	6.0% in 2018; 5.5% in 2019 - 2021; gradually decreasing to 3.8% in 2075 and later

The discount rate was based on the S&P Municipal Bond 20-Year High Grade Rate Index at June 30, 2019 and 2018.

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Mortality rates were based upon the Adjusted RP-2014 White Collar Mortality Table; incorporated into the tables were rates projected generationally using Scale MP-2019 and MP-2017 to reflect mortality improvement at June 30, 2019 and 2018, respectively.

The Agency has not completed a recent experience study.

Changes in the Total OPEB Liability

	Total OPEB Liability at June 30	
	2019	2018
Beginning Balance	\$ 89,840	\$ 83,656
Changes for the year:		
Service cost	5,087	4,976
Interest	2,801	2,748
Changes of benefit terms	-	-
Differences between expected and actual experience	4,641	-
Changes in assumptions or other inputs	(5,264)	(19)
Benefit payments	(1,747)	(1,521)
Net Changes	5,518	6,184
Ending Balance	<u>\$ 95,358</u>	<u>\$ 89,840</u>

Changes of assumptions or other inputs reflect a change in the discount rate from 2.98% in 2018 to 2.79% in 2019 and from 3.13% in 2017 to 2.98% in 2018. The health care cost trend was updated in both 2019 and 2018.

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:

Total OPEB Liability				
at June 30	1% Decrease	Discount Rate	1% Increase	
2020	\$ 114,496	\$ 95,358	\$ 80,370	
2019	107,499	89,840	76,031	

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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 healthcare cost trend rate that is one percentage point lower or one percentage point higher than the healthcare cost trend rate:

Total OPEB Liability at June 30	1% Decrease	Healthcare Cost Trend Rate	1% Increase
2020	\$ 78,050	\$ 95,358	\$ 118,235
2019	73,253	89,840	111,892

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

For the years ended June 30, 2020 and 2019, the Agency recognized OPEB expense of \$6,401 and \$6,306, respectively. At June 30, 2020 and 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020	2019
<u>Deferred Outflows</u>		
Differences between Expected and Actual Experience	\$ 4,125	\$ -
Changes in Assumptions or other inputs	11,030	13,308
Contributions made after measurement date	1,570	1,747
Gross Deferred Outflows	<u>16,725</u>	<u>15,055</u>
<u>Deferred Inflows</u>		
Differences between Expected and Actual Experience	17,320	20,444
Changes in Assumptions or other inputs	8,118	4,012
Gross Deferred Inflows	<u>25,438</u>	<u>24,456</u>
Net Deferred Inflows	<u>\$ (8,713)</u>	<u>\$ (9,401)</u>

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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>	
2021	\$ (83)
2022	1,487
2023	1,487
2024	1,487
2025	1,138
Thereafter	<u>3,197</u>
	<u>\$ 8,713</u>

14. Significant Contingencies and Commitments

Federally Assisted Programs

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

Risk Management

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

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.

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June 30, 2020 and 2019 (in thousands)

Commitments

Outstanding commitments by the Agency to make or acquire Single Family Mortgage Program and HEMAP loans were approximately \$43,664 and \$581, respectively, at June 30, 2020.

15. Significant Effects of Subsequent Events

On May 28, 2020, the Pennsylvania General Assembly enacted an amendment to house bill number 2510 which directed \$175,000 to the Agency to administer mortgage and rental assistance programs. The funds provided to the Agency are a portion of the funds that the Commonwealth of Pennsylvania received through The Federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The funds were received by the Agency subsequent to June 30, 2020 and are to be expended prior to November 30, 2020.

On September 10, 2020, the Agency Board authorized the issuance of Single Family Mortgage Revenue bonds Series 135 and 136 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.

On September 29, 2020, the Agency sold single family mortgage revenue bonds Series 2020-133 totaling \$212,140. Proceeds were used to purchase new single family mortgage loans.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSYLVANIA HOUSING FINANCE AGENCY

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

(in thousands) (unaudited)

	December 31					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service Cost	\$ 1,839	\$ 1,817	\$ 1,795	\$ 1,786	\$ 1,812	\$ 1,545
Interest	8,482	8,146	7,652	7,318	6,896	5,826
Differences Between Expected and Actual Experience	2,676	120	2,489	634	(604)	2,596
Changes of Assumptions	(969)	(222)	(476)	(927)	1,455	7,432
Benefit Payments, Including Refunds of Employee Contributions	(5,515)	(5,302)	(4,482)	(4,247)	(3,565)	(3,239)
Net Change in Total Pension Liability	6,513	4,559	6,978	4,564	5,994	14,160
Total Pension Liability - Beginning	114,012	109,453	102,475	97,911	91,917	77,757
Total Pension Liability - Ending (a)	\$ 120,525	\$ 114,012	\$ 109,453	\$ 102,475	\$ 97,911	\$ 91,917
Pensions Fiduciary Net Position						
Contributions - Employer	4,881	3,891	3,906	3,989	4,028	3,057
Contributions - Employee	244	209	194	161	123	92
Net Investment Income	16,381	(5,167)	12,447	3,879	281	6,071
Benefit Payments, Including Refunds of Employee Contributions	(5,515)	(5,302)	(4,482)	(4,247)	(3,565)	(3,239)
Net Change in Pensions Fiduciary Net Position	15,991	(6,369)	12,065	3,782	867	5,981
Pensions Fiduciary Net Position - Beginning	81,864	88,233	76,168	72,386	71,519	65,538
Pensions Fiduciary Net Position - Ending (b)	97,855	81,864	88,233	76,168	72,386	71,519
Agency's Net Pension Liability (a) - (b)	\$ 22,670	\$ 32,148	\$ 21,220	\$ 26,307	\$ 25,525	\$ 20,398
Pensions Fiduciary Net Position as a Percentage of Total Pension Liability	81.19%	71.80%	80.61%	74.33%	73.93%	77.81%
Covered-Employee Payroll	\$ 19,236	\$ 18,984	\$ 18,886	\$ 18,114	\$ 17,383	\$ 17,440
Pensions Fiduciary Net Pension Liability as a Percentage of Covered-Employee Payroll	117.85%	169.34%	112.36%	145.23%	146.84%	116.96%

Notes to Schedules: The change of assumption reflected above for the period ended December 31, 2019 was the result of incorporating Scale MP-2019 to reflect mortality improvement, the change of assumption reflected above for the period ended December 31, 2018 was the result of incorporating Scale MP-2018 to reflect mortality improvement, 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

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

Year	Actuarially Determined Contribution	Contributions From Agency	Contribution Deficiency/ (Excess)	Covered Employee Payroll	Contribution as a % of Payroll
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%
2018	3,989,468	3,890,511	98,957	18,983,564	21.02%
2019	4,174,097	4,880,916	(706,819)	19,236,376	21.70%

Notes to Schedules:

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

Methods and assumptions used to determine contribution rates –

Actuarial cost method: Aggregate

Amortization method: N/A

Remaining amortization period: N/A

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

Inflation: 3.0%

Salary increases: 4.5%

Investment rate of return: 7.5%

Retirement age: Normal retirement age

Mortality: Years 2009 through 2013 incorporated the GA1983 Mortality Table. Year 2014 incorporated the RP-2014 Total Mortality Table to reflect mortality improvement. Years 2015 through 2019 incorporated the Adjusted RP-2014 White Collar Mortality Table to reflect mortality improvement.

PENNSYLVANIA HOUSING FINANCE AGENCY

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

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

Year ended	
December 31	Rate
2019	20.18%
2018	(5.96%)
2017	16.32%
2016	5.34%
2015	0.42%
2014	9.28%
2013	16.60%

This schedule will continue to be built up to ten years subsequent to the year of implementation of GASB 68.

PENNSYLVANIA HOUSING FINANCE AGENCY

Schedules of Changes in Total OPEB Liability and Related Ratios

(in thousands) (unaudited)

	June 30				
	2019	2018	2017	2016	2015
Total OPEB Liability					
Service Cost	\$ 5,087	\$ 4,976	\$ 6,143	\$ 4,498	\$ 4,230
Interest	2,801	2,748	3,003	3,197	3,023
Changes in Benefit Terms	-	-	(2,591)	-	-
Differences Between Expected and Actual Experience	4,641	-	(21,717)	-	(6,396)
Changes of Assumptions	(5,264)	(19)	(5,137)	17,252	3,252
Benefit Payments	(1,747)	(1,521)	(1,561)	(1,384)	(1,149)
Net Change in Total OPEB Liability	5,518	6,184	(21,860)	23,563	2,960
Total OPEB Liability - Beginning	89,840	83,656	105,516	81,953	78,993
Total OPEB Liability - Ending	\$ 95,358	\$ 89,840	\$ 83,656	\$ 105,516	\$ 81,953
Covered-Employee Payroll	\$ 20,944	\$ 20,204	\$ 20,204	\$ 18,523	\$ 18,523
Total OPEB Liability as a Percentage of Covered-Employee Payroll	455.31%	444.66%	414.06%	569.66%	442.44%

Notes to Schedules:

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 measurement period:

<u>Year</u>	<u>Discount Rate</u>	<u>Healthcare Cost Trend Rate</u>
2019	2.79%	5.5% in 2019 – 2021; gradually decreasing to 3.8% in 2075 and later
2018	2.98%	6.0% in 2018; 5.5% in 2019 - 2021; gradually decreasing to 3.8% in 2075 and later
2017	3.13%	6.0% in 2017; 5.5% in 2018 - 2023; gradually decreasing to 3.9% in 2075 and later

PENNSYLVANIA HOUSING FINANCE AGENCY

Schedules of Changes in Total OPEB Liability and Related Ratios

(in thousands) (unaudited)

2016	2.71%	6.5% in 2016; 6.0% in 2017; 5.5% in 2018 - 2020; gradually decreasing to 3.8% in 2075 and later
2015	3.73%	6.0% in 2015; 5.5% in 2016 - 2020; gradually decreasing to 3.8% in 2075 and later

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, 2020 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Intra-Agency Eliminations	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 1,891	\$ 82,407	\$ 351,877	\$ 27,933	\$ 11,352	\$ -	\$ 475,460
Restricted cash and cash equivalents	1,256	73,319	129,154	-	-	-	203,729
Restricted investments	-	5	1,000	-	-	-	1,005
Accrued investment interest receivable	40	226	1,400	106	-	-	1,772
Mortgage loans receivable, net	-	3,379	106,065	-	5,534	-	114,978
Accrued mortgage loan interest receivable	-	753	16,481	-	273	-	17,507
Mortgages held for sale	-	-	21,626	-	-	-	21,626
Other current assets	2,307	9	26	-	10	-	2,352
Total Current Assets	5,494	160,098	627,629	28,039	17,169	-	838,429
Noncurrent Assets:							
Investments	94,794	-	53,694	6,738	-	-	155,226
Restricted investments	-	35	59,283	-	-	-	59,318
Mortgage loans receivable, net	3,320	317,680	3,031,340	-	28,766	-	3,381,106
Real estate owned	-	-	12,018	-	-	-	12,018
Capital assets, net	55,668	-	-	-	-	-	55,668
Intra-agency receivables	207,434	63,701	-	-	-	(271,135)	-
Other noncurrent assets	10,901	-	651	-	-	(10,853)	699
Total Noncurrent Assets	372,117	381,416	3,156,986	6,738	28,766	(281,988)	3,664,035
TOTAL ASSETS	377,611	541,514	3,784,615	34,777	45,935	(281,988)	4,502,464
DEFERRED OUTFLOWS OF RESOURCES							
OPEB-related deferred outflows	16,725	-	-	-	-	-	16,725
Pension-related deferred outflows	11,227	-	-	-	-	-	11,227
Unamortized losses on bond refundings	-	-	5,492	-	-	-	5,492
Accumulated decrease (increase) in fair value of hedging derivatives	4,469	4,306	(2,158)	-	-	-	6,617
TOTAL DEFERRED OUTFLOWS OF RESOURCES	32,421	4,306	3,334	-	-	-	40,061
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 410,032	\$ 545,820	\$ 3,787,949	\$ 34,777	\$ 45,935	\$ (281,988)	\$ 4,542,525
LIABILITIES							
Current Liabilities:							
Accounts payable and accrued expenses	\$ 1,604	\$ -	\$ 850	\$ -	\$ 348	\$ -	\$ 2,802
Bonds and notes payable, net	2,000	400	88,018	-	-	-	90,418
Accrued interest payable	58	376	22,301	-	-	-	22,735
Escrow deposits and development reserves	1,091	17,133	59,935	-	-	-	78,159
Other current liabilities	58,696	401	48,150	-	78	(78)	107,247
Total Current Liabilities	63,449	18,310	219,254	-	426	(78)	301,361
Noncurrent Liabilities:							
Bonds and notes payable, net	33,000	8,318	2,933,703	-	-	-	2,975,021
Derivative instrument - interest rate swaps	4,469	4,355	12,362	-	-	-	21,186
Development reserves	-	88,046	-	-	-	-	88,046
Intra-agency payables	-	-	271,135	-	-	(271,135)	-
Total OPEB liability	95,358	-	-	-	-	-	95,358
Net pension liability	22,670	-	-	-	-	-	22,670
Other noncurrent liabilities	3,405	215,475	-	1,209	10,975	(10,775)	220,289
Total Noncurrent Liabilities	158,902	316,194	3,217,200	1,209	10,975	(281,910)	3,422,570
TOTAL LIABILITIES	222,351	334,504	3,436,454	1,209	11,401	(281,988)	3,723,931
DEFERRED INFLOWS OF RESOURCES							
OPEB-related deferred inflows	25,438	-	-	-	-	-	25,438
Pension-related deferred inflows	5,763	-	-	-	-	-	5,763
TOTAL DEFERRED INFLOWS OF RESOURCES	31,201	-	-	-	-	-	31,201
NET POSITION							
Net investment in capital assets	20,668	-	-	-	-	-	20,668
Restricted	-	218	100,757	-	34,534	-	135,509
Unrestricted	135,812	211,098	250,738	33,568	-	-	631,216
TOTAL NET POSITION	156,480	211,316	351,495	33,568	34,534	-	787,393
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 410,032	\$ 545,820	\$ 3,787,949	\$ 34,777	\$ 45,935	\$ (281,988)	\$ 4,542,525

See accompanying independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2020 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Operating Revenues:						
Interest income on mortgage loans	\$ 29	\$ 3,560	\$ 107,589	\$ -	\$ 356	\$ 111,534
Program income and fees	82,355	1,294	25	1,279	149	85,102
Gain on sales of mortgage-backed securities	2,905	-	-	-	-	2,905
Investment income	2,779	(42)	9,269	489	167	12,662
Increase (decrease) in fair value of investments	17,031	(7)	3,060	24	-	20,108
Increase in the fair value of swaps	-	129	1,679	-	-	1,808
Increase in the fair value of mortgage service rights	-	-	3,201	-	-	3,201
Gain on early extinguishment of debt	-	-	2,740	-	-	2,740
Total Operating Revenues	105,099	4,934	127,563	1,792	672	240,060
Operating Expenses:						
Interest expense on bonds and notes	1,153	726	95,529	-	-	97,408
Financing and program expenses	40,658	5	8,636	-	-	49,299
Salaries and related benefits	41,826	-	-	-	2,067	43,893
General and administrative	11,463	334	5,797	-	1,586	19,180
Provision for loan loss and real estate owned	1,063	1,960	10,562	990	893	15,468
Total Operating Expenses	96,163	3,025	120,524	990	4,546	225,248
Operating Income (Loss)	8,936	1,909	7,039	802	(3,874)	14,812
Non-operating Revenue						
Federal program awards	-	438,663	2,922	-	-	441,585
Non-operating Expense						
Federal program expense	-	438,663	2,922	-	-	441,585
Income (Loss) Before Transfers	8,936	1,909	7,039	802	(3,874)	14,812
Intra-agency transfers	2,338	3,943	(6,327)	46	-	-
Change in Net Position	11,274	5,852	712	848	(3,874)	14,812
Net Position - beginning of year	145,206	205,464	350,783	32,720	38,408	772,581
Net Position - end of year	\$ 156,480	\$ 211,316	\$ 351,495	\$ 33,568	\$ 34,534	\$ 787,393

See accompanying independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2020 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Cash Flows From Operating Activities						
Receipts of mortgage loan payments	\$ 186	\$ 18,609	\$ 371,776	\$ -	\$ 6,704	\$ 397,275
Receipts of mortgage-backed security premiums	2,905	-	-	-	-	2,905
Receipts from fees and other income	82,355	1,294	25	1,279	149	85,102
Receipts from interest on mortgages	29	5,286	106,295	-	317	111,927
Receipts of escrows and development reserves	17,524	7,422	11,547	(201)	-	36,292
Payments for mortgages and purchases	(1,000)	(22,492)	(465,913)	-	(6,197)	(495,602)
Payments for salaries and related benefits	(41,826)	-	-	-	-	(41,826)
Payments for goods and services	(39,495)	(1,558)	1,542	-	(3,636)	(43,147)
Net Cash Provided By (Used in) Operating Activities	<u>20,678</u>	<u>8,561</u>	<u>25,272</u>	<u>1,078</u>	<u>(2,663)</u>	<u>52,926</u>
Cash Flows From Noncapital Financing Activities						
Proceeds from the issuance of bonds and notes	-	-	585,830	-	-	585,830
Payments for retirement of bonds and notes	-	(382)	(475,336)	-	-	(475,718)
Payments for bonds and notes interest	-	(818)	(93,029)	-	-	(93,847)
Payments of financing costs	(5,987)	(5)	(8,636)	-	-	(14,628)
Receipts (repayments) of program advances	(26,300)	(13,012)	39,265	46	(234)	(235)
Receipts of federal program awards	-	438,663	2,922	-	-	441,585
Payments of federal program awards	-	(438,663)	(2,922)	-	-	(441,585)
Net Cash (Used In) Provided By Noncapital Financing Activities	<u>(32,287)</u>	<u>(14,217)</u>	<u>48,094</u>	<u>46</u>	<u>(234)</u>	<u>1,402</u>
Cash Flows From Capital Financing Activities						
Purchases of capital assets	(7,051)	-	-	-	-	(7,051)
Payments for retirement of capital financing bond	(2,000)	-	-	-	-	(2,000)
Payments for interest on capital financing bond	(1,159)	-	-	-	-	(1,159)
Net Cash Used In Capital Financing Activities	<u>(10,210)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,210)</u>
Cash Flows From Investing Activities						
Proceeds from the sale or maturity of investments	9	1	133,333	10,001	-	143,344
Receipts of investment interest	2,765	368	9,206	466	167	12,972
Payments for purchases of investments	-	-	(59,179)	-	-	(59,179)
Net Cash Provided By (Used in) Investing Activities	<u>2,774</u>	<u>369</u>	<u>83,360</u>	<u>10,467</u>	<u>167</u>	<u>97,137</u>
Net (Decrease) Increase In Cash and Cash Equivalents	<u>(19,045)</u>	<u>(5,287)</u>	<u>156,726</u>	<u>11,591</u>	<u>(2,730)</u>	<u>141,255</u>
Cash and cash equivalents, beginning of year	<u>22,192</u>	<u>161,013</u>	<u>324,305</u>	<u>16,342</u>	<u>14,082</u>	<u>537,934</u>
Cash and cash equivalents, end of period	<u>\$ 3,147</u>	<u>\$ 155,726</u>	<u>\$ 481,031</u>	<u>\$ 27,933</u>	<u>\$ 11,352</u>	<u>\$ 679,189</u>

See accompanying independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2020 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Reconciliation of Operating Income to						
Net Cash Provided By (Used In) Operating Activities:						
Operating Income (Loss)	\$ 8,936	\$ 1,909	\$ 7,039	\$ 802	\$ (3,874)	\$ 14,812
Investment income recognized	(2,779)	42	(9,269)	(489)	(167)	(12,662)
Net change in fair value of investments	(17,031)	7	(3,060)	(24)	-	(20,108)
Net change in fair value of swaps	-	(129)	(1,679)	-	-	(1,808)
Interest expense on bonds and notes	1,153	726	95,529	-	-	97,408
Financing expenses	5,987	5	8,636	-	-	14,628
Provision for loan loss and real estate owned	1,063	1,960	10,562	990	893	15,468
Depreciation	1,332	-	-	-	-	1,332
Early extinguishment of debt	-	-	(2,740)	-	-	(2,740)
Loss on disposal of capital assets	1	-	-	-	-	1
Net change in fair value of mortgage servicing rights	-	-	(3,201)	-	-	(3,201)
Changes in Assets and Liabilities:						
Mortgage loans receivable, net	(990)	(4,519)	(95,385)	-	507	(100,387)
Mortgage loans interest receivable	-	2,362	(1,294)	-	(39)	1,029
Real Estate Owned, Net	176	-	3,776	-	-	3,952
Other assets	3,502	(6)	3,370	-	-	6,866
Accounts payable and accrued expenses	(1,191)	-	1	-	(48)	(1,238)
Escrow deposits and development reserves	96	1,118	2,435	-	-	3,649
Other liabilities	20,423	5,086	10,552	(201)	65	35,925
Net Cash Provided By (Used In) Operating Activities	\$ 20,678	\$ 8,561	\$ 25,272	\$ 1,078	\$ (2,663)	\$ 52,926

See accompanying independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Balance Sheet

June 30, 2019 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Intra-Agency Eliminations	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 20,804	\$ 107,700	\$ 234,289	\$ 16,342	\$ 14,082	\$ -	\$ 393,217
Restricted cash and cash equivalents	1,388	53,313	90,016	-	-	-	144,717
Investments	-	-	-	-	-	-	-
Restricted investments	-	10	-	-	-	-	10
Accrued investment interest receivable	26	636	1,337	111	-	-	2,110
Mortgage loans receivable, net	-	12,185	91,829	-	5,603	-	109,617
Accrued mortgage loan interest receivable	-	3,115	15,187	-	234	-	18,536
Mortgages held for sale	-	-	10,571	-	-	-	10,571
Other current assets	2,662	3	15	-	10	-	2,690
Total Current Assets	24,880	176,962	443,244	16,453	19,929	-	681,468
Noncurrent Assets:							
Investments	77,772	-	84,974	16,687	-	-	179,433
Restricted investments	-	38	100,097	-	-	-	100,135
Mortgage loans receivable, net	3,393	306,315	2,959,739	-	30,097	-	3,299,544
Real estate owned	176	-	15,794	-	-	-	15,970
Capital assets, net	49,950	-	-	-	-	-	49,950
Intra-agency receivables	178,797	46,746	-	-	-	(225,543)	-
Other noncurrent assets	10,725	-	4,032	-	-	(11,087)	3,670
Total Noncurrent Assets	320,813	353,099	3,164,636	16,687	30,097	(236,630)	3,648,702
TOTAL ASSETS	345,693	530,061	3,607,880	33,140	50,026	(236,630)	4,330,170
DEFERRED OUTFLOWS OF RESOURCES							
OPEB-related deferred outflows	15,055	-	-	-	-	-	15,055
Pension-related deferred outflows	18,006	-	-	-	-	-	18,006
Unamortized losses on bond refundings	-	-	1,776	-	-	-	1,776
Accumulated decrease (increase) in fair value of hedging derivatives	2,683	2,235	(2,957)	-	-	-	1,961
TOTAL DEFERRED OUTFLOWS OF RESOURCES	35,744	2,235	(1,181)	-	-	-	36,798
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 381,437	\$ 532,296	\$ 3,606,699	\$ 33,140	\$ 50,026	\$ (236,630)	\$ 4,366,968
LIABILITIES							
Current Liabilities:							
Accounts payable and accrued expenses	\$ 2,795	\$ -	\$ 849	\$ -	\$ 1,057	\$ (661)	\$ 4,040
Bonds and notes payable, net	2,000	382	99,189	-	-	-	101,571
Accrued interest payable	64	468	22,541	-	-	-	23,073
Escrow deposits and development reserves	995	16,870	57,500	-	-	-	75,365
Other current liabilities	32,381	535	23,631	-	-	-	56,547
Total Current Liabilities	38,235	18,255	203,710	-	1,057	(661)	260,596
Noncurrent Liabilities:							
Bonds and notes payable, net	35,000	8,718	2,810,790	-	-	-	2,854,508
Derivative instrument - interest rate swaps	2,683	3,631	9,334	-	-	-	15,648
Development reserves	-	87,191	-	-	-	-	87,191
Intra-agency payables	-	-	225,543	-	-	(225,543)	-
Total OPEB liability	89,840	-	-	-	-	-	89,840
Net pension liability	32,148	-	-	-	-	-	32,148
Other noncurrent liabilities	12,292	209,037	6,539	420	10,561	(10,426)	228,423
Total Noncurrent Liabilities	171,963	308,577	3,052,206	420	10,561	(235,969)	3,307,758
TOTAL LIABILITIES	210,198	326,832	3,255,916	420	11,618	(236,630)	3,568,354
DEFERRED INFLOWS OF RESOURCES							
OPEB-related deferred inflows	24,456	-	-	-	-	-	24,456
Pension-related deferred inflows	1,577	-	-	-	-	-	1,577
TOTAL DEFERRED INFLOWS OF RESOURCES	26,033	-	-	-	-	-	26,033
NET POSITION							
Net investment in capital assets	12,950	-	-	-	-	-	12,950
Restricted	-	259	100,097	-	38,408	-	138,764
Unrestricted	132,256	205,205	250,686	32,720	-	-	620,867
TOTAL NET POSITION	145,206	205,464	350,783	32,720	38,408	-	772,581
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 381,437	\$ 532,296	\$ 3,606,699	\$ 33,140	\$ 50,026	\$ (236,630)	\$ 4,366,968

See accompanying independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2019 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Operating Revenues:						
Interest income on mortgage loans	\$ 3	\$ 3,958	\$ 111,701	\$ -	\$ 402	\$ 116,064
Program income and fees	49,785	806	2,895	856	166	54,508
Gain on sales of mortgage-backed securities	4,012	-	-	-	-	4,012
Investment income	3,394	88	11,622	355	317	15,776
Increase (decrease) in fair value of investments	8,768	(6)	6,571	(2)	-	15,331
Gain on early extinguishment of debt	-	-	3,158	-	-	3,158
Total Operating Revenues	65,962	4,846	135,947	1,209	885	208,849
Operating Expenses:						
Interest expense on bonds and notes	1,214	772	91,954	-	-	93,940
Financing and program expenses	7,826	5	10,108	-	-	17,939
Salaries and related benefits	40,022	-	-	-	2,318	42,340
General and administrative	15,116	463	4,782	-	1,209	21,570
Decrease in fair value of swaps	-	253	2,855	-	-	3,108
Decrease in fair value of mortgage service	-	-	4,000	-	-	4,000
Provision for loan loss and real estate owned	700	(13,977)	16,033	470	543	3,769
Total Operating Expenses	64,878	(12,484)	129,732	470	4,070	186,666
Operating Income (Loss)	1,084	17,330	6,215	739	(3,185)	22,183
Non-operating Revenue						
Federal program awards	-	423,749	3,220	-	-	426,969
Non-operating Expense						
Federal program expense	-	423,749	3,220	-	-	426,969
Income (Loss) Before Transfers	1,084	17,330	6,215	739	(3,185)	22,183
Intra-agency transfers	29,113	(25,045)	(24,765)	20,697		-
Change in Net Position	30,197	(7,715)	(18,550)	21,436	(3,185)	22,183
Net Position - beginning of year	115,009	213,179	369,333	11,284	41,593	750,398
Net Position - end of year	\$ 145,206	\$ 205,464	\$ 350,783	\$ 32,720	\$ 38,408	\$ 772,581

See accompanying independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2019 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Cash Flows From Operating Activities						
Receipts of mortgage loan payments	\$ 68	\$ 31,428	\$ 353,013	\$ -	\$ 6,948	\$ 391,457
Receipts of mortgage-backed security premiums	4,012	-	-	-	-	4,012
Receipts from fees and other income	49,785	806	2,895	856	166	54,508
Receipts from interest on mortgages	3	4,589	111,683	-	393	116,668
Receipts of escrows and development reserves	15,513	3,278	552	-	-	19,343
Payments for mortgages and purchases	-	(4,228)	(491,297)	-	(6,177)	(501,702)
Payments for salaries and related benefits	(40,022)	-	-	-	-	(40,022)
Payments for goods and services	(6,818)	840	3,295	(236)	(4,088)	(7,007)
Net Cash Provided By (Used in) Operating Activities	22,541	36,713	(19,859)	620	(2,758)	37,257
Cash Flows From Noncapital Financing Activities						
Proceeds from the issuance of bonds and notes	-	-	526,700	-	-	526,700
Payments for retirement of bonds and notes	-	(357)	(578,147)	-	-	(578,504)
Payments for interest on bonds and notes	-	(952)	(93,468)	-	-	(94,420)
Payments of financing costs	(7,826)	-	(10,108)	-	-	(17,934)
Receipts (repayments) of program advances	4,899	(15,685)	(9,911)	20,697	1,020	1,020
Receipts of federal program awards	-	423,749	3,220	-	-	426,969
Payments of federal program awards	-	(423,749)	(3,220)	-	-	(426,969)
Net Cash (Used In) Provided By Noncapital Financing Activities	(2,927)	(16,994)	(164,934)	20,697	1,020	(163,138)
Cash Flows From Capital Financing Activities						
Purchases of capital assets	(10,370)	-	-	-	-	(10,370)
Payments for retirement of capital financing bond	(2,000)	-	-	-	-	(2,000)
Payments for interest on capital financing bond	(1,219)	-	-	-	-	(1,219)
Net Cash Used In Capital Financing Activities	(13,589)	-	-	-	-	(13,589)
Cash Flows From Investing Activities						
Proceeds from the sale or maturity of investments	12	351	36,037	8,198	-	44,598
Receipts of investment interest	3,391	(548)	11,681	242	317	15,083
Payments for purchases of investments	-	-	(11,887)	(24,885)	-	(36,772)
Net Cash Provided By (Used in) Investing Activities	3,403	(197)	35,831	(16,445)	317	22,909
Net (Decrease) Increase In Cash and Cash Equivalents	9,428	19,522	(148,962)	4,872	(1,421)	(116,561)
Cash and cash equivalents, beginning of year	12,764	141,491	473,267	11,470	15,503	654,495
Cash and cash equivalents, end of period	\$ 22,192	\$ 161,013	\$ 324,305	\$ 16,342	\$ 14,082	\$ 537,934

See accompanying independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2019 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Reconciliation of Operating Income to						
Net Cash Provided By (Used In) Operating Activities:						
Operating Income (Loss)	\$ 1,084	\$ 17,330	\$ 6,215	\$ 739	\$(3,185)	\$ 22,183
Investment income recognized	(3,394)	(88)	(11,622)	(355)	(317)	(15,776)
Net change in fair value of investments	(8,768)	6	(6,571)	2	-	(15,331)
Net change in fair value of swaps	-	253	2,855	-	-	3,108
Interest expense on bonds and notes	1,214	772	91,954	-	-	93,940
Financing expenses	7,826	5	10,108	-	-	17,939
Provision for loan loss and real estate owned	700	(13,977)	16,033	470	543	3,769
Depreciation	1,004	-	-	-	-	1,004
Early extinguishment of debt	-	-	(3,158)	-	-	(3,158)
Loss on disposal of capital assets	4	-	-	-	-	4
Net change in fair value of mortgage servicing rights	-	-	4,000	-	-	4,000
Changes in Assets and Liabilities:						
Mortgage loans receivable, net	68	27,200	(138,284)	(470)	771	(110,715)
Mortgage loans interest receivable	-	631	(18)	-	(9)	604
Real Estate Owned, Net	-	-	8,324	-	-	8,324
Other assets	(6,157)	1,303	150	396	(8)	(4,316)
Accounts payable and accrued expenses	(6)	-	(397)	-	(548)	(951)
Escrow deposits and development reserves	90	2,185	381	-	-	2,656
Other liabilities	28,876	1,093	171	(162)	(5)	29,973
Net Cash Provided By (Used In) Operating Activities	\$ 22,541	\$ 36,713	\$ (19,859)	\$ 620	\$ (2,758)	\$ 37,257

See accompanying independent auditors' report.