



PENNSYLVANIA HOUSING FINANCE AGENCY

Basic Financial Statements and Supplementary Information

June 30, 2021 and 2020

(With Independent Auditors' Reports Thereon)

PENNSYLVANIA HOUSING FINANCE AGENCY
Basic Financial Statements and Supplementary Information
June 30, 2021 and 2020

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KPMG LLP
Suite 1000
30 North Third Street
Harrisburg, PA 17101

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, 2021 and 2020, 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, 2021 and 2020, 4 percent of total net position at June 30, 2021 and 2020, and less than 1 percent of total operating revenues for the years ended June 30, 2021 and 2020. 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, 2021 and 2020, 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, 2021 and 2020 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
October 14, 2021

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis
(Unaudited – see accompanying auditors' report)

June 30, 2021 and 2020

(Amounts rounded)

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.

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(Amounts rounded)

Condensed Summary Balance Sheets

	<u>2021</u>	<u>2020</u>	<u>Increase/(Decrease)</u>	
		(In thousands)		
Assets:				
Mortgage loans receivable, net	\$ 3,489,228	3,496,084	(6,856)	(0.2)%
Capital assets, net	55,734	55,668	66	0.1
Other assets	<u>1,087,965</u>	<u>950,712</u>	<u>137,253</u>	<u>14.4</u>
Total assets	4,632,927	4,502,464	130,463	2.9
Deferred outflows of resources	<u>34,080</u>	<u>40,061</u>	<u>(5,981)</u>	<u>(14.9)</u>
Total assets and deferred outflows of resources	<u>\$ 4,667,007</u>	<u>4,542,525</u>	<u>124,482</u>	<u>(2.7)%</u>
Liabilities:				
Current liabilities	\$ 332,117	301,361	30,756	10.2 %
Noncurrent liabilities	<u>3,508,286</u>	<u>3,422,570</u>	<u>85,716</u>	<u>2.5</u>
Total liabilities	3,840,403	3,723,931	116,472	3.1
Deferred inflows of resources	<u>29,287</u>	<u>31,201</u>	<u>(1,914)</u>	<u>5.6</u>
Net position:				
Net investment in capital assets	22,734	20,668	2,066	10.0
Restricted	136,155	135,509	646	0.5
Unrestricted	<u>638,428</u>	<u>631,216</u>	<u>7,212</u>	<u>1.1</u>
Total net position	<u>797,317</u>	<u>787,393</u>	<u>9,924</u>	<u>1.3</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,667,007</u>	<u>4,542,525</u>	<u>124,482</u>	<u>(2.7)%</u>

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(Amounts rounded)

Condensed Summary Balance Sheets

	<u>2020</u>	<u>2019</u>	<u>Increase/(Decrease)</u>	
			(In thousands)	
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	<u>950,712</u>	<u>871,059</u>	<u>79,653</u>	<u>9.1</u>
Total assets	4,502,464	4,330,170	172,294	4.0
Deferred outflows of resources	<u>40,061</u>	<u>36,798</u>	<u>3,263</u>	<u>8.9</u>
Total assets and deferred outflows of resources	<u>\$ 4,542,525</u>	<u>4,366,968</u>	<u>175,557</u>	<u>(4.0)%</u>
Liabilities:				
Current liabilities	\$ 301,361	260,596	40,765	15.6 %
Noncurrent liabilities	<u>3,422,570</u>	<u>3,307,758</u>	<u>114,812</u>	<u>3.5</u>
Total liabilities	3,723,931	3,568,354	155,577	4.4
Deferred inflows of resources	<u>31,201</u>	<u>26,033</u>	<u>5,168</u>	<u>19.9</u>
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	<u>631,216</u>	<u>620,867</u>	<u>10,349</u>	<u>1.7</u>
Total net position	<u>787,393</u>	<u>772,581</u>	<u>14,812</u>	<u>1.9</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,542,525</u>	<u>4,366,968</u>	<u>175,557</u>	<u>(4.0)%</u>

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Condensed Summary of Revenues, Expenses and Changes in Net Position

	<u>2021</u>	<u>2020</u>	<u>Increase/(Decrease)</u>	
	(In thousands)			
Revenues:				
Mortgage loan interest	\$ 109,455	111,534	(2,079)	(1.9)%
Other operating revenues	110,812	128,526	(17,714)	(13.8)
Federal program awards	<u>526,292</u>	<u>441,585</u>	<u>84,707</u>	<u>19.2</u>
Total revenues	<u>746,559</u>	<u>681,645</u>	<u>64,914</u>	<u>9.5</u>
Expenses:				
Interest and financing expenses	96,859	101,335	(4,476)	(4.4)
Other operating expenses	113,484	123,913	(10,429)	(8.4)
Federal program expenses	<u>526,292</u>	<u>441,585</u>	<u>84,707</u>	<u>19.2</u>
Total expenses	<u>736,635</u>	<u>666,833</u>	<u>69,802</u>	<u>10.5</u>
Change in net position	9,924	14,812	(4,888)	(33.0)
Net position – beginning of year	<u>787,393</u>	<u>772,581</u>	<u>14,812</u>	<u>1.9</u>
Net position – end of year	\$ <u><u>797,317</u></u>	\$ <u><u>787,393</u></u>	<u><u>9,924</u></u>	<u><u>1.3 %</u></u>
	<u>2020</u>	<u>2019</u>	<u>Increase/(Decrease)</u>	
	(In thousands)			
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	<u>681,645</u>	<u>635,818</u>	<u>45,827</u>	<u>7.2</u>
Expenses:				
Interest and financing expenses	101,335	111,879	(10,544)	(9.4)
Other operating expenses	123,913	74,787	49,126	65.7
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>

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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 (the 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 hybrid remote environment and has remained fully operational throughout the pandemic.

Comparison of Years Ended June 30, 2021 and 2020

Assets increased by \$130.5 million from \$4.502 billion to \$4.633 billion. Mortgage loans receivable decreased by \$6.9 million from \$3.496 billion to \$3.489 billion as a result of an increase in prepayments caused by borrowers refinancing existing mortgages included in the single family loan program with lenders other than PHFA due to the current low interest rate environment. The balance of capital assets remained flat when compared to prior year, current year purchases were off-set by annual depreciation. The increase of \$137.3 million in other assets was primarily attributable to increases in cash and cash equivalents and investments primarily due to the issuance of Series 2020-135A mortgage revenue bonds on June 29, 2021, leaving a sizable amount of proceeds yet to be utilized for mortgage purchases, off-set by a decrease in mortgages held for sale and real estate owned. Mortgages held for sale decreased due to timing of the purchase and sale of mortgage loans as well as the Agency's continued effort to purchase and hold mortgage loans to build its balance sheet. Real estate owned decreased due to the federal moratorium on foreclosures which has ceased foreclosures, along with the Agency's efforts to continue to dispose of aging real estate owned properties.

Deferred outflows of resources decreased by \$6.0 million from \$40 million to \$34 million. The decrease was primarily due the decrease in net unamortized losses on bond refundings due to current year gains on bond refundings off-setting prior year unamortized losses and the decrease in the accumulated decrease in the fair value of hedging derivatives due to market conditions at the June 30, 2021 valuation date.

Total liabilities increased by \$116.5 million from \$3.724 billion to \$3.840 billion. The increase is largely due to the increase in bonds and notes payable of \$114.0 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.

Total net position as of June 30, 2021 was \$797.3 million, an increase of \$9.9 million, over the total net position of \$787.4 million at June 30, 2020. Mortgage loan interest decreased by \$2.0 million due to the decrease in the Agency's single family and HEMAP portfolio of mortgage loans and the continued decrease in interest rates on new loan purchases during the fiscal year. Other operating revenues decreased by \$17.7 million, primarily due to decrease in the fair value of investments at the valuation date of June 30, 2021 and the decrease in

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investment income earned during the year, off-set by the increase in program revenue and fees, which includes an increase in grant revenue recognized, and the gain on sales of mortgage-backed securities. Operating expenses decreased during the year, the decrease was \$14.9 million, interest and financing expenses decreased primarily due to the lowering of interest rates paid on single family mortgage revenue bonds due to refundings and the termination of various interest rate swap agreements as the Agency has refunded a large portion of its variable rate debt. Other operating expenses in total decreased due to the decrease in the provision for loan loss and real estate owned off-set by the increase in grant expenses corresponding with the increase in grant revenue and the net decrease in the fair value of investments due to market conditions on the valuation date of June 30, 2021.

Federal program awards and expenses increased by \$84.7 million primarily due to funds received and disbursed for The Federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The Agency administered the mortgage and rental assistance programs in the Commonwealth of Pennsylvania.

Comparison of Years Ended June 30, 2020 and 2019

Assets increased by \$172.3 million from \$4.330 billion to \$4.502 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 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 \$3.3 million from \$36.8 million to \$40.1 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 \$155.6 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.

Total net position as of June 30, 2020 was \$787.4 million, an increase of \$14.8 million, over the total net position of \$772.6 million at June 30, 2019. Operating revenues increased by \$31.2 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 \$38.6 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

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provision for loan loss and real estate owned by \$12.0 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.

Analysis of Capital Asset Activity

	Balances at June 30		Increase/ (Decrease)
	2021	2020	
		(In thousands)	
Nondepreciable capital assets:			
Land	\$ 2,454	2,454	—
Total nondepreciable capital assets	<u>2,454</u>	<u>2,454</u>	<u>—</u>
Depreciable capital assets:			
Building	60,219	59,161	1,058
Furniture, fixtures and equipment	12,369	11,654	715
Less accumulated depreciation:			
Building	(11,239)	(10,110)	(1,129)
Furniture, fixtures and equipment	<u>(8,069)</u>	<u>(7,491)</u>	<u>(578)</u>
Total depreciable capital assets, net	<u>53,280</u>	<u>53,214</u>	<u>66</u>
Total capital assets, net	<u>\$ 55,734</u>	<u>55,668</u>	<u>66</u>

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	Balances at June 30		Increase/ (Decrease)
	2020	2019	
		(In thousands)	
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	<u>(7,491)</u>	<u>(6,967)</u>	<u>(524)</u>
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>

Increases in the balances attributable to building at June 30, 2021 and 2020 resulted from the Agency's headquarters expansion. The building expansion was substantially completed and placed in service in January 2020; additional building costs were incurred during the fiscal year 2021 to complete the project. The increase in the balances of furniture, fixtures and equipment for the year ended June 30, 2021 was attributed primarily to the purchase of computers and related equipment. The increase in the balances of furniture, fixtures and equipment for the year ended June 30, 2020 was primarily for the purchase of furniture and fixtures for the headquarters expansion.

Analysis of Long-Term Debt Activity

Agency program	Long-term debt at June 30		Increase (Decrease)
	2021	2020	
		(In thousands)	
General activities	\$ 33,000	35,000	(2,000)
Multifamily program	8,318	8,718	(400)
Single family program	<u>3,138,581</u>	<u>3,021,721</u>	<u>116,860</u>
Total long-term debt	<u>\$ 3,179,899</u>	<u>3,065,439</u>	<u>114,460</u>

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Agency program	Long-term debt at June 30		Increase (Decrease)
	2020	2019	
		(In thousands)	
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	\$ 3,065,439	2,956,079	109,360

Year Ended June 30, 2021

Additions

Additions to Agency bonds and notes payable for the year ended June 30, 2021 included the following:

Date	Single Family Program Bond Series	General obligation note	Original issue premium	Total proceeds	New mortgage loan production proceeds	Refunding proceeds	Single Family Program Bond Series Refunded
9/3/2020	2020-133	—	\$ 12,859	224,999	224,999	—	—
3/31/2021	2021-134	—	8,388	166,313	124,993	26,710	2005-89
3/31/2021	2021-134	—	—	—	—	14,610	2006-93B
6/29/2021	2021-135A	—	2,320	138,995	138,995	—	—
			\$ 23,567	530,307			

Reductions

Reductions to Agency bonds and notes payable for the year ended June 30, 2021 included the following:

Date	Single Family Program Bond Series Refunded	Refunded amount	Scheduled debt service	Advance debt service	Original issue premium amortization
3/31/2021	2005-89	\$ 26,710	4,955	—	—
3/31/2021	2006-93B	14,610	—	1,205	—
Various	—	—	65,203	300,560	2,604
Total reductions		\$ 41,320	70,158	301,765	2,604

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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	—	—	—
			\$ 5,862	585,830			

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	\$ —	164,760	81,513	231,445	4,614

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis
(Unaudited – see accompanying auditors' report)

June 30, 2021 and 2020

(Amounts rounded)

Designated Net Position

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>2021</u>	<u>2020</u>
	(In thousands)	
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	<u>10,000</u>	<u>10,000</u>
Total	\$ <u>39,500</u>	<u>39,500</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	<u>1,500</u>	<u>1,500</u>
Total	\$ <u>11,500</u>	<u>11,500</u>
Single Family Mortgage loan program:		
Closing cost assistance	\$ <u>3,000</u>	<u>3,000</u>
Total	\$ <u>3,000</u>	<u>3,000</u>
Insurance program:		
Risk retention to provide single family mortgage insurance	\$ 35,563	35,563

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, 2021 and 2020

(In thousands)

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 590,842	475,460
Restricted cash and cash equivalents	171,603	203,729
Restricted investments	1,003	1,005
Accrued investment interest receivable	2,611	1,772
Mortgage loans receivable, net	117,611	114,978
Accrued mortgage loan interest receivable	16,936	17,507
Mortgages held for sale	5,942	21,626
Other current assets	2,995	2,352
Total current assets	909,543	838,429
Noncurrent assets:		
Investments	193,511	155,226
Restricted investments	97,700	59,318
Mortgage loans receivable, net	3,371,617	3,381,106
Real estate owned	3,979	12,018
Capital assets, net	55,734	55,668
Other noncurrent assets	843	699
Total noncurrent assets	3,723,384	3,664,035
Total assets	4,632,927	4,502,464
Deferred outflows of resources:		
OPEB-related deferred outflows	16,058	16,725
Pension-related deferred outflows	11,523	11,227
Unamortized losses on bond refundings	787	5,492
Accumulated decrease in fair value of hedging derivatives	5,712	6,617
Total deferred outflows of resources	34,080	40,061
Total assets and deferred outflows of resources	\$ 4,667,007	4,542,525
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,285	2,802
Bonds and notes payable, net	119,735	90,418
Accrued interest payable	22,980	22,735
Escrow deposits and development reserves	75,196	78,159
Other current liabilities	111,921	107,247
Total current liabilities	332,117	301,361
Noncurrent liabilities:		
Bonds and notes payable, net	3,060,164	2,975,021
Derivative instrument – interest rate swaps	13,050	21,186
Development reserves	91,020	88,046
Total OPEB liability	104,314	95,358
Net pension liability	21,314	22,670
Other noncurrent liabilities	218,424	220,289
Total noncurrent liabilities	3,508,286	3,422,570
Total liabilities	3,840,403	3,723,931
Deferred inflows of resources:		
OPEB-related deferred inflows	21,157	25,438
Pension-related deferred inflows	8,130	5,763
Total deferred inflows of resources	29,287	31,201
Net position:		
Net investment in capital assets	22,734	20,668
Restricted	136,155	135,509
Unrestricted	638,428	631,216
Total net position	797,317	787,393
Total liabilities, deferred inflows of resources and net position	\$ 4,667,007	4,542,525

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Interest income on mortgage loans	\$ 109,455	111,534
Program income and fees	91,606	85,102
Gain on sales of mortgage-backed securities	7,956	2,905
Investment income	6,064	12,662
Net increase in fair value of investments	—	20,108
Net increase in fair value of swaps	823	1,808
Increase in fair value of mortgage service rights	764	3,201
Gain on early extinguishment of debt	3,599	2,740
	<u>220,267</u>	<u>240,060</u>
Operating expenses:		
Interest expense on bonds and notes	92,157	97,408
Financing expenses	4,702	3,927
Program expenses	50,600	45,372
Salaries and related benefits	42,703	43,893
General and administrative	19,583	19,180
Net decrease in fair value of investments	9,670	—
(Recoveries) provision for loan loss and real estate owned	(9,072)	15,468
	<u>210,343</u>	<u>225,248</u>
Operating income	9,924	14,812
Non-operating revenue:		
Federal program awards	526,292	441,585
Non-operating expense:		
Federal program expense	526,292	441,585
	<u>9,924</u>	<u>14,812</u>
Change in net position	9,924	14,812
Net position – beginning of year	<u>787,393</u>	<u>772,581</u>
Net position – end of year	\$ <u><u>797,317</u></u>	<u><u>787,393</u></u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Receipts of mortgage loan payments	\$ 759,971	397,275
Receipts of mortgage-backed security premiums	7,956	2,905
Receipts of fees and other income	91,606	85,102
Receipts of interest on mortgages	110,319	111,927
Receipts of escrow and reserves	2,603	36,292
Payments for mortgages and purchases	(727,369)	(495,602)
Payments for salaries and related benefits	(33,954)	(41,826)
Payments for goods, services and other	<u>(69,379)</u>	<u>(43,147)</u>
Net cash provided by operating activities	<u>141,753</u>	<u>52,926</u>
Cash flows from noncapital financing activities:		
Proceeds from the issuance of bonds and notes	530,307	585,830
Payments for retirement of bonds and notes	(369,923)	(310,958)
Payments for refundings of bonds	(41,320)	(164,760)
Payments of bonds and notes interest	(87,223)	(93,847)
Payments of financing costs	(4,702)	(14,628)
Receipts (repayments) of program advances	628	(235)
Receipts of federal program awards	526,292	441,585
Payments of federal program awards	<u>(526,292)</u>	<u>(441,585)</u>
Net cash provided by noncapital financing activities	<u>27,767</u>	<u>1,402</u>
Cash flows from capital financing activities:		
Purchases of capital assets	(1,773)	(7,051)
Payments for retirement of capital financing bond	(2,000)	(2,000)
Interest paid on capital debt	<u>(1,090)</u>	<u>(1,159)</u>
Net cash used in capital financing activities	<u>(4,863)</u>	<u>(10,210)</u>
Cash flows from investing activities:		
Proceeds from the sale or maturity of investments	72,818	143,344
Investment interest receipts	4,933	12,972
Purchases of investments	<u>(159,152)</u>	<u>(59,179)</u>
Net cash (used in) provided by investing activities	<u>(81,401)</u>	<u>97,137</u>
Net increase in cash and cash equivalents	83,256	141,255
Cash and cash equivalents, beginning of year	<u>679,189</u>	<u>537,934</u>
Cash and cash equivalents, end of year	<u>\$ 762,445</u>	<u>679,189</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income:	\$ 9,924	14,812
Investment income recognized	(5,771)	(12,662)
Net change in fair value of investments	9,670	(20,108)
Net change in fair value of swaps	(823)	(1,808)
Interest expense on bonds and notes	92,157	97,408
Financing expenses	4,702	14,628
(Recoveries) provision for loan loss and real estate owned	(9,072)	15,468
Depreciation	1,707	1,332
Gain on early extinguishment of debt	(3,599)	(2,740)
Loss on disposal of capital assets	—	1
Net change in fair value of mortgage servicing rights	(764)	(3,201)
Changes in assets and liabilities:		
Mortgage loans receivable, net	29,996	(118,123)
Mortgage loans interest receivable	571	1,029
Real estate owned, net	8,039	3,952
Other assets	245	6,866
Accounts payable and accrued expenses	(517)	(1,238)
Escrow deposits and development reserves	11	3,649
Other liabilities	5,277	53,661
Net cash provided by operating activities	\$ <u>141,753</u>	<u>52,926</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(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.

(2) Summary of Significant Accounting Policies

(a) *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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

(b) 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.

(c) 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.

(d) 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

(e) 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.

(f) 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.

(g) Mortgage Loans Receivable, Net

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

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.

(h) *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.

(i) *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.

(j) *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.

(k) *Other Assets*

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

(l) *Deferred Outflows of Resources*

Deferred outflows of resources include net unamortized losses (gains) 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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

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.

(m) 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.

(n) 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.

(o) 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

(p) 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.

(q) 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.

(r) Other Liabilities

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

(s) 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.

(t) 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 Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

(u) 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 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 programs 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.

(v) 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.

(w) 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.

(x) 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.

(y) 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.

(z) 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 Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

(aa) 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.

(bb) Adopted Accounting Standards

Adoption of the following statements that became effective during the current fiscal year did not have an impact on the Agency's basic 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. 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. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, issued June 2020, effective for the Agency's fiscal year ending June 30, 2021.

(cc) 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. 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. 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.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, issued March 2020, effective for the Agency's fiscal year ending June 30, 2022.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, issued May 2020, effective for the Agency's fiscal year ending June 30, 2022.

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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

(3) Cash, Cash Equivalents and Investments

(a) 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, 2021 and 2020 were as follows:

	2021	2020
Cash	\$ 342,710	329,049
Money market accounts	419,735	350,140
Total carrying amount of cash and cash equivalents	\$ 762,445	679,189
Bank balance of cash and cash equivalents	\$ 768,632	681,941

(b) 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, 2021 and 2020, the fair value of the Agency's cash deposits equaled \$342,710 and \$329,049, respectively, with corresponding bank balances equal to \$346,029 and \$332,008, respectively, of which \$344,279 and \$330,258, 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, 2021 and 2020, the fair value of the Agency's money market accounts, reported as cash equivalents, equaled \$419,735 and \$350,140, respectively, with corresponding bank balances equal to \$422,603 and \$349,933, 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.

(c) 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 Consolidated Financial Statements

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(In thousands)

(d) 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, 2021 and 2020 were as follows:

Investment	2021	2020
	Level 2	Level 2
GNMA mortgage-backed securities	\$ 55,503	68,340
GNMA IO strips	3,214	—
Refco strips	30	39
Federal Home Loan Mortgage Corp corporate bonds	15,945	—
FNMA mortgage-backed securities	10,840	20,953
FNMA corporate bonds	18,774	—
FNMA multifamily pools	21,213	—
Private Export Funding Corporation bonds	—	8,393
Tennessee Valley Authority bonds	88,092	94,673
Federal Farm Credit Bank bonds	57,025	15,120
Federal Home Loan Bank bonds	11,921	8,031
Federal Agricultural corporate bonds	9,657	—
	\$ 292,214	215,549

(e) Credit Risk

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

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(In thousands)

The credit quality ratings of the Agency's investments for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, \$58,747 and \$76,772, respectively, of U.S. Government Agency Mortgage-Backed Securities, U.S. Government Agency Securities and U.S. Treasury securities, which are explicitly guaranteed by the U.S. Government, were not considered to have credit risk and, therefore, are not included in the summary.

Investment	Fair value at June 30		Credit rating
	2021	2020	
Federal Agricultural mortgage-backed securities	\$ 9,657	—	N/A
Federal Home Loan Mortgage Corp corporate bonds	15,945	—	Aaa
FNMA mortgage-backed securities	10,840	20,953	Aaa
FNMA corporate bonds	18,774	—	Aaa
FNMA multifamily pools	21,213	—	Aaa
Tennessee Valley Authority bonds	88,092	94,673	Aaa
Federal Farm Credit Bank bonds	57,025	15,120	Aaa
Federal Home Loan Bank bonds	11,921	8,031	Aaa
Total	\$ 233,467	138,777	

Money market accounts with fair values of \$419,735 and \$350,140 at June 30, 2021 and 2020, 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:

Moody's/S&P's rating	Fair value	
	2021	2020
AAA	\$ 1,756	2,143
Aaa	404,578	336,899
Not rated	13,401	11,098
	\$ 419,735	350,140

(f) Custodial Credit Risk

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

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(In thousands)

(g) 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, 2021 and 2020, the Agency had the following concentrations of credit risk:

Investment issuer	2021		2020	
	Fair value	% of total investments	Fair value	% of total investments
GNMA	\$ 58,717	20.09 %	\$ 68,340	31.71 %
Federal Farm Credit Bank	57,025	19.51	15,120	7.01
Federal Home Loan Mortgage Corp	15,945	5.46	—	—
FNMA	50,827	17.39	20,953	9.70
Tennessee Valley Authority	88,092	30.15	94,673	43.92
	<u>\$ 270,606</u>	<u>92.60 %</u>	<u>\$ 199,086</u>	<u>92.34 %</u>

(h) 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 years ended June 30, 2021 and 2020, the Agency had investments with the following maturities:

Investment type	2021				
	Investment maturities (in years)				
	Fair value	Less than 1	1-5	6-10	More than 10
U.S. Government Agency Mortgage-backed Securities	\$ 87,555	—	3,074	22,855	61,626
U.S. Government Agency Securities	204,659	10	9,345	40,045	155,259
	<u>\$ 292,214</u>	<u>10</u>	<u>12,419</u>	<u>62,900</u>	<u>216,885</u>

Investment type	2021				
	Investment maturities (in years)				
	Fair value	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>

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(In thousands)

In addition to the amounts listed above, the Agency held money market accounts with a fair value of \$419,735 and \$350,140 at June 30, 2021 and 2020, respectively, reported as cash equivalents.

(4) Mortgage Loans

Amounts reported as mortgage loans receivable at June 30, 2021 and 2020 consisted of the following:

	2021				
	<u>General activities</u>	<u>Multifamily program</u>	<u>Single family program</u>	<u>HEMAP</u>	<u>Total</u>
Mortgage loans	\$ 8,119	425,207	3,149,037	62,493	3,644,856
Add:					
Loan premiums	—	—	—	—	—
Less:					
Loan discounts	—	2,738	—	—	2,738
Allowance for loan losses	4,867	100,879	13,816	33,328	152,890
	<u>3,252</u>	<u>321,590</u>	<u>3,135,221</u>	<u>29,165</u>	<u>3,489,228</u>
Mortgage loans receivable					
Current portion	—	3,140	109,433	5,038	117,611
Noncurrent portion	\$ <u>3,252</u>	<u>318,450</u>	<u>3,025,788</u>	<u>24,127</u>	<u>3,371,617</u>
	2020				
	<u>General activities</u>	<u>Multifamily program</u>	<u>Single family program</u>	<u>HEMAP</u>	<u>Total</u>
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
	<u>3,320</u>	<u>321,059</u>	<u>3,137,405</u>	<u>34,300</u>	<u>3,496,084</u>
Mortgage loans receivable					
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>

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

During the years ended June 30, 2021 and 2020, the Agency securitized mortgage loans with a principal balance of \$151,889 and \$85,532, 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,

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(In thousands)

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, 2021 and 2020 equaled \$7,956 and \$2,905, 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 \$5,942 and \$21,626 at June 30, 2021 and 2020, respectively.

(b) 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, 2021 and 2020, the Agency's Single Family Program mortgage loan servicing portfolio equaled \$4.7 billion and \$4.9 billion, respectively; this included the balances of mortgage loans reported as assets by the Agency and insured loans that have been sold through MBSs, which are not reported as Agency assets but represent loans for which the Agency purchased and retained servicing rights, see note 6. Single Family Program mortgage loans are secured by liens on the related real property, and private mortgage insurance is generally required on all mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property. Private mortgage insurance for Single Family Program mortgage loans is provided by commercial companies, the Agency's Insurance Program, certain federal programs through the Federal Housing Administration ("FHA"), United States Department of Veterans Affairs ("VA") and United States Department of Agriculture – Rural Development ("RD"), FNMA and varying other sources. At June 30, 2021 and 2020, insurance coverage associated with Single Family Program mortgage loan servicing portfolio included the following:

	2021		2020	
Commercial Insurance	\$ 252,790	5.33 %	325,595	6.64 %
PHFA Insurance Program	514,722	10.85	317,269	6.47
FHA	2,404,035	50.68	2,510,919	51.22
VA	142,810	3.01	144,493	2.95
RD	520,844	10.98	509,285	10.39
FNMA	340,861	7.19	491,181	10.02
Uninsured	567,054	11.96	603,157	12.30
Total Single Family Program Servicing Portfolio	\$ 4,743,116	100.00 %	4,901,899	99.99 %

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(In thousands)

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.

(c) Loan Delinquency and Foreclosure

At June 30, 2021 and 2020, no mortgage loans reported within General Activities were either delinquent or in pending foreclosure actions.

At June 30, 2021 and 2020, 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 \$481 and \$723, respectively, and no Multifamily Program mortgage loans were in pending foreclosure actions.

At June 30, 2021 and 2020, 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 \$214,518 and \$214,339, respectively. Included within these June 30, 2021 and 2020 balances of loans delinquent 91 days or greater were loans with pending foreclosure actions with aggregate principal balances of \$36,019 and \$53,734, respectively.

At June 30, 2021 and 2020, the principal balance of HEMAP mortgage loans delinquent 91 days or greater equaled \$22,052 and \$23,182, respectively.

(d) 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, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Aggregate recorded loan balance	\$ 200,384	199,325
Gross interest revenue, if the mortgage loan had been current	11,084	11,102
Actual amount of interest received and included in net position	6,786	7,396

The number of mortgage loans deemed troubled debt restructurings as of June 30, 2021 and 2020 totaled 2,776 (two-thousand seven-hundred seventy-six) and 2,745 (two-thousand seven-hundred forty-five), 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.

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(In thousands)

(e) Allowance for Loan Loss

The allowances for loan losses at June 30, 2021 and 2020 consisted of the following:

	2021				
	General activities	Multifamily Program	Single Family Program	HEMAP	Total
Beginning balance	\$ 4,867	109,753	13,348	33,383	161,351
Loss provision (recoveries)	—	(6,448)	2,301	—	(4,147)
Net losses	—	(2,426)	(1,833)	(55)	(4,314)
Ending balance	\$ <u>4,867</u>	<u>100,879</u>	<u>13,816</u>	<u>33,328</u>	<u>152,890</u>

	2020				
	General activities	Multifamily Program	Single Family Program	HEMAP	Total
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>

Amounts reported as provision for loan loss and real estate owned on the statement of revenues, expenses and changes in net position for the years ended June 30, 2021 and 2020 consisted of the following:

	2021					
	General activities	Multifamily Program	Single Family Program	Insurance program	HEMAP	Total
Loss provision (recoveries)	\$ —	(6,448)	2,301	—	—	(4,147)
Self-insured losses	—	—	—	226	—	226
Change in value of REOs	—	—	(2,980)	—	—	(2,980)
Accrued interest losses	—	17	—	—	—	17
Change in repurchase reserve	—	—	(2,188)	—	—	(2,188)
Provision for loan loss and real estate owned	\$ <u>—</u>	<u>(6,431)</u>	<u>(2,867)</u>	<u>226</u>	<u>—</u>	<u>(9,072)</u>

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(In thousands)

	2020					
	General activities	Multifamily Program	Single Family Program	Insurance program	HEMAP	Total
Loss provision	\$ 1,063	1,359	9,953	—	893	13,268
Self-insured losses	—	—	—	990	—	990
Change in value of REOs	—	—	609	—	—	609
Accrued interest losses	—	601	—	—	—	601
Provision for loan loss and real estate owned	<u>\$ 1,063</u>	<u>1,960</u>	<u>10,562</u>	<u>990</u>	<u>893</u>	<u>15,468</u>

(f) 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 \$12,195 and \$20,622 for the years ended June 30, 2021 and 2020, respectively, and the Agency’s repurchase reserve for securitized loans equaled \$5,436 and \$8,868 at June 30, 2021 and 2020, respectively.

(5) Real Estate Owned by the Agency

Real estate owned by the Agency included 79 properties with a net realizable value of \$3,979 at June 30, 2021 and 212 properties with a net realizable value of \$12,018 at June 30, 2020.

(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, 2021 and 2020, the Agency capitalized mortgage servicing rights/service release premiums totaling \$5,890 and \$5,359, respectively. Amortization and disposition of mortgage servicing rights/servicing release premiums totaled \$7,649 and \$10,188 for the years ended June 30, 2021 and 2020, respectively.

Unamortized mortgage servicing rights, relating to loans sold by the Agency for which the Agency retained the servicing rights, totaling \$12,937 and \$14,622 were outstanding at June 30, 2021 and 2020, respectively. Mortgage servicing rights are included within mortgage loans receivable, net on the balance sheets. The Agency recorded a fair value adjustment of \$764 and \$3,201 on mortgage servicing rights for the years ended June 30, 2021 and 2020, respectively.

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(In thousands)

Service release premiums, relating to loans purchased by the Agency, totaling \$21,633 and \$20,941 were outstanding at June 30, 2021 and 2020, 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, 2021 and 2020 and a summary of balances were as follows:

	<u>July 1, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2021</u>
Nondepreciable capital assets:				
Land	\$ 2,454	—	—	2,454
Total nondepreciable capital assets	<u>2,454</u>	<u>—</u>	<u>—</u>	<u>2,454</u>
Depreciable capital assets:				
Building	59,161	1,058	—	60,219
Furniture, fixtures and equipment	11,654	715	—	12,369
Less accumulated depreciation:				
Building	(10,110)	(1,129)	—	(11,239)
Furniture, fixtures and equipment	<u>(7,491)</u>	<u>(578)</u>	<u>—</u>	<u>(8,069)</u>
Total depreciable capital assets, net	<u>53,214</u>	<u>66</u>	<u>—</u>	<u>53,280</u>
Total capital assets, net	\$ <u><u>55,668</u></u>	<u><u>66</u></u>	<u><u>—</u></u>	<u><u>55,734</u></u>

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(In thousands)

	<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>

Depreciation expense for the years ended June 30, 2021 and 2020 totaled \$1,707 and \$1,332, 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 for some maturities and 2023 for the remaining maturities, an alternative index may be substituted for the LIBOR at the time of retirement. At June 30, 2021, variable interest rates payable ranged from .05% to 0.67%. At June 30, 2020, variable interest rates payable ranged from .14% to 1.73%.

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(In thousands)

The aggregate principal amounts of bonds and notes payable outstanding at June 30, 2021 and 2020, maturity dates and corresponding interest rates at June 30, 2021 are illustrated in the following table.

Bond series	Interest rates at June 30, 2021		Maturity date	Amounts outstanding at June 30	
	Variable	Fixed		2021	2020
General Activities:					
Headquarters Bonds	49 bps		2037	\$ 33,000	35,000
Multifamily Program:					
Development Issue 2005K	34 bps		2036	8,318	8,718
Single Family Program:					
Bonds payable:					
Series 2004 – 83 *	5 bps		2026	4,440	6,785
Series 2004 – 86 *	5 bps		2027	16,215	18,140
Series 2005 – 89 *	—		2026	—	31,665
Series 2006 – 93 *	—		2036	—	15,815
Series 2007 – 98 *	6 bps		2034	7,165	10,655
Series 2007 – 100 *	6 bps		2036	7,985	12,580
Series 2007 – 101	—	3.125–3.28%	2023	4,370	6,510
Series 2011 – 112	—	5.00 %	2028	10	6,345
Series 2011 – 113	—	3.30–3.50%	2041	2,875	4,755
Series 2012 – 114	—	2.90–3.70%	2042	140,135	147,830
Series 2013 – 115	—	2.90–3.90%	2038	15,180	32,925
Series 2013 – 116	—	2.50–3.95%	2045	42,535	65,955
Series 2015 – 117	—	2.60–3.90%	2040	43,545	54,260
Series 2015 – 118	—	2.40–3.85%	2040	73,605	84,145
Series 2016 – 119	—	1.70–3.50%	2041	107,980	118,960
Series 2016 – 120	—	1.50–3.50%	2046	167,430	180,795
Series 2016 – 121	—	1.35–3.50%	2046	203,605	215,900
Series 2017 – 122	—	2.05–4.00%	2046	146,640	205,985
Series 2017 – 123	—	2.00–4.00%	2039	87,980	135,600
Series 2017 – 124	—	1.75–4.00%	2042	163,785	175,510
Series 2017 – 125	—	2.375–3.70%	2047	264,760	276,755
Series 2018 – 126	67 bps	2.30–4.00%	2048	96,185	113,575
Series 2018 – 127	64 bps	2.35–3.875%	2047	148,050	167,510
Series 2019 – 128	—	2.35–4.75%	2047	149,710	183,760
Series 2019 – 129	—	2.10–3.40%	2049	125,000	125,000
Series 2019 – 130	—	1.15–4.00%	2049	162,925	169,735
Series 2019 – 131	—	1.625–3.50%	2049	131,255	135,505
Series 2020 – 132*	3 bps	0.35–3.50%	2051	235,980	248,870
Series 2020 – 133	—	1.75–5.00%	2050	211,265	—
Series 2021 – 134	—	0.80–5.00%	2049	157,925	—
Series 2021 – 135A	—	1.57–3.00%	2051	136,675	—
Total single family program bonds payable				<u>3,055,210</u>	<u>2,951,825</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

Bond series	Interest rates at June 30, 2021		Maturity date	Amounts outstanding at June 30,	
	Variable	Fixed		2021	2020
Notes payable from direct borrowings:					
General obligation note	—	2.60 %	2024	\$ 9,904	13,229
General obligation note	—	2.75 %	2034	23,750	24,583
2009 Purchase Agreement	—	2.50 %	2024	2,500	2,500
Total single family program notes payable from direct borrowings				36,154	40,312
Unamortized bond premiums				47,217	29,584
Total bonds and notes payable				3,179,899	3,065,439
Current portion				119,735	90,418
Noncurrent portion				\$ 3,060,164	2,975,021

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.

(a) 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 agreement provider as a term loan to the Agency. Details of certain Agency VRDO standby purchase agreements at June 30, 2021 were as follows:

Bond issue	Liquidity provider at June 30, 2021	Effective date	Expiration date	Bond balance outstanding at June 30	
				2021	2020
2004-83C	TD Bank	8/16/2017	8/16/2022	\$ 4,440	6,785
2004-86B	TD Bank	8/16/2017	8/16/2022	16,215	18,140
2005-89	TD Bank	8/16/2017	8/16/2022	—	31,665
2006-93B	Wells Fargo Bank	7/8/2014	11/20/2023	—	15,815
2007-98C	Wells Fargo Bank	7/8/2014	11/20/2023	7,165	10,655
2007-100C	Wells Fargo Bank	7/8/2014	11/20/2023	7,985	12,580
2020-132B	TD Bank	9/29/2020	6/20/2025	30,000	30,000
Total				\$ 65,805	125,640

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Consolidated Financial Statements

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(In thousands)

There were no failed remarketings or resultant liquidity draws during the years ended June 30, 2021 and 2020. 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, 2021, if the term-out agreements were exercised and assuming a term-out commencement date of July 1, 2020, respectively, were as follows:

<u>Liquidity provider</u>	<u>Provisions term-out</u>	<u>Payment date</u>	<u>Interest rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total payment</u>
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% and 5.25% \$	1,515	527	2,042
		10/1/2021	5.25 %	1,515	358	1,873
		4/1/2022	5.25 %	1,515	318	1,833
		10/1/2022	5.25 %	1,515	278	1,793
		4/1/2023	5.25 %	1,515	239	1,754
		10/1/2023	5.25 %	1,515	199	1,714
		4/1/2024	5.25 %	1,515	159	1,674
		10/1/2024	5.25 %	1,515	119	1,634
		4/1/2025	5.25 %	1,515	80	1,595
		10/1/2025	5.25 %	1,515	40	1,555
			Total \$	<u>15,150</u>	<u>2,317</u>	<u>17,467</u>
TD Bank	LIBOR + 2%	4/1/2021	2.10 % \$	5,066	532	5,598
		10/1/2021	2.10 %	5,066	479	5,545
		4/1/2022	2.10 %	5,066	426	5,492
		10/1/2022	2.10 %	5,066	372	5,438
		4/1/2023	2.10 %	5,066	319	5,385
		10/1/2023	2.10 %	5,066	266	5,332
		4/1/2024	2.10 %	5,066	213	5,279
		10/1/2024	2.10 %	5,066	160	5,226
		4/1/2025	2.10 %	5,066	106	5,172
		10/1/2025	2.10 %	5,066	53	5,119
			Total \$	<u>50,660</u>	<u>2,926</u>	<u>53,586</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

(b) 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, 2021 were as follows:

June 30, 2021										
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
2022	\$ 2,000	159	420	28	113,070	89,814	4,245	930	119,735	90,931
2023	2,000	149	442	27	116,430	87,948	4,336	817	123,208	88,941
2024	2,000	139	467	25	110,890	84,668	6,323	704	119,680	85,536
2025	2,000	129	495	23	109,410	81,483	833	581	112,738	82,216
2026	2,000	119	508	21	124,825	78,134	833	558	128,166	78,832
2027–2031	10,000	446	2,838	79	631,855	332,320	4,167	2,441	648,860	335,286
2032–2036	10,000	198	3,148	22	656,695	235,222	15,417	1,277	685,260	236,719
2037–2041	3,000	11	—	—	474,580	146,286	—	—	477,580	146,297
2042–2046	—	—	—	—	440,630	78,442	—	—	440,630	78,442
2047–2051	—	—	—	—	253,075	18,129	—	—	253,075	18,129
2052–2056	—	—	—	—	23,750	356	—	—	23,750	356
	<u>\$ 33,000</u>	<u>1,350</u>	<u>8,318</u>	<u>225</u>	<u>3,055,210</u>	<u>1,232,802</u>	<u>36,154</u>	<u>7,308</u>	<u>3,132,682</u>	<u>1,241,685</u>

(c) Early Extinguishment of Debt

During the years ended June 30, 2021 and 2020, the Agency redeemed principal amounts of certain bonds and notes totaling \$339,775 and \$396,205, 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, 2021 and 2020 totaling \$3,599 and \$2,740, 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.

(d) Current Refunding

(i) Year Ended June 30, 2021

On April 1, 2021 the Agency issued Series 2021-134 single family mortgage revenue bonds in the amount of \$157,925. A portion of the proceeds of this issuance and an Agency contribution were used to refund \$26,710 of Series 2005-89 bonds and \$14,610 of Series 2006-93B bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$4,077 and a reduction of future debt service payments equal to \$4,553.

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(In thousands)

(ii) 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.

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.

(e) 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, 2021 and 2020; 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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(In thousands)

(f) 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, 2021 are displayed in the following schedule. The following incorporates variable rate values at June 30, 2021, 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, 2021				
Fiscal year ending June 30	Hedged variable rate bond principal	Hedged variable rate bond interest	Net swap payments	Total
2022	\$ 2,420	196	2,603	5,219
2023	2,442	185	2,461	5,088
2024	2,792	174	2,323	5,289
2025	3,186	161	2,183	5,530
2026	3,086	149	2,038	5,273
2027–2031	12,838	568	8,079	21,485
2032–2036	26,290	255	4,615	31,160
2037–2041	4,305	12	2,700	7,017
2042–2046	—	—	2,075	2,075
2047–2051	—	—	699	699
	<u>\$ 57,359</u>	<u>1,700</u>	<u>29,776</u>	<u>88,835</u>

(g) Conduit Debt Obligations

During the year ended June 30, 2021, the Agency issued Awbury View Apartments, Kinder Park Phase IV, Rowan Judson Diamond, Wister, and York Towne House Apartments special limited obligation multifamily housing development bonds in order to provide financing for the construction or preservation of affordable multifamily housing. The bonds are secured by the properties financed and are payable from income generated by the properties.

Conduit debt issued in prior years with balances outstanding at June 30, 2021 and 2020 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, Episcopal House Apartments, Four Freedoms House and Philip Murray House, Foxwood Manor Apartments, Glen Hazel RAD, Hershey Plaza Apartments, John Fox Towers, Lehigh Park Apartments, Lillia Crippen, Maple Mount Vernon, Multifamily Issue 2005-K, New Courtland Apartments, Norris Homes Phase V, North Central CNI, Parkview Knoll Apartments, Pleasant Valley Apartments, Presbyterian Portfolio, Sandy Hill, Sharpsburg Towers, Susquehanna Square, and Urban Allied Portfolio special limited obligation multifamily housing development bonds in order to provide financing for the construction or

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(In thousands)

preservation of affordable multifamily housing. The bonds are secured by the properties financed and are payable from income generated by the properties.

- Series 2005A Capital Fund Securitization Revenue Bonds in order to provide for financial assistance to various local public housing authorities. The bonds are secured by the 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, 2021 and 2020, conduit debt outstanding aggregated \$486,739 and \$460,688, respectively.

(h) 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, 2021 and 2020.

(i) Bonds Authorized But Not Yet Issued

On May 13, 2021, the Agency Board authorized the issuance of Single Family Mortgage Revenue bonds Series 137 and 138 in an amount not to exceed \$350,000 for each series. Proceeds are expected to include a portion for refunding certain Single Family Mortgage Revenue Bonds of the Agency issued previously and a portion for purchasing new single family mortgage loans.

(9) Derivatives

In order to both reduce the Agency's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, the Agency entered into pay-fixed receive-variable 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.

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(In thousands)

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, 2021 and 2020. 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, 2021 and 2020, the Agency was not required to post collateral for any of its swaps.

The Agency’s swaps utilize a mixture of LIBOR, which is scheduled to be retired in 2021 for some maturities and 2023 for the remaining maturities, and SIFMA reference rates.

(a) 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.

Balances of the fair values of the Agency’s interest rate swaps at June 30, 2021 and 2020 were as follows:

Interest rate swap type	2021			
	General Activities	Multifamily Program	Single Family Program	Total
Hedging derivatives	\$ (3,180)	(3,177)	645	(5,712)
Hedging derivatives – amended	—	—	(3,180)	(3,180)
Investment derivatives	—	—	(4,158)	(4,158)
Total interest rate swaps	\$ (3,180)	(3,177)	(6,693)	(13,050)

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(In thousands)

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	\$ (4,469)	(4,355)	(12,362)	(21,186)

(b) Hedging Derivative Instruments

The change in fair value of the Agency's hedging derivative instruments for the years ended June 30, 2021 and 2020 equaled \$3,379 and \$710, 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, 2021 and 2020 are detailed in the following schedule:

Bond series	Effective date	Maturity date	Fixed rate paid	Variable rate received	Current notional amount	2020 Fair value	Change in fair value	2021 Fair value	
2018-BLDG	3/2018	10/2037	3.150 %	82% of USD-LIBOR + 41 bps	\$ 33,000	(4,469)	1,289	(3,180)	
2004-83C ¹	10/2020	4/2027	3.730	SIFMA Sw ap Index	12,365	(910)	419	(491)	
2004-86B ¹	10/2020	10/2033	0.720	Enhanced LIBOR	—	(153)	153	—	
2005-89 ¹	7/2020	4/2046	1.675	Enhanced LIBOR	23,000	(45)	45	—	
2007-98C ¹	10/2020	10/2037	3.935	SIFMA Sw ap Index	7,945	(1,485)	349	(1,136)	
2007-100C ¹	10/2020	10/2031	4.115	SIFMA Sw ap Index	4,620	(1,217)	258	(959)	
2020-132B	10/2020	10/2050	1.704	SIFMA Sw ap Index	30,000	(263)	314	51	
MF2005-K	7/2020	1/2036	5.183	100% of USD-LIBOR	12,995	(4,306)	1,129	(3,177)	
					Total \$	123,925	(12,848)	3,956	(8,892)

¹ = Indicates Agency has embedded options to partially terminate, exercisable w ithout payment to the counterparty

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

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

SIFMA Sw ap Index = the Securities Industry and Financial Markets Association Municipal Sw ap Index is a 7 day high-grade market index comprised of tax-exempt VRDOs w ith certain characteristics.

(i) Credit Risk

At June 30, 2021 and 2020, the Agency was exposed to \$10 and \$0, respectively, of credit risk with respect to its hedging derivatives. 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.

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(In thousands)

(ii) 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 or SIFMA Swap indexes decrease, the Agency's net payments on the swaps increase.

(iii) 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, 2021 and 2020:

Associated bond issue	Debt maturity dates	Swap termination dates	Exposure to rollover risk at	
			2021	2020
2004-83C	10/1/2035	4/1/2027	Yes	Yes
2004-86B	Swap Terminated in FY21		No	Yes
2007-100C	4/1/2038	10/1/2031	Yes	Yes

(iv) 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.

(c) Amended Hedging Derivative Instruments

At various times during the years ended June 30, 2021 and 2020 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

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(In thousands)

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, 2021 and 2020 equaled \$480 and \$972, respectively.

Amended hedging derivative activity for the years ended June 30, 2021 and 2020 reflected the following:

2021	
	Single Family Program
Amended hedging derivative balance at July 1, 2020	\$ (6,231)
Gain on 2020/2021 swap terminations	2,571
Amortization	<u>480</u>
Amended hedging derivative balance at June 30, 2021	\$ <u><u>(3,180)</u></u>
2020	
	Single Family Program
Amended hedging derivative balance at July 1, 2019	\$ (9,917)
Gain on 2019/2020 swap terminations	2,714
Amortization	<u>972</u>
Amended hedging derivative balance at June 30, 2020	\$ <u><u>(6,231)</u></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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(In thousands)

(d) 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, 2021 and 2020 were as follows:

Bond series	Investment notional at June 30		Effective date	Maturity date	Fixed rate paid	Variable rate received
	2021	2020				
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
2003-79B	18,250	20,850	10/2020	10/2027	3.155	SIFMA Sw ap Index
2004-82C	—	21,160	4/2020	10/2033	1.380	61% of USD-LIBOR + 39 bps
2004-83C	7,925	—	10/2020	4/2027	3.730	SIFMA Sw ap Index
2004-84D	—	12,185	4/2020	10/2034	1.639	Enhanced LIBOR
2004-85C	13,570	15,225	10/2020	4/2027	2.810	SIFMA Sw ap Index
2005-87C	11,745	13,545	10/2020	4/2027	2.835	SIFMA Sw ap Index
2005-89	23,000	155	7/2020	2/2046	1.675	Enhanced LIBOR
2007-98C	780	—	10/2020	10/2037	3.935	SIFMA Sw ap Index
2007-99C	—	4,725	4/2020	10/2023	1.500	69% of USD-LIBOR
RH2008A&B	—	1,890	7/2011	1/2021	3.407	67% of one-week USD-LIBOR
RH2008C	—	190	6/2003	7/2020	3.457	70% of USD-LIBOR
RH2008D	—	115	6/2011	7/2020	3.440	70% of USD-LIBOR
Total	\$ 75,270	100,615				

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

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

SIFMA Sw ap Index = the Securities Industry and Financial Markets Association Municipal Sw ap Index is a 7 day high-grade market index comprised of tax-exempt VRDOs with certain characteristics.

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(In thousands)

Because of early redemptions of portions of the variable rate debt associated with certain swaps, the particular swaps had outstanding notional amounts in excess of the related hedged variable rate bond balances at June 30, 2021 and 2020. 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, 2021 and 2020 are detailed in the following schedule.

2021

Bond series	Investment notional amount	Effective date	Maturity date	Fixed Rate paid	Variable rate received
2004-83C	\$ 7,925	10/2020	4/2027	3.730 %	SIFMA Swap Index
2005-89	780	10/2020	10/2037	3.935	SIFMA Swap Index
Total	<u>\$ 8,705</u>				

SIFMA Swap Index = the Securities Industry and Financial Markets Association Municipal Swap Index is a 7 day high-grade market index comprised of tax-exempt VRDOs with certain characteristics.

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	10/2037	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

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The fair values of the investment derivatives for the years ended June 30, 2021 and 2020 are shown in the table below, and the changes in fair value equal to \$823 and \$1,697, respectively, are presented as a net increase in fair value of swaps on the Statements of Revenues, Expenses and Changes in Net Position.

Bond series	2021		2020	
	Investment notional	Fair value	Investment notional	Fair value
1999-67B	\$ —	—	8,410	(1,916)
2001-72C	—	—	2,165	(245)
2003-79B	18,250	(1,639)	20,850	(2,277)
2004-82C	—	—	21,160	(40)
2004-83C	7,925	(876)	7,150	(959)
2004-84D	—	—	12,185	(27)
2004-85C	13,570	(1,096)	15,225	(1,518)
2005-87C	11,745	(884)	13,545	(1,250)
2005-89	23,000	461	155	—
2007-98C	780	(124)	—	(1,485)
2007-99C	—	—	4,725	(57)
RH2008A,B	—	—	1,890	(44)
RH2008C	—	—	190	(3)
RH2008D	—	—	115	(2)
Total	\$ <u>75,270</u>	<u>(4,158)</u>	<u>107,765</u>	<u>(9,823)</u>

(i) *Credit Risk*

At June 30, 2021 and 2020, the Agency was exposed to \$59 and \$0, respectively, of credit risk with respect to its investment derivative instruments.

(ii) *Interest rate risk*

The Agency is exposed to interest rate risk on all of its swaps. As the LIBOR or SIFMA Swap indexes decrease, the Agency's net payments on the swaps increase.

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(10) Liabilities

Liability activity for the years ended June 30, 2021 and 2020 was as follows:

	2021			Ending balance	Current portion
	Beginning balance	Additions	Reductions		
Bonds payable, net	\$ 3,025,127	530,307	411,690	3,143,744	115,489
Notes payable from direct borrowings	40,312	—	4,158	36,154	4,246
Derivative instrument – interest rate swaps	21,186	11,282	19,418	13,050	—
Escrow deposits and development reserves	166,205	278,828	278,817	166,216	75,196
Net OPEB liability	95,358	10,527	1,571	104,314	—
Net pension liability	22,670	14,510	15,866	21,314	—
Other liabilities:					
Accrued vacation and sick leave	3,406	316	—	3,722	158
Bond rebate	280	—	—	280	—
Borrower suspense accounts	2,757	19,030	18,934	2,853	2,853
Commonwealth grants	69,342	46,934	45,206	71,070	61,531
Federal grants	193,894	460,890	457,894	196,890	7,113
Other grants	1,087	2,590	1,428	2,249	—
GNMA/FNMA payables	28,493	102,231	96,453	34,271	34,270
Pennsylvania SERS	2,442	2,005	361	4,086	—
PHFA Insurance Program Claims	1,210	380	176	1,414	—
Project receipts	12,485	2,330	7,833	6,982	—
Unearned revenue	1,183	96	746	533	—
Other	10,957	247	5,208	5,996	5,996
Total other liabilities	<u>327,536</u>	<u>637,049</u>	<u>634,239</u>	<u>330,346</u>	<u>111,921</u>
Total	<u>\$ 3,698,394</u>	<u>1,482,503</u>	<u>1,365,759</u>	<u>3,815,138</u>	<u>306,852</u>

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	2020				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
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>676,407</u>	<u>633,841</u>	<u>327,536</u>	<u>107,247</u>
Total	\$ <u>3,541,241</u>	<u>1,591,622</u>	<u>1,434,469</u>	<u>3,698,394</u>	<u>275,824</u>

(11) Restricted Net Position

The Multifamily and Single Family Programs' June 30, 2021 and 2020 net position restrictions equaling \$260 and \$218 and \$104,270 and \$100,757, 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 \$31,625 and \$34,534 at June 30, 2021 and 2020, respectively, represent amounts restricted for the purpose of making mortgage assistance loans.

(12) Pension Plans

(a) 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.

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(b) 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.

(c) Employees Covered by Benefit Terms

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

	<u>2020</u>	<u>2019</u>
	(Not in thousands)	
Inactive employees or beneficiaries currently receiving benefits \$	225	208
Inactive employees entitled to but not yet receiving benefits	77	72
Active employees	<u>296</u>	<u>312</u>
	<u>\$ 598</u>	<u>592</u>

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(d) 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 \$4,319 and \$5,125 for the years ended December 31, 2020 and 2019, respectively. The Agency's average contribution rates for the years ended December 31, 2020 and 2019 equaled 22.82% and 21.70% of covered payroll, respectively.

(e) 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, 2020 and 2019:

Investment type	% Range of allocation		
	Minimum	Target	Maximum
Equity securities	55 %	65 %	75 %
Fixed income securities	25	35	45
Cash equivalents	—	—	20

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

Cash equivalents:	Fixed income securities:
Money market mutual funds	U.S. governments
Short-term money market instruments	U.S. mortgage and asset-backed
Equity securities:	U.S. corporate bonds
U.S. common and preferred stocks	Taxable municipal bonds
U.S. equity mutual funds	Fixed income mutual funds
Equity exchange traded funds	Fixed income exchange-traded funds
International equity mutual funds	

At December 31, 2020 and 2019, there were no concentrations of investments in any organization that represented 5% or more of the Pensions' fiduciary net position.

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For the years ended December 31, 2020 and 2019, the annual money-weighted rate of return on investments of the Agency's Pensions, net of investment expense, was 12.10% and 20.18%, 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, 2020 and 2019 was invested as follows:

	<u>2020</u>	<u>2019</u>
Cash equivalents	\$ 4,363	2,850
Equity securities:		
Equity exchange traded funds	23,881	21,842
U.S. and International equity mutual funds	10,072	8,696
U.S. common and preferred stocks	35,568	33,930
Fixed income securities:		
Fixed income exchange traded funds	1,485	1,427
Fixed income mutual funds	<u>31,534</u>	<u>29,110</u>
Total	<u>\$ 106,903</u>	<u>97,855</u>

(f) Actuarial Assumptions

The Agency's net pension liability was measured as of December 31, 2020 and 2019, 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, 2020 and 2019 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	—

Mortality rates used in the December 31, 2020 actuarial valuation were based on the PubG-2010 mortality table, including rates for disabled retirees and contingent survivors. Mortality rates used in the December 31, 2019 actuarial valuation were based upon the Pri-2012 White Collar Mortality Table including rates for contingent survivors. Incorporated into the tables for the December 31, 2020 and 2019 actuarial valuations were rates projected using Scale MP 2020 and Scale MP-2019, respectively.

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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, 2020 and 2019 are summarized in the following table:

Asset class	Target allocation	Long-term expected rate of return
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, 2020 and 2019 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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(g) Changes in the Net Pension Liability

	2020		
	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension Liability (A)-(B)
Balances at January 1, 2020	\$ 120,525	97,855	22,670
Service cost	1,814	—	1,814
Interest cost	8,920	—	8,920
Changes for experience	3,538	—	3,538
Changes of assumptions	238	—	238
Contributions – employer	—	4,046	(4,046)
Contributions – member	—	273	(273)
Net investment income	—	11,547	(11,547)
Benefit payments, including refunds of member contributions	(6,818)	(6,818)	—
Net changes	7,692	9,048	(1,356)
Balances at December 31, 2020	\$ 128,217	106,903	21,314
	2019		
	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension Liability (A)-(B)
Balances at January 1, 2019	\$ 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	6,513	15,991	(9,478)
Balances at December 31, 2019	\$ 120,525	97,855	22,670

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The changes in assumptions reflected in the Changes in the Net Pension Liability for the periods ended December 31, 2020 and 2019 equal to \$238 and (\$969), respectively, were the result of the change in the mortality table.

(h) 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:

<u>Plan's net pension liability for calendar year ended</u>	<u>1% Decrease (6.50)%</u>	<u>Current discount rate (7.50)%</u>	<u>1% Increase (8.50)%</u>
December 31, 2020	\$ 36,541	21,314	8,418
December 31, 2019	37,289	22,670	10,307

(i) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended December 31, 2020 and 2019, the Pensions recognized pension expense of \$4,643 and \$6,367, respectively. At December 31, 2020 and 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2020</u>	<u>2019</u>
Deferred outflows:		
Differences between expected and actual experience	\$ 7,165	6,045
Changes in assumptions	2,427	3,132
Contributions made after measurement date	1,931	2,050
Gross deferred outflows	<u>11,523</u>	<u>11,227</u>
Deferred inflows:		
Differences between expected and actual experience	232	289
Changes in assumptions	1,649	1,922
Net difference between projected and actual earnings on investments	6,249	3,552
Gross deferred inflows	<u>8,130</u>	<u>5,763</u>
Net deferred outflows	<u>\$ 3,393</u>	<u>5,464</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:	
2021	\$ 2,088
2022	1,423
2023	(2,075)
2024	(24)
2025	753
Thereafter	<u>1,228</u>
	<u>\$ 3,393</u>

(13) Postemployment Benefits Other than Pensions

(a) 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.

(b) 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.

(c) Employees Covered by Benefit Terms

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

	2019
	(not in thousands)
Active participants	\$ 320
Retired participants	<u>118</u>
	<u>\$ 438</u>

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(d) Total OPEB Liability

The Agency's total OPEB liability equaling \$104,314 and \$95,358 at June 30, 2021 and 2020, respectively, were measured as of June 30, 2020 and 2019, respectively, using an actuarial valuation as of June 30, 2019. Update procedures were used to roll forward the total OPEB liability in the actuarial valuation at June 30, 2019 to the measurement date of June 30, 2020.

(e) Actuarial Methods and Assumptions

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

	<u>2020</u>	<u>2019</u>
Salary increases (average, including inflation)	4.50 %	4.50 %
Discount rate	2.66 %	2.79 %
Retiree' share of benefit costs	8.00 %	8.00 %
Healthcare cost trend rates	5.5% in 2019 – 2021; gradually decreasing to 4.0% in 2075 and later	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, 2020 and 2019.

Mortality rates were based upon the PubG-2010 Mortality Table incorporated into the table are rates projected generationally using Scale MP-2020 to reflect mortality improvement at June 30, 2020 and the Adjusted RP-2014 White Collar Mortality Table, incorporated into the tables were rates projected generationally using Scale MP-2019 to reflect mortality improvement at June 30, 2019.

The Agency has not completed a recent experience study.

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(f) Changes in the Total OPEB Liability

	Total OPEB Liability at June 30	
	2020	2019
Beginning balance	\$ 95,358	89,840
Changes for the year:		
Service cost	5,590	5,087
Interest	2,792	2,801
Differences between expected and actual experience	—	4,641
Changes in assumptions or other inputs	2,144	(5,264)
Benefit payments	(1,570)	(1,747)
Net changes	<u>8,956</u>	<u>5,518</u>
Ending balance	<u>\$ 104,314</u>	<u>95,358</u>

Changes of assumptions or other inputs reflect a change in the discount rate from 2.79% in 2019 to 2.66% in 2020 and 2.98% in 2018 to 2.79% in 2019. The health care cost trend was updated in both 2020 and 2019. The mortality table was changed from the Adjusted RP-2014 White Collar Mortality Table to the PubG-2010 mortality table in 2020.

(g) 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
2021	\$ 125,017	104,315	88,051
2020	114,496	95,358	80,370

(h) 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
2021	\$ 84,717	104,315	130,300
2020	78,050	95,358	118,235

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(In thousands)

(i) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2021 and 2020, the Agency recognized OPEB expense of \$7,133 and \$6,401, respectively. At June 30, 2021 and 2020, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2021</u>	<u>2020</u>
Deferred outflows:		
Differences between expected and actual experience	\$ 3,609	4,125
Changes in assumptions or other inputs	10,658	11,030
Contributions made after measurement date	<u>1,791</u>	<u>1,570</u>
Gross deferred outflows	<u>16,058</u>	<u>16,725</u>
Deferred inflows:		
Differences between expected and actual experience	14,197	17,320
Changes in assumptions or other inputs	<u>6,960</u>	<u>8,118</u>
Gross deferred inflows	<u>21,157</u>	<u>25,438</u>
Net deferred inflows	\$ <u><u>(5,099)</u></u>	\$ <u><u>(8,713)</u></u>

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

Year ended June 30:	
2022	\$ (542)
2023	1,249
2024	1,249
2025	900
2026	2,817
Thereafter	<u>(574)</u>
	\$ <u><u>5,099</u></u>

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(14) Significant Contingencies and Commitments

(a) 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.

(b) 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.

(c) 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.

(d) Commitments

Outstanding commitments by the Agency to make or acquire Single Family Mortgage Program and HEMAP loans were approximately \$343,353 and \$255, respectively, at June 30, 2021.

(15) Significant Effects of Subsequent Events

Under the Federal American Rescue Plan (ARP) of 2021, the Commonwealth of Pennsylvania (PA) was allocated \$350,000 for the Federal Homeowner Assistance Fund (HAF). The Agency has been designated by the state legislature to administer this program in the Commonwealth. These funds will be used to assist Pennsylvania homeowners impacted by COVID to help them avoid mortgage delinquency, default, foreclosure, loss of utilities or home energy services, and displacement. The Agency is working to develop the Pennsylvania HAF program, which will need to be approved by the U.S. Treasury before the final program can become operational. The Agency received \$35,000 in August 2021 to begin operating the PA HAF pilot program, the remaining funds will be disbursed in increments to the Agency after approval of the final program by the U.S. Treasury.

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(In thousands)

The Agency was appropriated \$50,000 in Act 1A of the State Fiscal Recovery Funds for the Construction Cost Relief program. The Commonwealth has authorized this program to provide additional funding to affordable housing projects that have been impacted by COVID due to either increased construction costs or decreased funding sources due to lower valuation of low-income housing tax credits by investors. This program is designed to fill these COVID related funding gaps for projects currently in construction but not yet completed or projects which have not been able to close and start construction due to COVID disruptions. This funding is secondary and will be used to supplement projects that cannot fill gaps from existing sources such as Housing Trust Fund monies and other grant awards. The Agency received \$50,000 subsequent to June 30, 2021 to begin operating the program.

On July 6, 2021, the Agency sold single family mortgage revenue bonds Series 2021-135B totaling \$38,895. Proceeds were used to refund certain single family mortgage revenue bonds in Series 2012-114A.

On September 21, 2021, the Agency sold single family mortgage revenue bonds Series 2021-136 totaling \$294,750. Proceeds were used to refund certain single family mortgage revenue bonds in Series 2012-114C, purchase new single family mortgage loans, and to provide down payment assistance loans for persons and families of low and moderate income.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSYLVANIA HOUSING FINANCE AGENCY

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

(Unaudited – see accompanying auditors' report)

	December 31						
	2020	2019	2018	2017	2016	2015	2014
Total pension liability:							
Service cost	\$ 1,814	1,839	1,817	1,795	1,786	1,812	1,545
Interest	8,920	8,482	8,146	7,652	7,318	6,896	5,826
Differences between expected and actual experience	3,538	2,676	120	2,489	634	(604)	2,596
Changes of assumptions	238	(969)	(222)	(476)	(927)	1,455	7,432
Benefit payments, including refunds of employee contributions	(6,818)	(5,515)	(5,302)	(4,482)	(4,247)	(3,565)	(3,239)
Net change in total pension liability	7,692	6,513	4,559	6,978	4,564	5,994	14,160
Total pension liability – beginning	120,525	114,012	109,453	102,475	97,911	91,917	77,757
Total pension liability – ending (a)	128,217	120,525	114,012	109,453	102,475	97,911	91,917
Pensions fiduciary net position:							
Contributions – employer	4,046	4,881	3,891	3,906	3,989	4,028	3,057
Contributions – employee	273	244	209	194	161	123	92
Net investment income	11,547	16,381	(5,167)	12,447	3,879	281	6,071
Benefit payments, including refunds of employee contributions	(6,818)	(5,515)	(5,302)	(4,482)	(4,247)	(3,565)	(3,239)
Net change in pensions fiduciary net position	9,048	15,991	(6,369)	12,065	3,782	867	5,981
Pensions fiduciary net position – beginning	97,855	81,864	88,233	76,168	72,386	71,519	65,538
Pensions fiduciary net position – ending (b)	106,903	97,855	81,864	88,233	76,168	72,386	71,519
Agency's net pension liability (a) – (b)	\$ 21,314	22,670	32,148	21,220	26,307	25,525	20,398
Pensions fiduciary net pension liability as a percentage of total pension liability	83.38 %	81.19 %	71.80 %	80.61 %	74.33 %	73.93 %	77.81 %
Covered-employee payroll	\$ 18,597	19,236	18,984	18,886	18,114	17,383	17,440
Pensions fiduciary net pension liability as a percentage of covered-employee payroll	114.61 %	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, 2020 was the result of using the PubG-2010 mortality table, including rates for disabled retirees and contingent survivors, and incorporating scale MP-2020 to reflect mortality improvement, 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

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

(Unaudited – see accompanying auditors' report)

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

<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions from agency</u>	<u>Contribution deficiency/ (excess)</u>	<u>Covered employee payroll</u>	<u>Contribution as a% of payroll</u>
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
2020	4,243,847	4,045,599	198,248	18,597,333	22.82

Notes to Schedules:

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, two to four years 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. Year 2020 used the Pri-2012 White Collar Mortality Table including rates for contingent survivors, incorporated Scale MP-2019 to reflect mortality improvement.

PENNSYLVANIA HOUSING FINANCE AGENCY

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

(Unaudited – see accompanying auditors' report)

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

<u>Year ended December 31</u>	<u>Rate</u>
2020	12.10 %
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 Investment Returns of Agency Employees' Retirement Plan
and Government Excess Benefit Plan

(Unaudited – see accompanying auditors' report)

	June 30					
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total OPEB Liability:						
Service cost	\$ 5,590	5,087	4,976	6,143	4,498	4,230
Interest	2,792	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	2,144	(5,264)	(19)	(5,137)	17,252	3,252
Benefit payments	(1,570)	(1,747)	(1,521)	(1,561)	(1,384)	(1,149)
Net change in Total OPEB Liability	8,956	5,518	6,184	(21,860)	23,563	2,960
Total OPEB Liability – beginning	95,358	89,840	83,656	105,516	81,953	78,993
Total OPEB Liability – ending	\$ <u>104,314</u>	<u>95,358</u>	<u>89,840</u>	<u>83,656</u>	<u>105,516</u>	<u>81,953</u>
Covered-employee payroll	\$ 20,944	20,944	20,204	20,204	18,523	18,523
Total OPEB Liability as a percentage of covered-employee payroll	498.06 %	455.31 %	444.66 %	414.06 %	569.66 %	442.44 %

Notes to Schedules:

PENNSYLVANIA HOUSING FINANCE AGENCY

Schedules of Changes in Total OPEB Liability and Related Ratios

(Unaudited – see accompanying auditors' report)

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:

Year	Discount rate	Healthcare cost trend rate
2020	2.66 %	5.5% in 2019–2023; gradually decreasing to 4.0% in 2075 and later
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
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, 2021

(In thousands)

Assets	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Intra-Agency Eliminations	Total
Current assets:							
Cash and cash equivalents	\$ 624	63,735	479,565	32,711	14,207	—	590,842
Restricted cash and cash equivalents	1,128	74,344	96,131	—	—	—	171,603
Restricted investments	—	3	1,000	—	—	—	1,003
Accrued investment interest receivable	29	78	2,448	56	—	—	2,611
Mortgage loans receivable, net	—	3,140	109,433	—	5,038	—	117,611
Accrued mortgage loan interest receivable	—	567	16,073	—	296	—	16,936
Mortgages held for sale	—	—	5,942	—	—	—	5,942
Other current assets	2,905	47	35	—	8	—	2,995
Total current assets	4,686	141,914	710,627	32,767	19,549	—	909,543
Noncurrent assets:							
Investments	88,125	—	101,174	4,212	—	—	193,511
Restricted investments	—	26	97,674	—	—	—	97,700
Mortgage loans receivable, net	3,252	318,450	3,025,788	—	24,127	—	3,371,617
Real estate owned	—	—	3,979	—	—	—	3,979
Capital assets, net	55,734	—	—	—	—	—	55,734
Intra-agency receivables	196,301	89,701	—	—	—	(286,002)	—
Other noncurrent assets	11,528	—	796	—	—	(11,481)	843
Total noncurrent assets	354,940	408,177	3,229,411	4,212	24,127	(297,483)	3,723,384
Total assets	359,626	550,091	3,940,038	36,979	43,676	(297,483)	4,632,927
Deferred outflows of resources:							
OPEB-related deferred outflows	16,058	—	—	—	—	—	16,058
Pension-related deferred outflows	11,523	—	—	—	—	—	11,523
Unamortized losses on bond refundings	—	—	787	—	—	—	787
Accumulated decrease (increase) in fair value of hedging derivatives	3,180	3,177	(645)	—	—	—	5,712
Total deferred outflows of resources	30,761	3,177	142	—	—	—	34,080
Total assets and deferred outflows of resources	\$ 390,387	553,268	3,940,180	36,979	43,676	(297,483)	4,667,007
Liabilities							
Current liabilities:							
Accounts payable and accrued expenses	\$ 1,094	—	812	—	379	—	2,285
Bonds and notes payable, net	2,000	420	117,315	—	—	—	119,735
Accrued interest payable	87	265	22,628	—	—	—	22,980
Escrow deposits and development reserves	1,237	18,240	55,719	—	—	—	75,196
Other current liabilities	60,328	594	50,999	—	76	(76)	111,921
Total current liabilities	64,746	19,519	247,473	—	455	(76)	332,117
Noncurrent Liabilities:							
Bonds and notes payable, net	31,000	7,898	3,021,266	—	—	—	3,060,164
Derivative instrument – interest rate swaps	3,180	3,177	6,693	—	—	—	13,050
Development reserves	—	91,020	—	—	—	—	91,020
Intra-agency payables	—	—	286,002	—	—	(286,002)	—
Total OPEB liability	104,314	—	—	—	—	—	104,314
Net pension liability	21,314	—	—	—	—	—	21,314
Other noncurrent liabilities	7,808	209,009	—	1,416	11,596	(11,405)	218,424
Total noncurrent liabilities	167,616	311,104	3,313,961	1,416	11,596	(297,407)	3,508,286
Total liabilities	232,362	330,623	3,561,434	1,416	12,051	(297,483)	3,840,403
Deferred inflows of resources:							
OPEB-related deferred inflows	21,157	—	—	—	—	—	21,157
Pension-related deferred inflows	8,130	—	—	—	—	—	8,130
Total deferred inflows of resources	29,287	—	—	—	—	—	29,287
Net position:							
Net investment in capital assets	22,734	—	—	—	—	—	22,734
Restricted	—	260	104,270	—	31,625	—	136,155
Unrestricted	106,004	222,385	274,476	35,563	—	—	638,428
Total net position	128,738	222,645	378,746	35,563	31,625	—	797,317
Total liabilities, deferred inflows of resources and net position	\$ 390,387	553,268	3,940,180	36,979	43,676	(297,483)	4,667,007

See accompanying independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2021

(In thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Operating revenues:						
Interest income on mortgage loans	\$ —	3,359	106,093	—	3	109,455
Program income and fees	89,523	76	15	1,809	183	91,606
Gain on sales of mortgage-backed securities	7,956	—	—	—	—	7,956
Investment income	1,010	2	4,309	447	296	6,064
Increase in the fair value of swaps	—	32	791	—	—	823
Increase in the fair value of mortgage service rights	—	—	764	—	—	764
Gain on early extinguishment of debt	—	—	3,599	—	—	3,599
Total operating revenues	<u>98,489</u>	<u>3,469</u>	<u>115,571</u>	<u>2,256</u>	<u>482</u>	<u>220,267</u>
Operating expenses:						
Interest expense on bonds and notes	1,119	659	90,379	—	—	92,157
Financing expenses	49	5	4,648	—	—	4,702
Program expenses	44,234	—	6,366	—	—	50,600
Salaries and related benefits	40,011	—	—	—	2,692	42,703
General and administrative	11,900	316	6,668	—	699	19,583
Decrease in fair value of investments	6,592	8	3,035	35	—	9,670
Provision for loan loss and real estate owned	—	(6,431)	(2,867)	226	—	(9,072)
Total operating expenses	<u>103,905</u>	<u>(5,443)</u>	<u>108,229</u>	<u>261</u>	<u>3,391</u>	<u>210,343</u>
Operating income (loss)	<u>(5,416)</u>	<u>8,912</u>	<u>7,342</u>	<u>1,995</u>	<u>(2,909)</u>	<u>9,924</u>
Non-operating revenue:						
Federal program awards	—	457,955	68,337	—	—	526,292
Non-operating expense:						
Federal program expense	—	457,955	68,337	—	—	526,292
Income (loss) before transfers	<u>(5,416)</u>	<u>8,912</u>	<u>7,342</u>	<u>1,995</u>	<u>(2,909)</u>	<u>9,924</u>
Intra-agency transfers	<u>(22,326)</u>	<u>2,417</u>	<u>19,909</u>	<u>—</u>	<u>—</u>	<u>—</u>
Change in net position	<u>(27,742)</u>	<u>11,329</u>	<u>27,251</u>	<u>1,995</u>	<u>(2,909)</u>	<u>9,924</u>
Net position – beginning of year	<u>156,480</u>	<u>211,316</u>	<u>351,495</u>	<u>33,568</u>	<u>34,534</u>	<u>787,393</u>
Net position – end of year	\$ <u>128,738</u>	<u>222,645</u>	<u>378,746</u>	<u>35,563</u>	<u>31,625</u>	<u>797,317</u>

See accompanying independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year ended June 30, 2021

(In thousands)

	<u>General Activities</u>	<u>Multifamily Housing Program</u>	<u>Single Family Mortgage Loan Program</u>	<u>Insurance Program</u>	<u>HEMAP</u>	<u>Total</u>
Cash flows from operating activities:						
Receipts of mortgage loan payments	\$ 68	24,340	728,301	—	7,262	759,971
Receipts of mortgage-backed security premiums	7,956	—	—	—	—	7,956
Receipts from fees and other income	89,523	76	15	1,809	183	91,606
Receipts from interest on mortgages	—	3,545	106,501	—	273	110,319
Receipts of escrows and reserves	6,181	(2,192)	(1,367)	(19)	—	2,603
Payments for mortgages and purchases	—	(18,440)	(706,802)	—	(2,127)	(727,369)
Payments for salaries and related benefits	(33,954)	—	—	—	—	(33,954)
Payments for goods, services and other	(56,162)	(371)	(9,479)	—	(3,367)	(69,379)
Net cash provided by operating activities	<u>13,612</u>	<u>6,958</u>	<u>117,169</u>	<u>1,790</u>	<u>2,224</u>	<u>141,753</u>
Cash flows from noncapital financing activities:						
Proceeds from the issuance of bonds and notes	—	—	530,307	—	—	530,307
Payments for retirement of bonds and notes	—	(400)	(369,523)	—	—	(369,923)
Payments for refundings of bonds	—	—	(41,320)	—	—	(41,320)
Payments for bonds and notes interest	—	(770)	(86,453)	—	—	(87,223)
Payments of financing costs	(49)	(5)	(4,648)	—	—	(4,702)
Receipts (repayments) of program advances	(11,193)	(23,583)	34,776	—	628	628
Receipts of federal program awards	—	457,955	68,337	—	—	526,292
Payments of federal program awards	—	(457,955)	(68,337)	—	—	(526,292)
Net cash (used in) provided by noncapital financing activities	<u>(11,242)</u>	<u>(24,758)</u>	<u>63,139</u>	<u>—</u>	<u>628</u>	<u>27,767</u>
Cash flows from capital financing activities:						
Purchases of capital assets	(1,773)	—	—	—	—	(1,773)
Payments for retirement of capital financing bond	(2,000)	—	—	—	—	(2,000)
Payments for interest on capital financing bond	(1,090)	—	—	—	—	(1,090)
Net cash used in capital financing activities	<u>(4,863)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,863)</u>
Cash flows from investing activities:						
Proceeds from the sale or maturity of investments	77	3	66,026	6,712	—	72,818
Receipts of investment interest	1,021	150	3,262	497	3	4,933
Payments for purchases of investments	—	—	(154,931)	(4,221)	—	(159,152)
Net cash provided by (used in) investing activities	<u>1,098</u>	<u>153</u>	<u>(85,643)</u>	<u>2,988</u>	<u>3</u>	<u>(81,401)</u>
Net (decrease) increase in cash and cash equivalents	(1,395)	(17,647)	94,665	4,778	2,855	83,256
Cash and cash equivalents, beginning of year	<u>3,147</u>	<u>155,726</u>	<u>481,031</u>	<u>27,933</u>	<u>11,352</u>	<u>679,189</u>
Cash and cash equivalents, end of period	\$ <u>1,752</u>	<u>138,079</u>	<u>575,696</u>	<u>32,711</u>	<u>14,207</u>	<u>762,445</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year ended June 30, 2021

(In thousands)

	<u>General Activities</u>	<u>Multifamily Housing Program</u>	<u>Single Family Mortgage Loan Program</u>	<u>Insurance Program</u>	<u>HEMAP</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ (5,416)	8,912	7,342	1,995	(2,909)	9,924
Investment income recognized	(1,010)	(2)	(4,309)	(447)	(3)	(5,771)
Net change in fair value of investments	6,592	8	3,035	35	—	9,670
Net change in fair value of swaps	—	(32)	(791)	—	—	(823)
Interest expense on bonds and notes	1,119	659	90,379	—	—	92,157
Financing expenses	49	5	4,648	—	—	4,702
Provision for loan loss and real estate owned	—	(6,431)	(2,867)	226	—	(9,072)
Depreciation	1,707	—	—	—	—	1,707
Early extinguishment of debt	—	—	(3,599)	—	—	(3,599)
Loss on disposal of capital assets	—	—	—	—	—	—
Net change in fair value of mortgage servicing rights	—	—	(764)	—	—	(764)
Changes in assets and liabilities:						
Mortgage loans receivable, net	68	5,900	18,893	—	5,135	29,996
Mortgage loans interest receivable	—	186	408	—	(23)	571
Real estate owned, net	—	—	8,039	—	—	8,039
Other assets	435	(38)	(154)	—	2	245
Accounts payable and accrued expenses	(510)	—	(38)	—	31	(517)
Escrow deposits and development reserves	146	4,081	(4,216)	—	—	11
Other liabilities	10,432	(6,290)	1,163	(19)	(9)	5,277
Net cash provided by operating activities	\$ <u>13,612</u>	<u>6,958</u>	<u>117,169</u>	<u>1,790</u>	<u>2,224</u>	<u>141,753</u>

See accompanying independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Balance Sheet

June 30, 2020

(In thousands)

Assets	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Intra-Agency Eliminations	Total
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 expenses	70	5	3,852	—	—	3,927
Program expenses	40,588	—	4,784	—	—	45,372
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>

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year ended June 30, 2020

(In thousands)

	<u>General Activities</u>	<u>Multifamily Housing Program</u>	<u>Single Family Mortgage Loan Program</u>	<u>Insurance Program</u>	<u>HEMAP</u>	<u>Total</u>
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	\$ <u>20,678</u>	<u>8,561</u>	<u>25,272</u>	<u>1,078</u>	<u>(2,663)</u>	<u>52,926</u>

See accompanying independent auditors' report.