Tennessee Housing
Development Agency

# *FINANCIAL STATEMENTS*

**June 30, 2016**

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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# Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

## Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development 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 accounting principles generally accepted in the United States of America; 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and the other postemployment benefits schedule of funding progress, 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, which 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.

Deborah Loveless

Deborah V. Loveless, CPA
Director
December 19, 2016

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2016, with comparative information presented for the fiscal year ended June 30, 2015. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

## INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2016, THDA has originated over 115,000 single-family mortgage loans in its 43-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at http://www.tn.gov/finance/article/fa-accfin-cafr

## FINANCIAL HIGHLIGHTS

**Year Ended June 30, 2016**

- Total assets decreased by $90.1 million, or 3.5%.
- Deferred outflows of resources increased $0.5 million, or 18.4%.
- Total liabilities decreased by $83.1 million, or 4.1%.
- Net position was $510.9 million. This is a decrease of $3.4 million, or 0.7%, from fiscal year 2015.
- Cash and cash equivalents decreased by $69.3 million, or 23.0%.
- Total investments increased by $18.4 Million, or 7.2%.
- Bonds payable decreased by $72.7 million, or 3.67%.
- Deferred inflows of resources decreased $3.0 million, which was related to pensions.
- THDA originated $293.4 million in new loans, which is an increase of $42.7 million, or 17.03%, from the prior year.

## FINANCIAL ANALYSIS OF THE AGENCY

**Net Position.** The following table focuses on the changes in net position between fiscal years (expressed in thousands):

| | 2016 | 2015 |
|---|---|---|
| Current assets | $ 393,675 | $ 442,792 |
| Capital assets | 1,175 | 512 |
| Other noncurrent assets | 2,081,560 | 2,123,193 |
| Total assets | 2,476,410 | 2,566,497 |
| Deferred outflows of resources | 3,142 | 2,653 |
| Current liabilities | 149,798 | 191,375 |
| Noncurrent liabilities | 1,817,534 | 1,859,097 |
| Total liabilities | 1,967,332 | 2,050,472 |
| Deferred inflows of resources | 1,288 | 4,271 |
| Invested in capital assets | 1,175 | 512 |
| Restricted net position | 430,114 | 441,196 |
| Unrestricted net position | 79,643 | 72,699 |
| Total net position | $ 510,932 | $ 514,407 |

**2016 to 2015**

- THDA's total net position decreased by $3.4 million because operating income was less than the amount by which nonoperating expenses exceeded nonoperating revenues.

- First and Second mortgage loans (net of allowance for forgivable second mortgages) receivable decreased by $10.8 million. During FY 2016, single-family mortgage loan originations increased by $42.7 million, whereas mortgage loan payoffs increased by $27.4 million and mortgage loan repayments decreased $2.8 million. In addition, THDA recognized an allowance for future forgiveness of forgivable second mortgages of $4.9 million for FY 2016.

- Total liabilities decreased $83.1 million. The decrease is primarily due to a $72.7 million decrease of bonds payable at June 30, 2016 as compared to June 30, 2015.

**Changes in Net Position.** The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

| | 2016 | 2015 |
|---|---|---|
| Operating revenues | | |
| Mortgage interest income | $ 90,235 | $ 96,999 |
| Investment income | 5,872 | 6,535 |
| Other | 17,052 | 16,512 |
| Total operating revenues | 113,159 | 120,046 |
| Operating expenses | | |
| Interest expense | 62,045 | 66,389 |
| Other | 41,916 | 43,932 |
| Total operating expenses | 103,961 | 110,321 |
| Operating income | 9,198 | 9,725 |
| Nonoperating revenues (expenses) | | |
| Grant revenues | 269,226 | 307,012 |
| Grant expenses | (281,899) | (322,465) |
| Total nonoperating revenues (expenses) | (12,673) | (15,453) |
| Change in net position | $ (3,475) | $ (5,728) |

**2016 to 2015**

Total operating revenues decreased $6.9 million, primarily due to a decrease in mortgage interest income of $6.8 million. This is due to new mortgage loan originations having lower interest rates than those associated with mortgage loan repayments.

Total operating expenses decreased $6.3 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

## DEBT ACTIVITY

Bonds outstanding at June 30 were as follows (expressed in thousands):

| | 2016 | 2015 |
|---|---|---|
| Bonds payable | $1,906,494 | $ 1,979,170 |

**Year Ended June 30, 2016**

Total bonds and notes payable decreased $72.7 million, due primarily to an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $306.9 million, with activity arising from two bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded $67.1 million of outstanding bonds into new bond originations with lower interest rates.

**Bond Ratings**
For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of the The McGraw-Hill Companies, Inc. has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2016 or FY 2015.

**Debt Limits**
In accordance with *Tennessee Code Annotated,* 13-23-121, THDA operates under a "debt ceiling" of $2,930,000,000.

## GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

| | FY 2016 | FY 2015 | FY 2014 and Prior | Total |
|---|---|---|---|---|
| ***Funding Sources:*** | | | | |
| THDA | $ 7,500,000 | $ 7,500,000 | $ 52,300,000 | $ 67,300,000 |
| State Appropriation | - | - | 4,350,000 | 4,350,000 |
| **Totals** | **$ 7,500,000** | **$ 7,500,000** | **$ 56,650,000** | **$ 71,650,000** |
| | | | | |
| ***Approved Uses:*** | | | | |
| Rural repair program (USDA) | $ - | $ 700,000 | $ 5,600,000 | $ 6,300,000 |
| Ramp Programs & Hsg Modification | - | 150,000 | 1,200,000 | 1,350,000 |
| Emergency Repairs | 2,700,000 | 1,800,000 | 14,000,000 | 18,500,000 |
| Competitive Grants | 2,800,000 | 2,850,000 | 31,950,000 | 37,600,000 |
| Rebuild & Recover | 500,000 | 500,000 | 2,300,000 | 3,300,000 |
| Other Grants | 1,500,000 | 1,500,000 | 1,600,000 | 4,600,000 |
| **Totals** | **$ 7,500,000** | **$ 7,500,000** | **$ 56,650,000** | **$ 71,650,000** |

## CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the *Great Choice* and the *Great Choice Plus* loan programs were introduced and the *Great Rate*, *Great Advantage* and *Great Start* loan programs were eliminated. The *Great Choice* loan program offers THDA the opportunity to offer a more competitive interest rate on its 30 year fixed rate mortgage product while still offering down payment assistance with the addition of the *Great Choice Plus* loan program which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the *Great Choice Plus* loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15.

A special interest rate reduction on *Great Choice* loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as "*Homeownership for the Brave*", provides a 0.5% rate reduction on the current interest rate for *Great Choice* loans. In addition to the rate reduction, "*Homeownership for the Brave*" applicants are eligible for optional down payment and closing cost assistance through the *Great Choice Plus* second mortgage loan at a 0% interest rate.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at https://thda.org/homebuyers/homebuyers

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2016, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

| Loan Status | Total Number of Loans Serviced | Number of Loans in Status | Principal Amount | Percentage |
|---|---|---|---|---|
| 60-89 Days Past Due | 23,492 | 508 | $ 39,830,107 | 2.16% |
| 90+ Days Past Due | 23,492 | 1,503 | 116,348,733 | 6.40% |
| In Foreclosure | 23,492 | 148 | 12,307,322 | 0.63% |

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

## ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five-year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

## CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENT OF NET POSITION**
**JUNE 30, 2016**
**(Expressed in Thousands)**

| | |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents (Note 2) | $ 218,023 |
| Investments (Note 2) | 74,211 |
| Receivables: | |
| Accounts | 4,060 |
| Interest | 11,944 |
| First mortgage loans | 59,075 |
| Due from federal government | 26,361 |
| Prepaid expenses | 1 |
| Total current assets | 393,675 |
| Noncurrent assets: | |
| Restricted assets: | |
| Cash and cash equivalents (Note 2) | 13,647 |
| Investments (Note 2) | 157,864 |
| Investment interest receivable | 1,326 |
| Investments (Note 2) | 42,653 |
| First mortgage loans receivable | 1,849,432 |
| Second mortgage loans receivable | 21,326 |
| Allowance for forgivable second mortgages | (7,808) |
| Advance to local government | 3,107 |
| Net pension asset (Note 6) | 13 |
| Capital assets: | |
| Furniture and equipment | 2,631 |
| Less accumulated depreciation | (1,456) |
| Total noncurrent assets | 2,082,735 |
| Total assets | 2,476,410 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred amount on refundings | 981 |
| Deferred outflows related to pensions (Note 6) | 2,161 |
| Total deferred outflows of resources | 3,142 |
| **LIABILITIES** | |
| Current liabilities: | |
| Accounts payable | 9,235 |
| Accrued payroll and related liabilities | 585 |
| Compensated absences | 633 |
| Due to primary government | 72 |
| Interest payable | 32,300 |
| Escrow deposits | 89 |
| Prepayments on mortgage loans | 1,161 |
| Due to federal government | 1,679 |
| Bonds payable (Note 4) | 100,360 |
| Arbitrage rebate payable | 3,684 |
| Total current liabilities | 149,798 |
| Noncurrent liabilities: | |
| Bonds payable (Note 4) | 1,806,134 |
| Compensated absences | 611 |
| Net pension liability (Note 6) | 5,429 |
| Net OPEB obligation (Note 10) | 1,602 |
| Escrow deposits | 3,348 |
| Arbitrage rebate payable | 410 |
| Total noncurrent liabilities | 1,817,534 |
| Total liabilities | 1,967,332 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred inflows related to pensions (Note 6) | 1,288 |
| Total deferred inflows of resources | 1,288 |
| **NET POSITION** | |
| Net investment in capital assets | 1,175 |
| Restricted for single family bond programs (Note 5 and Note 8) | 417,331 |
| Restricted for grant programs (Note 5) | 9,617 |
| Restricted for Homebuyers Revolving Loan Program (Note 5) | 3,153 |
| Restricted for net pension asset (Note 6) | 13 |
| Unrestricted (Note 8) | 79,643 |
| Total net position | $ 510,932 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**FOR THE YEAR ENDED JUNE 30, 2016**
**(Expressed in Thousands)**

| | | |
|---|---|---|
| **OPERATING REVENUES** | | |
| Mortgage interest income | $ | 90,235 |
| Investment income: | | |
| Interest | | 9,714 |
| Net (decrease) in the fair value of investments | | (3,842) |
| Federal grant administration fees | | 13,346 |
| Fees and other income | | 3,706 |
| Total operating revenues | | 113,159 |
| **OPERATING EXPENSES** | | |
| Salaries and benefits | | 15,845 |
| Contractual services | | 4,989 |
| Materials and supplies | | 1,233 |
| Rentals and insurance | | 18 |
| Other administrative expenses | | 571 |
| Other program expenses | | 9,683 |
| Interest expense | | 62,045 |
| Mortgage service fees | | 6,755 |
| Issuance costs | | 2,311 |
| Depreciation | | 511 |
| Total operating expenses | | 103,961 |
| Operating income | | 9,198 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Federal grants revenue | | 269,217 |
| Other grants revenue | | 9 |
| Federal grants expenses | | (269,057) |
| Local grants expenses | | (12,842) |
| Total nonoperating revenues (expenses) | | (12,673) |
| Change in net position | | (3,475) |
| Total net position, July 1 | | 514,407 |
| Total net position, June 30 | $ | 510,932 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2016**
**(Expressed in Thousands)**

| | |
|---|---|
| Cash flows from operating activities: | |
| Receipts from customers | $ 417,586 |
| Receipts from federal government | 12,862 |
| Other miscellaneous receipts | 3,706 |
| Acquisition of mortgage loans | (293,475) |
| Payments to service mortgages | (6,755) |
| Payments to suppliers | (8,204) |
| Payments to or for employees | (17,046) |
| Net cash provided by operating activities | 108,674 |
| Cash flows from non-capital financing activities: | |
| Operating grants received | 258,411 |
| Proceeds from sale of bonds | 306,902 |
| Operating grants paid | (285,892) |
| Cost of issuance paid | (2,311) |
| Principal payments | (373,350) |
| Interest paid | (68,299) |
| Net cash used by non-capital financing activities | (164,539) |
| Cash flows from capital and related financing activities: | |
| Purchases of capital assets | (1,174) |
| Net cash used by capital and related financing activities | (1,174) |
| Cash flows from investing activities: | |
| Proceeds from sales and maturities of investments | 332,627 |
| Purchases of investments | (355,001) |
| Investment interest received | 10,008 |
| Increase in fair value of investments subject to fair value reporting and classified as cash equivalents | 87 |
| Net cash used by investing activities | (12,279) |
| Net decrease in cash and cash equivalents | (69,318) |
| Cash and cash equivalents, July 1 | 300,988 |
| Cash and cash equivalents, June 30 | $ 231,670 |

(continued)

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENT OF CASH FLOWS (cont.)**
**FOR THE YEAR ENDED JUNE 30, 2016**
**(Expressed in Thousands)**

| | |
|---|---|
| Reconciliation of operating income to | |
| net cash provided by operating activities: | |
| Operating income | $ 9,198 |
| Adjustments to reconcile operating income to | |
| net cash provided by operating activities: | |
| Depreciation | 511 |
| Pension expense | 566 |
| Changes in assets and liabilities: | |
| Decrease in accounts receivable | 25,537 |
| Decrease in mortgage interest receivable | 1,567 |
| (Increase) in deferred pension outflows | (1,586) |
| Decrease in mortgage loans receivable | 10,795 |
| (Increase) in due from federal government | (484) |
| Increase in accounts payable | 2,673 |
| Increase in accrued payroll / compensated absences | 121 |
| Increase in due to primary government | 1 |
| Increase in arbitrage rebate liability | 1,291 |
| Investment income (loss) included as operating revenue | (5,872) |
| Interest expense included as operating expense | 62,045 |
| Issuance cost included as operating expense | 2,311 |
| Total adjustments | 99,476 |
| Net cash provided by operating activities | $ 108,674 |
| Noncash investing, capital, and financing activities: | |
| Increase in fair value of investments | $ 68 |
| Total noncash investing, capital, and financing activities | $ 68 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**NOTES TO THE FINANCIAL STATEMENTS**
**JUNE 30, 2016**

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

### b. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

**c. Basis of Accounting and Measurement Focus**

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cashflows. When both restricted and unrestricted resources are available for use, it is the agency’s policy to use the restricted resources first. All significant interfund transactions have been eliminated.

**d. Capital Assets**

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of $5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

| Description | Estimated Life |
|---|---|
| Furniture | 10 years |
| Computer equipment | 3 years |

**e. Restricted Assets**

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, and Net Pension Assets (see note 6).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

**f. Deferred Amount on Refundings and Bond Premiums and Discounts**

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

**g. Cash and Cash Equivalents**

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

**h. Investments**

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody’s Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

**i. Accrual of Interest Income**

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

**j. Mortgages**

Mortgages are carried at their original amount less collected principal.

**k. Operating Revenues and Expenses**

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

l. **Allowance for Forgivable Second Mortgages**

THDA has offered Down Payment Assistance (DPA) product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage, loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the $15^{th}$ anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

**m. Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

## NOTE 2. DEPOSITS AND INVESTMENTS

### a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2016, the bank balance was $3,921,135.08. All bank balances at June 30, 2016, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of $250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2016, $3,307,357.87 was in the BNYM. Of this amount, $3,057,357.87 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report.* That report is available on the state's website at www.treasury.tn.gov.

### b. Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

| | **June 30, 2016** | |
|---|---|---|
| **Investment Type** | **Fair Value** | **Effective Duration (Years)** |
| U.S. Agency Coupon | $131,326,153 | 0.804 |
| U.S. Treasury Coupon | 68,451,345 | 0.143 |
| U.S. Agency Discount | 152,930,920 | 1.626 |
| | | |
| Total | $352,708,418 | 0.731 |

Fair Value Measurements THDA implemented GASB Statement 72 *Fair Value Measurement and Application.* GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2016:

| | June 30, 2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Assets by Fair Value Level** | *(Thousands)* | | | |
| Debt securities | | | | |
| U.S. Agency Coupon | $131,326 | $-0- | $131,326 | $-0- |
| U.S. Treasury Coupon | 68,451 | 68,451 | -0- | -0- |
| U.S. Agency Discount | 152,931 | -0- | 152,931 | -0- |
| Total debt securities | $352,708 | $68,451 | $284,257 | $-0- |

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2016, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

| June 30, 2016 | | | | | |
|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **U.S. Treasury[1]** | **AAA** | **AA+** | **Not Rated[2]** |
| U.S. Agency Coupon | $131,326,153 | | $2,615,164 | 128,710,989 | |
| U.S. Treasury Coupon | 68,451,345 | $68,451,345 | | | |
| U.S. Agency Discount | 152,930,920 | | | | 152,930,920 |
| Total | $352,708,418 | $68,451,345 | $2,615,164 | $128,710,989 | $152,930,920 |

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

| | **June 30, 2016** | |
|---|---|---|
| **Issuer** | **Fair Value *(Thousands)*** | **% of Portfolio** |
| Federal Home Loan Bank | $180,760 | 51.25 |
| Federal Home Loan Mortgage Corp | $41,153 | 11.67 |
| Federal National Mortgage Assoc. | $59,729 | 16.93 |

New GASB 79 Disclosures During fiscal year 2016, Tennessee Housing Development Agency implemented *GASB Statement 79, Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that the Tennessee Housing Development Agency to participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more.

[1]This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

[2]This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

## *NOTE 3. ACCOUNTING CHANGE*

During fiscal year 2016, Tennessee Housing Development Agency modified the presentation of certain mortgage loans. Prior to fiscal year 2016, mortgage loans in which a foreclosure sale had occurred was reported as a component of Accounts Receivable. Beginning in fiscal year 2016, mortgage loans in which a foreclosure sale has occurred will be reported as Current Portion, First Mortgage Loans receivable.

## *NOTE 4. LIABILITIES*

### *a. Bonds Issued and Outstanding*

***BONDS ISSUED AND OUTSTANDING***
*(Thousands)*

| *Series* | *Maturity Range* | *Issued Amount* | *Interest Rate (Percent)* | *Ending Balance 6/30/2016* |
|---|---|---|---|---|
| ***HOMEOWNERSHIP PROGRAM BONDS*** | | | | |
| 2006-3 | 1/1/2008-7/1/2037 | $100,000 | 3.65 to 5.75 | $24,060 |
| 2007-1 | 7/1/2008-1/1/2038 | 100,000 | 3.65 to 5.50 | 28,240 |
| 2007-2 | 7/1/2008-7/1/2038 | 120,000 | 3.75 to 5.25 | 34,320 |
| 2007-3 | 1/1/2009-7/1/2038 | 150,000 | 3.85 to 5.50 | 39,295 |
| 2007-4 | 1/1/2009-7/1/2038 | 150,000 | 3.75 to 5.50 | 43,930 |
| 2008-1 | 7/1/2009-1/1/2039 | 60,000 | 2.45 to 5.70 | 17,090 |
| 2008-3 | 7/1/2009-7/1/2038 | 90,000 | 2.00 to 5.45 | 1,270 |
| 2009-1 | 1/1/2010-7/1/2029 | 50,000 | 0.75 to 5.00 | 21,330 |
| 2009-2 | 7/1/2010-7/1/2030 | 75,000 | 0.90 to 5.00 | 29,770 |
| 2010-1 | 1/1/2011-7/1/2025 | 120,700 | 0.35 to 4.50 | 53,775 |
| 2011-1 | 7/1/2012-7/1/2042 | 141,255 | 0.60 to 4.65 | 85,930 |
| 2012-1 | 1/1/2013-7/1/2042 | 133,110 | 0.80 to 4.50 | 85,660 |
| 2012-2 | 7/1/2013-7/1/2043 | 97,625 | 0.50 to 4.00 | 68,845 |
| Total Homeownership Program Bonds | | $1,387,690 | | $533,515 |
| Plus: Unamortized Bond Premiums | | | | 4,444 |
| Less: Unamortized Bond Discount | | | | (42) |
| Net Homeownership Program Bonds | | | | $537,917 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2016 |
|---|---|---|---|---|
| **HOUSING FINANCE PROGRAM BONDS** | | | | |
| 2009-A | 1/1/2011-1/1/2040 | $100,000 | 0.90 to 4.625 | $14,725 |
| 2010-A | 1/1/2011-7/1/2041 | 160,000 | 0.60 to 5.00 | 23,170 |
| 2010-B | 7/1/2011–7/1/2041 | 100,000 | 0.45 to 4.50 | 60,835 |
| 2011-A | 7/1/2011-7/1/2041 | 100,000 | 0.45 to 4.50 | 17,835 |
| 2011-B | 7/1/2012-7/1/2041 | 100,000 | 0.25 to 4.50 | 64,995 |
| 2011-C | 7/1/2012-7/1/2041 | 100,000 | 0.40 to 4.30 | 64,395 |
| 2015-A | 1/1/2016-7/1/2045 | 150,000 | 0.30 to 3.85 | 143,050 |
| Total Housing Finance Program Bonds | | $810,000 | | $389,005 |
| Plus: Unamortized Bond Premiums | | | | 4,409 |
| Net Housing Finance Program Bonds | | | | $393,414 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2016 |
|---|---|---|---|---|
| **RESIDENTIAL FINANCE PROGRAM BONDS** | | | | |
| 2013-1 | 1/1/2014-7/1/2043 | $215,905 | 0.40 to 4.00 | $148,735 |
| 2013-2 | 7/1/2014-7/1/2043 | 121,300 | 0.45 to 4.65 | 94,435 |
| 2014-1 | 1/1/2015-7/1/2039 | 150,000 | 0.32 to 4.00 | 129,860 |
| 2014-2 | 7/1/2015-7-1-2045 | 150,000 | 0.25 to 4.00 | 135,780 |
| 2015-1 | 1/1/2016-7/1/2045 | 150,000 | 0.50 to 4.05 | 144,290 |
| 2015-2 | 7/1/2016-1/1/2046 | 175,000 | 0.40 to 4.00 | 175,000 |
| 2016-1 | 1/1/2017-1/1/2047 | 125,000 | 0.625 to 3.50 | 125,000 |
| Total Residential Finance Program Bonds | | $1,087,205 | | $953,100 |
| Plus: Unamortized Bond Premiums | | | | 22,063 |
| Net Residential Finance Program Bonds | | | | $975,163 |
| Net Total All Issues | | | | $1,906,494 |

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2010-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-A bonds in the amount of $40,000,000 for a total of $100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of $34,710,000. The $34,710,000 was blended with the market rate 2011-C bonds in the amount of $65,290,000 for a total of $100,000,000.

## b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2016, are as follows (expressed in thousands):

| For the Year(s) Ending June 30 | Principal | Interest | Total Requirements |
|---|---|---|---|
| 2017 | $36,555 | $65,913 | $102,468 |
| 2018 | 62,810 | 65,922 | 128,732 |
| 2019 | 65,295 | 64,018 | 129,313 |
| 2020 | 66,785 | 61,979 | 128,764 |
| 2021 | 71,065 | 59,768 | 130,833 |
| 2022 – 2026 | 369,900 | 260,532 | 630,432 |
| 2027 – 2031 | 343,540 | 194,038 | 537,578 |
| 2032 – 2036 | 367,480 | 125,252 | 492,732 |
| 2037 – 2041 | 325,135 | 60,915 | 386,050 |
| 2042 - 2046 | 167,055 | 13,778 | 180,833 |
| Total | $1,875,620 | $972,115 | $2,847,735 |

## c. Redemption of Bonds and Notes

During the year ended June 30, 2016, bonds were retired at par before maturity in the Homeownership Program in the amount of $70,935,000, in the Housing Finance Program in the amount of $84,975,000, and in the Residential Finance Program in the amount of $26,440,000. The respective carrying values of the bonds were $71,940,410,

$85,625,000 and $27,205,277. This resulted in revenue to the Homeownership Program of $1,005,410 to the Housing Finance Program of $650,069, and to the Residential Finance Program of $765,277.

On June 11, 2016, the agency issued $150,000,000 in Residential Finance Program Bonds, Issue 2015-1. On January 1, 2016, the agency used $27,395,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $27,395,000 early redemption). The carrying amount of these bonds was $27,395,000. The refunding reduced the agency’s debt service by $12,273,421 over the next 20.0 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $4,089,664.

On October 15, 2015, the agency issued $175,000,000 in Residential Finance Program Bonds, Issue 2015-2. On January 1, 2016, the agency used $43,070,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $43,070,000 early redemption). The carrying amount of these bonds was $43,184,624. The refunding reduced the agency’s debt service by $17,407,979 over the next 20.0 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $5,246,191.

### d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2016.

**Long-term Liabilities**
(Thousands)

| | Beginning Balance July 1, 2015 | Additions | Reductions | Ending Balance June 30, 2016 | Amounts Due Within One Year[3] |
|---|---|---|---|---|---|
| Bonds Payable | $1,948,970 | $300,000 | ($373,350) | $1,875,620 | $100,360 |
| Plus: Unamortized Bond Premiums | 30,333 | 6,897 | (6,314) | 30,916 | -0- |
| Less: Unamortized Bond Discounts | (133) | -0- | 91 | (42) | -0- |
| Compensated Absences | 1,207 | 129 | (92) | 1,244 | 633 |
| Net Pension Liability | 2,964 | 4,176 | (1,711) | 5,429 | -0- |
| Escrow Deposits | 2,553 | 2,322 | (1,438) | 3,437 | 89 |
| Arbitrage Rebate Payable | 2,803 | 1,291 | (-0-) | 4,094 | 3,684 |
| Total | $1,988,697 | $314,815 | ($382,814) | $1,920,698 | $104,766 |

[3] Amounts due within one year include management authorized bond refundings at June 30.

## NOTE 5. RESTRICTED NET POSITION

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

## NOTE 6. PENSION PLANS

### a. Closed State and Higher Education Employee Pension Plan

#### General Information about the Pension Plan

Plan description State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level) | **x** | 1.50% | **x** | Years of Service Credit | **x** | 105% |
| **Plus:** | | | | | | |
| Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level) | **x** | 1.75% | **x** | Years of Service Credit | **x** | 105% |

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Tennessee Housing Development Agency employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education

Employee Pension Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2016 to the Closed State and Higher Education Employee Pension Plan were $1,539,003 which is 15.03 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

Pension liability At June 30, 2016, Tennessee Housing Development Agency reported a liability of $5,428,475 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension liability was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, Tennessee Housing Development Agency's proportion was 0.421046 percent. The proportion measured as of June 30, 2014 was 0.429581

Pension expense For the year ended June 30, 2016, Tennessee Housing Development Agency recognized a pension expense of $554,977. Allocated pension expense was $583,722 before being reduced by $28,745 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2016, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 574,421 | $ 470,017 |
| Net difference between projected and actual earnings on pension plan investments | – | 697,846 |
| Changes in proportion | – | 114,978 |
| Tennessee Housing Development Agency contributions subsequent to the measurment date of June 30, 2015 | 1,539,003 | – |
| Total | $ 2,113,424 | $ 1,282,841 |

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of $1,539,003 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other 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 June 30:**

| | |
|---|---|
| 2017 | $ (438,708.49) |
| 2018 | (438,708.49) |
| 2019 | (438,708.49) |
| 2020 | 607,705.99 |
| 2021 | - |
| Thereafter | - |

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions The total pension liability as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.0 percent |
| Salary increases | Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent |
| Investment rate of return | 7.5 percent, net of pension plan investment expenses, including inflation |
| Cost-of Living Adjustment | 2.5 percent |

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return | Target Allocation |
|---|---|---|
| U.S. equity | 6.46% | 33% |
| Developed market international equity | 6.26% | 17% |
| Emerging market international equity | 6.40% | 5% |
| Private equity and strategic lending | 4.61% | 8% |
| U.S. fixed income | 0.98% | 29% |
| Real estate | 4.73% | 7% |
| Short-term securities | 0.00% | 1% |
| | | 100% |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) | $ 12,719,744 | $ 5,428,475 | $ (716,661) |

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

**Payable to the Pension Plan**

At June 30, 2016, Tennessee Housing Development Agency reported a payable of $128,363 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

**b. State and Higher Education Employee Retirement Plan**

**General Information about the Pension Plan**

Plan description State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014 and covers employees hired before July 1, 2014. Employees hired after June 30, 2014 are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37.

Benefits provided Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2016 to the State and Higher Education Employee Retirement Plan were $46,706 which is 2.81 percent of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from Federal funds where the employer rate is 2.00%. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

Pension asset At June 30, 2016, Tennessee Housing Development Agency reported an asset of $12,713 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension asset was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, Tennessee Housing Development Agency's proportion was 0.457171 percent, representing the first time presentation of this proportion.

Pension expense For the year ended June 30, 2016, Tennessee Housing Development Agency (THDA) recognized a pension expense of $10,546.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2016, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ – | $ 4,730 |
| Net difference between projected and actual earnings on pension plan investments | 737 | – |
| Tennessee Housing Development Agency's contributions subsequent to the measurement date of June 30, 2015 | 46,706 | – |
| Total | $ 47,443 | $ 4,730 |

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of $46,706 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2017. Other 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 June 30:**

| | | |
|---|---|---|
| 2017 | $ | (407) |
| 2018 | | (407) |
| 2019 | | (407) |
| 2020 | | (407) |
| 2021 | | (591) |
| Thereafter | | (1,774) |

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

<u>Actuarial assumptions</u> The total pension asset as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.0 percent |
| Salary increases | Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent |
| Investment rate of return | 7.5 percent, net of pension plan investment expenses, including inflation |
| Cost-of Living Adjustment | 2.5 percent |

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| **Asset Class** | **Long-Term Expected Real Rate of Return** | **Target Allocation** |
|---|---|---|
| U.S. equity | 6.46% | 33% |
| Developed market international equity | 6.26% | 17% |
| Emerging market international equity | 6.40% | 5% |
| Private equity and strategic lending | 4.61% | 8% |
| U.S. fixed income | 0.98% | 29% |
| Real estate | 4.73% | 7% |
| Short-term securities | 0.00% | 1% |
| | | 100% |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) | $ (4,995) | $ (12,713) | $ (18,490) |

**Payable to the Pension Plan**
At June 30, 2016, THDA reported a payable of $13,189 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

**c. Total Defined Benefit Pension Expense**

The total pension expense for the year ended June 30, 2016 for both defined benefit pension plans was $565,523.

## NOTE 7. DEFERRED COMPENSATION PLANS

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457 and the other pursuant to IRC, Section 401(k). The plans are outsourced to third party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014 voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013,* employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The Tennessee Housing Development Agency recognized a pension expense of $186,417 for employer contributions.

## NOTE 8. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of $750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional $232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and $500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

## NOTE 9. INSURANCE-RELATED ACTIVITIES

### a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### b. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers’ compensation. The state’s management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property and crime and fidelity coverage on the state’s officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2016, the Risk Management Fund held $142.9 million in cash designated for payment of claims

**c. Employee Group Insurance Fund**

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

## NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans - the State

Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-201. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Any employee hired on or after July 1, 2015 is not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The plans are reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency (see Note 11). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members of the State Employment Group Plan are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated,* retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 25 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retires 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 25 but less than 30 years of service, $37.50; and retirees with 15 but less than 20 years of service, $25.

**THDA Annual OPEB Cost and Net OPEB Obligation**
**State Employee Group Plan**
(Thousands)

| | June 30, 2016 |
|---|---|
| Annual Required Contribution (ARC) | $341 |
| Interest on the Net OPEB Obligation | 57 |
| Adjustment to the ARC | (57) |
| Annual OPEB cost | 341 |
| Amount of contribution | (255) |
| Increase in Net OPEB Obligation | 86 |
| Net OPEB Obligation-beginning of year | 1,516 |
| Net OPEB Obligation-end of year | $1,602 |

| Year End | Plan | Annual OPEB Cost (Thousands) | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation At Year End (Thousands) |
|---|---|---|---|---|
| 6/30/2016 | State Employee Group Plan | $ 341 | 74% | $ 1,602 |
| 6/30/2015 | State Employee Group Plan | $ 357 | 71% | $ 1,516 |
| 6/30/2014 | State Employee Group Plan | $ 346 | 68% | $ 1,413 |

Funded Status and Funding Progress The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2015, was as follows (thousands):

| | |
|---|---|
| Actuarial valuation date | 7/01/2015 |
| Actuarial accrued liability (AAL) | $ 2,923 |
| Actuarial value of plan assets | -0- |
| Unfunded actuarial accrued liability (UAAL) | $ 2,923 |
| Actuarial value of assets as a % of the AAL | 0% |
| Covered payroll (active plan members) | $ 10,046 |
| UAAL as a percentage of covered payroll | 29% |

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreases to 6% in fiscal year 2016, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

## NOTE 11. ON-BEHALF PAYMENTS

During the year ended June 30, 2016, the State of Tennessee made payments of $6,488 on behalf of THDA for retirees participating in the Medicare Supplement Plan, The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

## NOTE 12. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, $15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, $43,000,000 was transferred from the agency to the State General Fund. The $43,000,000 transferred from the agency came from the following resources of the agency: (i) $15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) $5,028,761 from the Housing Program Reserve Fund; and (iii) $22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of $35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

## NOTE 13. SUBSEQUENT EVENTS

**a.** Residential Finance Program Bonds, Issue 2016-3, were authorized by the Board of directors on September 20, 2016, not to exceed $66,165,000. The sale of the Bonds will occur no later than December 31, 2016.

**b.** Residential Finance Bonds, Issue 2016-2, were sold on October 18, 2016. The bond maturities are as follow:

**BONDS ISSUED**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) |
|---|---|---|---|
| 2016-2 | 7/1/2017-1/1/2047 | $125,000 | 0.720 to 3.500 |

**c.** Residential Finance Bonds, Issue 2016-3, were sold on November 17, 2016. The bond maturities are as follow:

**BONDS ISSUED**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) |
|---|---|---|---|
| 2016-3 | 7/1/2017-7/1/2031 | $62,000 | 1.000 to 3.500 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET
STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

| | THDA's Proportion of the Net Pension Asset | THDA;s Proportionate Share of the Net Pension Asset | THDA's Covered Payroll | Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Asset |
|---|---|---|---|---|---|
| 2016 | 0.457171% | $ 13 | 498 | 2.60% | 142.55% |

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

| | THDA's Proportion of the Net Pension Liability | THDA's Proportionate Share of the Net Pension Liability | THDA's Covered Payroll | Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2016 | 0.421046% | $ 5,429 | $ 10,994 | 49.38% | 91.26% |
| 2015 | 0.429581% | 2,964 | 11,601 | 25.55% | 95.11% |

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of informjamation is available

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
STATE AND HIGHER EDUCATION EMPLOYEE RETIREMENT PLAN
(Expressed in Thousands)

| | THDA's Contractually Determined Contributions | THDA's Contributions in Relation to Contractually Determined Contribution | Contribution Deficiency (Excess) | THDA;s Covered Payroll | Contributions as a Percentage of THDA's Covered Payroll |
|---|---|---|---|---|---|
| 2016 | $ 47 | $ 47 | $ - | $ 1,661 | 2.81% |
| 2015 | 19 | 19 | - | 498 | 3.82% |

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

| | THDA's Contractually Determined Contributions | THDA's Contributions in Relation to Contractually Determined Contribution | Contribution Deficiency (Excess) | THDA's Covered Payroll | Contributions as a Percentage of THDA's Covered Payroll |
|---|---|---|---|---|---|
| 2016 | $ 1,539 | $ 1,539 | $ - | $ 10,240 | 15.03% |
| 2015 | 1,652 | 1,652 | - | 10,994, | 15.03% |
| 2014 | 1,744 | 1,744 | - | 11,601 | 15.03% |
| 2013 | 1,693 | 1,693 | - | 11,264 | 15.03% |
| 2012 | 1,632 | 1,632 | - | 10,946 | 14.91% |
| 2011 | 1,586 | 1,586 | - | 10,637 | 14.91% |
| 2010 | 1,295 | 1,295 | - | 9,946 | 13.02% |
| 2009 | 1,201 | 1,201 | - | 9,224 | 13.02% |
| 2008 | 1,297 | 1,297 | - | 9,522 | 13.62% |
| 2007 | 1,175 | 1,175 | - | 8,627 | 13.62% |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYEE BENEFITS SCHEDULE OF FUNDING PROGRESS
(Expressed in Thousands)

| Actuarial Valuation Date | Plan | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|---|
| 7/1/2011 | State Employee Group Plan | $ -0- | $ 2,919 | $ 2,919 | 0% | $ 9,818 | 30% |
| 7/1/2013 | State Employee Group Plan | $ -0- | $ 2,964 | $ 2,964 | 0% | $ 9,841 | 30% |
| 7/1/2015 | State Employee Group Plan | $ -0- | $ 2,923 | $ 2,923 | 0% | $10,046 | 29% |

Exhibit A

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF NET POSITION**
**JUNE 30, 2016**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 2,897 | $ 11,071 | $ 78,576 | $ 31,284 | $ 94,195 | $ 218,023 |
| Investments | - | 6,594 | 10,594 | 9,395 | 47,628 | 74,211 |
| Receivables: | | | | | | |
| Accounts | 232 | 359 | 2,235 | 537 | 697 | 4,060 |
| Interest | - | 29 | 4,522 | 3,021 | 4,372 | 11,944 |
| First mortgage loans | - | 1,949 | 23,393 | 9,990 | 23,743 | 59,075 |
| Due from federal government | 26,361 | - | - | - | - | 26,361 |
| Due from other funds | 2,189 | - | - | - | - | 2,189 |
| Prepaid expenses | 1 | - | - | - | - | 1 |
| Total current assets | 31,680 | 20,002 | 119,320 | 54,227 | 170,635 | 395,864 |
| Noncurrent assets: | | | | | | |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 3,299 | - | 4,278 | 3,443 | 2,627 | 13,647 |
| Investments | - | - | 105,430 | 17,991 | 34,443 | 157,864 |
| Investment Interest receivable | - | - | 1,186 | 33 | 107 | 1,326 |
| Investments | - | 7,474 | 501 | 1,799 | 32,879 | 42,653 |
| First mortgage loans receivable | 717 | 46,066 | 562,052 | 372,924 | 867,673 | 1,849,432 |
| Second mortgage loans receivable | - | - | 21,326 | | | 21,326 |
| Allowance for forgivable second mortgage | - | - | (7,808) | - | - | (7,808) |
| Advance to local government | 3,107 | - | - | - | - | 3,107 |
| Net pension asset | 13 | - | - | - | - | 13 |
| Capital assets: | | | | | | |
| Furniture and equipment | 2,631 | - | - | - | - | 2,631 |
| Less accumulated depreciation | (1,456) | - | - | - | - | (1,456) |
| Total noncurrent assets | 8,311 | 53,540 | 686,965 | 396,190 | 937,729 | 2,082,735 |
| Total assets | 39,991 | 73,542 | 806,285 | 450,417 | 1,108,364 | 2,478,599 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Deferred amount on refundings | - | - | 222 | - | 759 | 981 |
| Deferred outflows related to pensions | 2,161 | - | - | - | - | 2,161 |
| Total deferred outflows of resources | 2,161 | - | 222 | - | 759 | 3,142 |
| **LIABILITIES** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 9,217 | 2 | 12 | - | 4 | 9,235 |
| Accrued payroll and related liabilities | 585 | - | - | - | - | 585 |
| Investments purchased | - | - | - | - | - | - |
| Compensated absences | 633 | - | - | - | - | 633 |
| Due to primary government | 72 | - | - | - | - | 72 |
| Interest payable | - | - | 11,236 | 6,596 | 14,468 | 32,300 |
| Escrow deposits | - | 89 | - | - | - | 89 |
| Prepayments on mortgage loans | - | - | 399 | 196 | 566 | 1,161 |
| Due to federal government | 1,679 | - | | | - | 1,679 |
| Due to other funds | - | - | 2,065 | - | 124 | 2,189 |
| Bonds payable | - | - | 52,870 | 17,295 | 30,195 | 100,360 |
| Arbitrage rebate payable | - | - | 3,684 | - | - | 3,684 |
| Total current liabilities | 12,186 | 91 | 70,266 | 24,087 | 45,357 | 151,987 |
| Noncurrent liabilities: | | | | | | |
| Bonds payable | - | - | 485,047 | 376,119 | 944,968 | 1,806,134 |
| Compensated absences | 611 | - | - | - | - | 611 |
| Net pension liability | 5,429 | - | - | - | - | 5,429 |
| Net OPEB obligation | 1,602 | - | - | - | - | 1,602 |
| Escrow deposits | 336 | 509 | - | - | 2,503 | 3,348 |
| Arbitrage rebate payable | - | - | 410 | - | - | 410 |
| Total noncurrent liabilities | 7,978 | 509 | 485,457 | 376,119 | 947,471 | 1,817,534 |
| Total liabilities | 20,164 | 600 | 555,723 | 400,206 | 992,828 | 1,969,521 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | |
| Deferred inflows related to pensions | 1,288 | - | - | - | - | 1,288 |
| Total deferred inflows of resources | 1,288 | - | - | - | - | 1,288 |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 1,175 | - | - | - | - | 1,175 |
| Restricted for single family bond programs | - | 41 | 250,784 | 50,211 | 116,295 | 417,331 |
| Restricted for grant programs | - | 9,617 | - | - | - | 9,617 |
| Restricted for Homebuyers Revolving Loan | 3,153 | - | - | - | - | 3,153 |
| Restricted for net pension asset | 13 | - | - | - | - | 13 |
| Unrestricted | 16,359 | 63,284 | - | - | - | 79,643 |
| Total net position | $ 20,700 | $ 72,942 | $ 250,784 | $ 50,211 | $ 116,295 | $ 510,932 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**FOR THE YEAR ENDED JUNE 30, 2016**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | |
| Mortgage interest income | $ 11 | $ 51 | $ 34,588 | $ 19,159 | $ 36,426 | $ 90,235 |
| Investment income: | | | | | | |
| Interest | 38 | 200 | 6,847 | 618 | 2,011 | 9,714 |
| Net increase (decrease) in the fair value of investments | - | (129) | (3,519) | 126 | (320) | (3,842) |
| Federal grant administration fees | 13,346 | - | - | - | - | 13,346 |
| Fees and other income | 2,753 | - | - | - | 953 | 3,706 |
| Total operating revenues | 16,148 | 122 | 37,916 | 19,903 | 39,070 | 113,159 |
| **OPERATING EXPENSES** | | | | | | |
| Salaries and benefits | 15,845 | - | - | - | - | 15,845 |
| Contractual services | 4,976 | - | - | - | 13 | 4,989 |
| Materials and supplies | 1,233 | - | - | - | - | 1,233 |
| Rentals and insurance | 18 | - | - | - | - | 18 |
| Other administrative expenses | 571 | - | - | - | - | 571 |
| Other program expenses | 323 | 65 | 7,993 | 158 | 1,144 | 9,683 |
| Interest expense | - | - | 23,713 | 13,456 | 24,876 | 62,045 |
| Mortgage service fees | - | 92 | 2,260 | 1,436 | 2,967 | 6,755 |
| Issuance costs | - | - | - | - | 2,311 | 2,311 |
| Depreciation | 511 | - | - | - | - | 511 |
| Total operating expenses | 23,477 | 157 | 33,966 | 15,050 | 31,311 | 103,961 |
| Operating income (loss) | (7,329) | (35) | 3,950 | 4,853 | 7,759 | 9,198 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | |
| Federal grants revenue | 269,217 | - | - | - | - | 269,217 |
| Other grant revenue | - | 9 | - | - | - | 9 |
| Federal grants expenses | (269,057) | - | - | - | - | (269,057) |
| Local grants expenses | (12,842) | - | - | - | - | (12,842) |
| Total nonoperating revenues (expenses) | (12,682) | 9 | - | - | - | (12,673) |
| Income (loss) before transfers | (20,011) | (26) | 3,950 | 4,853 | 7,759 | (3,475) |
| Transfers (to) other funds | - | - | (42,180) | - | - | (42,180) |
| Transfers from other funds | 19,351 | 6,517 | - | 8,831 | 7,481 | 42,180 |
| Change in net position | (660) | 6,491 | (38,230) | 13,684 | 15,240 | (3,475) |
| Total net position, July 1 | 21,360 | 66,451 | 289,014 | 36,527 | 101,055 | 514,407 |
| Total net position, June 30 | $ 20,700 | $ 72,942 | $ 250,784 | $ 50,211 | $ 116,295 | $ 510,932 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2016**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | |
| Receipts from customers | $ - | $ 3,210 | $ 211,158 | $ 92,903 | $ 110,315 | $ 417,586 |
| Receipts from federal government | 12,862 | - | - | - | - | 12,862 |
| Receipts from other funds | 1,299 | - | - | - | - | 1,299 |
| Other miscellaneous receipts | 2,753 | - | - | - | 953 | 3,706 |
| Acquisition of mortgage loans | - | (2,627) | (16,894) | - | (273,954) | (293,475) |
| Payments to service mortgages | - | (92) | (2,260) | (1,436) | (2,967) | (6,755) |
| Payments to suppliers | (4,980) | (65) | (1,800) | (179) | (1,180) | (8,204) |
| Payments to other funds | - | - | - | - | (1,299) | (1,299) |
| Payments to or for employees | (17,046) | - | - | - | - | (17,046) |
| Net cash provided (used) by operating activities | (5,112) | 426 | 190,204 | 91,288 | (168,132) | 108,674 |
| Cash flows from non-capital financing activities: | | | | | | |
| Operating grants received | 258,403 | 8 | - | - | - | 258,411 |
| Transfers in (out) | 19,351 | 6,517 | 4,178 | 8,831 | (38,877) | - |
| Proceeds from sale of bonds | - | - | - | - | 306,902 | 306,902 |
| Operating grants paid | (285,892) | - | - | - | - | (285,892) |
| Cost of issuance paid | - | - | - | - | (2,311) | (2,311) |
| Principal payments | - | - | (210,520) | (85,445) | (77,385) | (373,350) |
| Interest paid | - | - | (30,732) | (13,674) | (23,893) | (68,299) |
| Net cash provided (used) by non-capital financing activities | (8,138) | 6,525 | (237,074) | (90,288) | 164,436 | (164,539) |
| Cash flows from capital and related financing activities: | | | | | | |
| Purchases of capital assets | (1,174) | - | - | - | - | (1,174) |
| Net cash used by capital and related financing activities | (1,174) | - | - | - | - | (1,174) |
| Cash flows from investing activities: | | | | | | |
| Proceeds from sales and maturities of investments | - | 18,199 | 153,221 | 33,007 | 200,972 | 405,399 |
| Purchases of investments | - | (27,712) | (137,209) | (40,381) | (222,471) | (427,773) |
| Investment interest received | 38 | 205 | 7,057 | 685 | 2,023 | 10,008 |
| Increase in fair value of investments subject to fair value reporting and classified as cash equivalents | - | - | 39 | 18 | 30 | 87 |
| Net cash provided (used) by investing activities | 38 | (9,308) | 23,108 | (6,671) | (19,446) | (12,279) |
| Net decrease in cash and cash equivalents | (14,386) | (2,357) | (23,762) | (5,671) | (23,142) | (69,318) |
| Cash and cash equivalents, July 1 | 20,582 | 13,428 | 106,616 | 40,398 | 119,964 | 300,988 |
| Cash and cash equivalents, June 30 | $ 6,196 | $ 11,071 | $ 82,854 | $ 34,727 | $ 96,822 | $ 231,670 |

(continued)

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)**
**FOR THE YEAR ENDED JUNE 30, 2016**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | | |
| Operating income (loss) | $ (7,329) | $ (35) | $ 3,950 | $ 4,853 | $ 7,759 | $ 9,198 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 511 | - | - | - | - | 511 |
| Pension expense | 566 | - | - | - | - | 566 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) decrease in accounts receivable | (229) | 85 | 13,102 | 9,722 | 2,857 | 25,537 |
| (Increase) decrease in mortgage interest receivable | 21 | 25 | 1,723 | 578 | (780) | 1,567 |
| (Increase) in deferred pension outflows | (1,586) | - | - | - | - | (1,586) |
| (Increase) decrease in mortgage loans receivable | 133 | 395 | 149,884 | 63,483 | (203,100) | 10,795 |
| (Increase) in due from federal government | (484) | - | - | - | - | (484) |
| Decrease in interfund receivables | 1,299 | - | - | - | - | 1,299 |
| (Decrease) in interfund payables | - | - | - | - | (1,299) | (1,299) |
| Increase (decrease) in accounts payable | 1,902 | 27 | (131) | (60) | 935 | 2,673 |
| Increase in accrued payroll / compensated absences | 121 | - | - | - | - | 121 |
| Increase in due to primary government | 1 | - | - | - | - | 1 |
| Increase in arbitrage rebate liability | - | - | 1,291 | - | - | 1,291 |
| Investment income included as operating revenue | (38) | (71) | (3,328) | (744) | (1,691) | (5,872) |
| Interest expense included as operating expense | - | - | 23,713 | 13,456 | 24,876 | 62,045 |
| Issuance cost included as operating expense | - | - | - | - | 2,311 | 2,311 |
| Total adjustments | 2,217 | 461 | 186,254 | 86,435 | (175,891) | 99,476 |
| Net cash provided (used) by operating activities | $ (5,112) | $ 426 | $ 190,204 | $ 91,288 | $ (168,132) | $ 108,674 |
| Noncash investing, capital, and financing activities: | | | | | | |
| Increase (decrease) in fair value of investments | $ - | $ 6 | $ 559 | $ (220) | $ (277) | $ 68 |
| Total noncash investing, capital, and financing activities | $ - | $ 6 | $ 559 | $ (220) | $ (277) | $ 68 |

Tennessee Housing Development Agency

# *FINANCIAL STATEMENTS*

**June 30, 2015**

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
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# Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

## Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development 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 accounting principles generally accepted in the United States of America; 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in the Notes, the agency implemented Governmental Accounting Standards Board Statement (GASBS) 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASBS 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the other postemployment benefits schedule of funding progress, schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and schedule of contributions to the State and Higher Education Employee Retirement Plan 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, which 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 23, 2015

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2015, with comparative information presented for the fiscal year ended June 30, 2014. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

## INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2015, THDA has originated over 115,000 single-family mortgage loans in its 42-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discreetly presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at http://www.tn.gov/finance/article/fa-accfin-cafr.

During fiscal year 2015, THDA implemented accounting standard GASB Statement 68, Accounting and Financial Reporting for Pensions. The Statement requires the reporting of an organization's net pension liability on the face of the financial statements. Implementation of this Statement resulted in a revision of THDA's Net Position as of July 1, 2014, which has been reported as a Prior Period Adjustment.

## FINANCIAL HIGHLIGHTS

**Year Ended June 30, 2015**

- Total assets increased by $1.9 million, or 0.1%.
- Deferred outflows of resources increased $1.4 million, or 112.2%.
- Total liabilities increased by $11.6 million, or 0.6%.
- Net position was $514.4 million. This is a decrease of $12.5 million, or 2.4%, from fiscal year 2014.
- Cash and cash equivalents increased by $27.6 million, or 10.1%.
- Total investments increased by $3.3 million, or 1.3%.
- Bonds payable decreased by $5.1 million, or 0.3%.
- Deferred inflows of resources increased $4.3 million. The amount of deferred inflows of resources as reported on the FY 2014 financial statements was $0.
- THDA originated $250.8 million in new loans, which is an increase of $23.5 million, or 10.3%, from the prior year.

## FINANCIAL ANALYSIS OF THE AGENCY

**Net Position.** The following table focuses on the changes in net position between fiscal years (expressed in thousands):

| | 2015 | 2014 |
|---|---|---|
| Current assets | $ 442,792 | $ 400,662 |
| Capital assets | 512 | 626 |
| Other noncurrent assets | 2,123,193 | 2,163,308 |
| Total assets | 2,566,497 | 2,564,596 |
| Deferred outflows of resources | 2,653 | 1,250 |
| Current liabilities | 191,375 | 171,907 |
| Noncurrent liabilities | 1,859,097 | 1,867,011 |
| Total liabilities | 2,050,472 | 2,038,918 |
| Deferred inflows of resources | 4,271 | - |
| Invested in capital assets | 512 | 626 |
| Restricted net position | 441,196 | 449,905 |
| Unrestricted net position | 72,699 | 76,397 |
| Total net position | $ 514,407 | $ 526,928 |

**2015 to 2014**

- THDA's total net position decreased by $12.5 million, or 2.4%, from $526.9 million at June 30, 2014 to $514.4 million at June 30, 2015. This change resulted from a decrease in net position of $6.8 million for the cumulative effect of a change in accounting principle caused by the implementation of GASB 68, operating income of $9.7 million, and non-operating expenses of $15.4 million.

- First and Second mortgage loans receivable decreased by $33.5 million or 1.7% from $1,966.3 million on June 30, 2014 to $1,932.8 million on June 30, 2015. During FY 2015, single-family mortgage loan originations increased by $23.5 million or 10.3% from $227.3 million at June 30, 2014 to $250.8 million at June 30, 2015. Mortgage loan payoffs increased by $38.4 million or 26.0% from $147.6 million at June 30, 2014 to $186.0 million at June 30, 2015. Mortgage loan repayments increased $2.3 million, or 4.5%, from $51.2 million at June 30, 2014 to $53.5 million at June 30, 2015. In addition, THDA recognized an allowance for forgivable second mortgages of $2.9 million, whereas no such allowance was recorded at June 30, 2014.

- Total liabilities increased $11.6 million or 0.6% from $2,038.9 million on June 30, 2014 to $2,050.5 million on June 30, 2015. The increase is primarily due to an increase in accounts payable at June 30, 2015 as compared to June 30, 2014, as well as reporting a pension liability as a result of implementing GASB 68.

**Changes in Net Position.** The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

| | 2015 | 2014 |
|---|---|---|
| Operating revenues | | |
| Mortgage interest income | $ 96,999 | $ 102,108 |
| Investment income | 6,535 | 6,346 |
| Other | 16,512 | 19,027 |
| Total operating revenues | 120,046 | 127,481 |
| Operating expenses | | |
| Interest expense | 66,389 | 70,390 |
| Other | 43,932 | 42,941 |
| Total operating expenses | 110,321 | 113,331 |
| Operating income | 9,725 | 14,150 |
| Nonoperating revenues (expenses) | | |
| Grant revenues | 307,012 | 295,814 |
| Grant expenses | (322,465) | (309,503) |
| Total nonoperating revenues (expenses) | (15,453) | (13,689) |
| Change in net position | $ (5,728) | $ 461 |

**2015 to 2014**

Total operating revenues decreased $7.4 million, or 5.8%, from $127.5 million for the year ended June 30, 2014, to $120.1 million for the year ended June 30, 2015. The primary reasons for this decrease are as follows:

- Mortgage interest income decreased $5.1 million, or 5.0%, from $102.1 million in 2014 to $97.0 million in 2015. This is due to new mortgage loan originations having lower interest rates than those associated with mortgage loan repayments.

- Total operating expenses decreased $3.0 million, or 2.7%, from $113.3 million in fiscal year 2014 to $110.3 million in fiscal year 2015. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

## DEBT ACTIVITY

Bonds outstanding at June 30 were as follows (expressed in thousands):

| | 2015 | 2014 |
|---|---|---|
| Bonds payable | $ 1,979,170 | $ 1,984,298 |

**Year Ended June 30, 2015**
Total bonds and notes payable decreased $5.1 million, or 0.3%, due primarily to an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $477.8 million, with activity arising from three bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded $213.4 million of outstanding bonds into new bond originations with lower interest rates.

**Bond Ratings**
For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of the The McGraw-Hill Companies, Inc. has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2015 or FY 2014.

**Debt Limits**
In accordance with *Tennessee Code Annotated,* 13-23-121, THDA operates under a "debt ceiling" of $2,930,000,000.

## GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly has appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors has allocated additional THDA funds for grants. These funds established a grant program that has been titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

| | FY 2015 | FY 2014 | FY 2013 | FY 2012 and Prior | Total |
|---|---|---|---|---|---|
| ***Funding Sources:*** | | | | | |
| THDA | $ 7,500,000 | $ 9,300,000 | $ 6,500,000 | $ 36,500,000 | $ 59,800,000 |
| State Appropriation | - | - | - | 4,350,000 | 4,350,000 |
| **Totals** | **$ 7,500,000** | **$ 9,300,000** | **$ 6,500,000** | **$ 40,850,000** | **$ 64,150,000** |
| ***Approved Uses:*** | | | | | |
| Rural repair program (USDA) | $ 700,000 | $ 700,000 | $ 700,000 | $ 4,200,000 | $ 6,300,000 |
| Ramp Programs & Hsg Modification | 150,000 | 150,000 | 150,000 | 900,000 | 1,350,000 |
| Emergency Repairs | 1,800,000 | 2,000,000 | - | 12,000,000 | 15,800,000 |
| Competitive Grants | 2,850,000 | 3,850,000 | 5,150,000 | 22,950,000 | 34,800,000 |
| Rebuild & Recover | 500,000 | 2,300,000 | - | - | 2,800,000 |
| Other Grants | 1,500,000 | 300,000 | 500,000 | 800,000 | 3,100,000 |
| **Totals** | **$ 7,500,000** | **$ 9,300,000** | **$ 6,500,000** | **$ 40,850,000** | **$ 64,150,000** |

In addition to the above funding, local grants could produce an additional $4 million or more in funding each year. Also, the Emergency Repairs for the Elderly program and the Competitive Grants have a 50% grantee match requirement.

## CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the *Great Choice* and the *Great Choice Plus* loan programs were introduced and the *Great Rate*, *Great Advantage* and *Great Start* loan programs were eliminated. The *Great Choice* loan program offers THDA the opportunity to offer a more competitive interest rate on its 30 year fixed rate mortgage product while still offering down payment assistance with the addition of the *Great Choice Plus* loan program which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the *Great Choice Plus* loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15.

A special interest rate reduction on *Great Choice* loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as "*Homeownership for the Brave*", provides a 0.5% rate reduction on the current interest rate for *Great Choice* loans. In addition to the rate reduction, "*Homeownership for the Brave*" applicants are eligible for optional down payment and closing cost assistance through the *Great Choice Plus* second mortgage loan at a 0% interest rate.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at http://www.thda.org/index.aspx?NID=8.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2015, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

| Loan Status | Total Number of Loans Serviced | Number of Loans in Status | Principal Amount | Percentage |
|---|---|---|---|---|
| 60-89 Days Past Due | 24,101 | 538 | $ 42,001,519 | 2.23% |
| 90+ Days Past Due | 24,101 | 1,296 | 105,118,036 | 5.38% |
| In Foreclosure | 24,101 | 338 | 24,993,487 | 1.40% |

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

## ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five-year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

## CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENT OF NET POSITION**
**JUNE 30, 2015**
**(Expressed in Thousands)**

| | 2015 |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents (Note 2) | $ 275,510 |
| Investments (Note 2) | 42,603 |
| Receivables: | |
| Accounts | 29,597 |
| Interest | 13,556 |
| First mortgage loans | 53,465 |
| Due from federal government | 28,051 |
| Prepaid expenses | 10 |
| Total current assets | 442,792 |
| Noncurrent assets: | |
| Restricted assets: | |
| Cash and cash equivalents (Note 2) | 25,478 |
| Investments (Note 2) | 178,624 |
| Investment interest receivable | 1,573 |
| Investments (Note 2) | 35,056 |
| First mortgage loans receivable | 1,869,777 |
| Second mortgage loans receivable | 12,505 |
| Allowance for forgivable second mortgages | (2,904) |
| Advance to local government | 3,084 |
| Capital assets: | |
| Furniture and equipment | 1,561 |
| Less accumulated depreciation | (1,049) |
| Total noncurrent assets | 2,123,705 |
| Total assets | 2,566,497 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred amount on refundings | 981 |
| Deferred outflows related to pensions (Note 6) | 1,672 |
| Total deferred outflows of resources | 2,653 |
| **LIABILITIES** | |
| Current liabilities: | |
| Accounts payable | 11,444 |
| Accrued payroll and related liabilities | 587 |
| Compensated absences | 585 |
| Due to primary government | 71 |
| Interest payable | 32,325 |
| Escrow deposits | 76 |
| Prepayments on mortgage loans | 1,165 |
| Due to federal government | 14,667 |
| Bonds payable (Note 4) | 130,455 |
| Total current liabilities | 191,375 |
| Noncurrent liabilities: | |
| Bonds payable (Note 4) | 1,848,715 |
| Compensated absences | 622 |
| Net pension liability (Note 6) | 2,964 |
| Net OPEB obligation (Note 10) | 1,516 |
| Escrow deposits | 2,477 |
| Arbitrage rebate payable | 2,803 |
| Total noncurrent liabilities | 1,859,097 |
| Total liabilities | 2,050,472 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred inflows related to pensions (Note 6) | 4,271 |
| Total deferred inflows of resources | 4,271 |
| **NET POSITION** | |
| Net investment in capital assets | 512 |
| Restricted for single family bond programs (Note 5 and Note 8) | 426,741 |
| Restricted for grant programs (Note 5) | 11,302 |
| Restricted for Homebuyers Revolving Loan Program (Note 5) | 3,153 |
| Unrestricted (Note 8) | 72,699 |
| Total net position | $ 514,407 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**FOR THE YEAR ENDED JUNE 30, 2015**
**(Expressed in Thousands)**

| | | 2015 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Mortgage interest income | $ | 96,999 |
| Investment income: | | |
| Interest | | 10,413 |
| Net (decrease) in the fair value of investments | | (3,878) |
| Federal grant administration fees | | 14,920 |
| Fees and other income | | 1,592 |
| Total operating revenues | | 120,046 |
| **OPERATING EXPENSES** | | |
| Salaries and benefits | | 15,147 |
| Contractual services | | 6,478 |
| Materials and supplies | | 657 |
| Rentals and insurance | | 30 |
| Other administrative expenses | | 476 |
| Other program expenses | | 10,185 |
| Interest expense | | 66,389 |
| Mortgage service fees | | 7,076 |
| Issuance costs | | 3,538 |
| Depreciation | | 345 |
| Total operating expenses | | 110,321 |
| Operating income | | 9,725 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Federal grants revenue | | 307,010 |
| Other grants revenue | | 2 |
| Federal grants expenses | | (307,165) |
| Local grants expenses | | (15,300) |
| Total nonoperating revenues (expenses) | | (15,453) |
| Change in net position | | (5,728) |
| Total net position, July 1 | | 526,928 |
| Cumulative effect of a change in accounting principle (Note 3) | | (6,793) |
| Total net position, July 1, as restated | | 520,135 |
| Total net position, June 30 | $ | 514,407 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2015**
**(Expressed in Thousands)**

| | | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from customers | $ | 380,448 |
| Receipts from federal government | | 14,708 |
| Other miscellaneous receipts | | 1,592 |
| Acquisition of mortgage loans | | (250,764) |
| Payments to service mortgages | | (5,914) |
| Payments to suppliers | | (14,245) |
| Payments to or for employees | | (16,603) |
| Net cash provided by operating activities | | 109,222 |
| Cash flows from non-capital financing activities: | | |
| Operating grants received | | 309,194 |
| Proceeds from sale of bonds | | 477,824 |
| Operating grants paid | | (315,029) |
| Cost of issuance paid | | (3,538) |
| Principal payments | | (477,870) |
| Interest paid | | (75,380) |
| Net cash used by non-capital financing activities | | (84,799) |
| Cash flows from capital and related financing activities: | | |
| Purchases of capital assets | | (231) |
| Net cash used by capital and related financing activities | | (231) |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | | 124,834 |
| Purchases of investments | | (132,012) |
| Investment interest received | | 10,548 |
| Increase in fair value of investments subject to fair value reporting and classified as cash equivalents | | 23 |
| Net cash provided by investing activities | | 3,393 |
| Net increase in cash and cash equivalents | | 27,585 |
| Cash and cash equivalents, July 1 | | 273,403 |
| Cash and cash equivalents, June 30 | $ | 300,988 |

(continued)

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENT OF CASH FLOWS (cont.)**
**FOR THE YEAR ENDED JUNE 30, 2015**
**(Expressed in Thousands)**

| | | 2015 |
|---|---|---|
| Reconciliation of operating income to | | |
| net cash provided by operating activities: | | |
| Operating income | $ | 9,725 |
| Adjustments to reconcile operating income to | | |
| net cash provided by operating activities: | | |
| Depreciation | | 345 |
| Pension expense | | 442 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | | 3,344 |
| Decrease in mortgage interest receivable | | 321 |
| (Increase) in deferred pension outflows | | (1,672) |
| Decrease in mortgage loans receivable | | 33,435 |
| (Increase) in due from federal government | | (212) |
| (Decrease) in accounts payable | | (1,546) |
| Increase in accrued payroll / compensated absences | | 75 |
| (Decrease) in due to primary government | | (1) |
| Increase in arbitrage rebate liability | | 1,574 |
| Investment income (loss) included as operating revenue | | (6,535) |
| Interest expense included as operating expense | | 66,389 |
| Issuance cost included as operating expense | | 3,538 |
| Total adjustments | | 99,497 |
| Net cash provided by operating activities | $ | 109,222 |
| Noncash investing, capital, and financing activities: | | |
| (Decrease) in fair value of investments | $ | (4,933) |
| Total noncash investing, capital, and financing activities | $ | (4,933) |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**NOTES TO THE FINANCIAL STATEMENTS**
**JUNE 30, 2015**

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

### b. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

**c. Basis of Accounting and Measurement Focus**

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cashflows. When both restricted and unrestricted resources are available for use, it is the agency’s policy to use the restricted resources first. All significant interfund transactions have been eliminated.

**d. Capital Assets**

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of $5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

| Description | Estimated Life |
|---|---|
| Furniture | 10 years |
| Computer equipment | 3 years |

**e. Restricted Assets**

Restricted assets are comprised of the Debt Service Reserve Funds and the Bond Reserve Funds.

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

**f. Deferred Amount on Refundings and Bond Premiums and Discounts**

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

**g. Cash and Cash Equivalents**

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

**h. Investments**

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

**i. Accrual of Interest Income**

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

**j. Mortgages**

Mortgages are carried at their original amount less collected principal.

**k. Operating Revenues and Expenses**

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

**l. Allowance for Forgivable Second Mortgages**

THDA has offered Down Payment Assistance (DPA) product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15$^{th}$ anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

**m. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

## NOTE 2. DEPOSITS AND INVESTMENTS

### a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2015, the bank balance was $17,206,841. All bank balances at June 30, 2015, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of $250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2015, $16,820,732 was in the BNYM. Of this amount, $16,570,732 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report.* That report is available on the state's website at www.treasury.tn.gov.

### b. Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

| | **June 30, 2015** | |
|---|---|---|
| **Investment Type** | **Fair Value** | **Effective Duration (Years)** |
| U.S. Agency Coupon | $144,042,517 | 2.994 |
| U.S. Treasury Coupon | 77,246,460 | 2.305 |
| U.S. Agency Discount | 154,992,130 | 0.076 |
| | | |
| Total | $376,281,107 | 1.6512 |

The portfolios include the following investments, stated at par or face value, which have fair values highly sensitive to interest rate changes. These investments are recorded at fair value in the statement of net position.

Variable Rate Bonds

The agency purchased $2,350,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on June 11, 2012, and mature on June 11, 2027. The fair value of these securities on June 30, 2015, is $2,319,095, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0%

with a step-up option to 2.5% on June 11, 2016, to 3.0% on June 11, 2020; to 4.0% on June 11, 2022; to 6.0% on June 11, 2023; to 7.0% on June 11, 2024; to 8.0% on December 11, 2024; to 10.0% on June 11, 2025; to 12.0% on December 11, 2025; to 14.0% on June 11, 2026; and to 16.0% on December 11, 2026.

The agency purchased $3,210,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on June 28, 2012, and mature on June 27, 2027. The fair value of these securities on June 30, 2015 is $3,166,835, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 28, 2015; to 3.0% on June 28, 2018; to 4.0% on June 28, 2021; to 5.0% on June 28, 2023; and to 6.5% on June 28, 2025.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 100.12 of par on November 15, 2012 and mature on June 11, 2027. The fair value of these securities on June 30, 2015 is $2,960,547, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016; to 3.0% on June 11, 2020; to 4.0% on June 11, 2022; to 6.0% on June 11, 2023; to 7.0% on June 11, 2024; to 8.0% on December 11, 2024; to 10.0% on June 11, 2025; to 12.0% on December 11, 2025; to 14.0% on June 11, 2026; and to 16.0% on December 11, 2026.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on November 8, 2012. Although these securities were scheduled to mature on November 8, 2027, these bonds were called on May 8, 2015.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.45 of par on November 23, 2012, and mature on November 23, 2027. The fair value of these securities on June 30, 2015 is $2,676,093, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.125% on November 23, 2017; to 2.25% on November 23, 2020; to 2.5% on November 23, 2023; to 3.0% on November 23, 2024; to 4.0% on May 23, 2025; to 6.0% on November 23, 2025; to 8.0% on May 23, 2026; to 11.0% on November 23, 2026; and to 14% on May 23, 2027. This investment is callable quarterly beginning May 23, 2013, and ending November 23, 2015.

The agency purchased $2,400,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.65 of par on December 21, 2012 and mature on December 21, 2027. The fair value of these securities on June 30, 2015 is $2,243,767, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.25% on December 21, 2017; to 2.5% on December 21, 2020; to 3.0% on December 21, 2022; to 4.0% on December 21, 2023; to 5.0% on December 21, 2024; to 6.0% on December 21, 2025; to 8.0% on June 21, 2026; to 10.0% on December 21, 2026; and to 12.0% on June 21, 2027. This investment is callable quarterly beginning June 21, 2013, and ending December 21, 2018.

The agency purchased $2,750,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.90 of par on January 30, 2013 and mature on January 30, 2025. The fair value of these securities on June 30, 2015 is $2,696,378, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.25% on January 30, 2018; to 2.5% on January 30, 2021; to 3.0% on January 30, 2022; to 5.0% on January 30, 2023; to 7.0% on July 30, 2023; and to 9.0% on January 30, 2024. This investment is callable quarterly beginning July 30, 2013, and ending October 30, 2016.

The agency purchased $1,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.18 of par on November 7, 2012, and mature on June 28, 2027. The fair value of these securities on June 30, 2015 is $1,487,250, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on June 28, 2017; to 5.0% on June 28, 2024; and to 6.5% on June 28, 2026. This investment is callable quarterly beginning December 28, 2012, and ending December 28, 2015.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on August 27, 2012, and mature on August 27, 2027. The fair value of these securities on June 30, 2015 is $1,987,664, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 1.5% with a step-up option to 2.5% on August 27, 2015; to 3.5% on August 27, 2018; to 4.5% on August 27, 2021; and to 5.5% on August 27, 2024. This investment is callable quarterly beginning August 27, 2012, and ending November 27, 2015.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012, and mature on December 27, 2027. The fair value of these securities on June 30, 2015 is $4,869,600, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 1.0% with a step-up option to 2.0% on June 27, 2013, and to 3.15% on December 27, 2013. This investment is callable quarterly beginning June 27, 2013, and ending December 27, 2016.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012, and mature on December 27, 2017. Although these securities were scheduled to mature on December 27, 2017, they were sold internally on November 20, 2014. The fair value of these securities on June 30, 2015 is $2,998,458, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 0.6% with a step-up option to 0.7% on December 27, 2014; to 1.0% on December 27, 2015; to 1.5% on December 27, 2016; and to 3.0% on June 27, 2017. This investment is callable quarterly beginning December 27, 2013, and ending December 27, 2016.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 28, 2012, and mature on December 28, 2027. The fair value of these securities on June 30, 2015 is $2,944,083, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 3.0% on December 28, 2017; to 4.0% on December 28, 2020; to 5.0% on December 28, 2024; and to 6.0% on December 28, 2025. This investment is callable quarterly beginning June 28, 2013, and ending December 28, 2017.

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2015, are included in the schedule below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

| June 30, 2015 | | | | | |
|---|---|---|---|---|---|
| | | | **Credit Quality Rating** | | |
| **Investment Type** | **Fair Value** | **U.S. Treasury**[1] | **AA+** | **AA-2** | **Not Rated**[2] |
| U.S. Agency Coupon | $144,042,517 | | $126,719,822 | $4,555,652 | $12,767,043 |
| U.S. Treasury Coupon | 77,246,460 | $77,246,460 | | | |
| U.S. Agency Discount | 154,992,130 | | | | 154,992,130 |
| Total | $376,281,107 | $77,246,460 | $126,719,822 | $4,555,652 | $167,759,173 |

[1]This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

[2]This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

Concentration of Credit Risk   Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

| | June 30, 2015 | |
|---|---|---|
| **Issuer** | **Fair Value** | **% of Portfolio** |
| Federal Home Loan Bank | $215,105,442 | 57.17 |
| Federal National Mortgage Assoc. | $53,208,579 | 14.14 |

## NOTE 3. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2015, Tennessee Housing Development Agency implemented *GASB Statement 68, Accounting and Financial Reporting for Pensions and GASB 71,* Pension Transition f*or Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB Statement 68 establishes standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred inflows, note disclosures and required supplementary information. The implementation of GASB Statement 68 resulted in a cumulative adjustment to the beginning net position of $(6,792,803). This cumulative adjustment does not include related deferred inflows and deferred outflows of resources.

## NOTE 4. LIABILITIES

### a. Bonds Issued and Outstanding

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2015 |
|---|---|---|---|---|
| **HOMEOWNERSHIP PROGRAM BONDS** | | | | |
| 2005-2 | 1/1/2007-7/1/2036 | 100,000 | 3.00 to 5.00 | 27,395 |
| 2006-1 | 7/1/2007-1/1/2037 | 100,000 | 3.55 to 5.75 | 24,185 |
| 2006-2 | 7/1/2007-1/1/2037 | 100,000 | 3.90 to 5.75 | 22,945 |
| 2006-3 | 1/1/2008-7/1/2037 | 100,000 | 3.65 to 5.75 | 30,935 |
| 2007-1 | 7/1/2008-1/1/2038 | 100,000 | 3.65 to 5.50 | 34,055 |
| 2007-2 | 7/1/2008-7/1/2038 | 120,000 | 3.75 to 5.25 | 45,200 |
| 2007-3 | 1/1/2009-7/1/2038 | 150,000 | 3.85 to 5.50 | 51,365 |
| 2007-4 | 1/1/2009-7/1/2038 | 150,000 | 3.75 to 5.50 | 56,675 |
| 2008-1 | 7/1/2009-1/1/2039 | 60,000 | 2.45 to 5.70 | 21,760 |
| 2008-3 | 7/1/2009-7/1/2038 | 90,000 | 2.00 to 5.45 | 18,430 |
| 2009-1 | 1/1/2010-7/1/2029 | 50,000 | 0.75 to 5.00 | 26,500 |
| 2009-2 | 7/1/2010-7/1/2030 | 75,000 | 0.90 to 5.00 | 40,090 |
| 2010-1 | 1/1/2011-7/1/2025 | 120,700 | 0.35 to 4.50 | 62,585 |
| 2011-1 | 7/1/2012-7/1/2042 | 141,255 | 0.60 to 4.65 | 96,835 |
| 2012-1 | 1/1/2013-7/1/2042 | 133,110 | 0.80 to 4.50 | 103,190 |
| 2012-2 | 7/1/2013-7/1/2043 | 97,625 | 0.50 to 4.00 | 81,890 |
| Total Homeownership Program Bonds | | $1,687,690 | | $744,035 |
| Plus: Unamortized Bond Premiums | | | | 6,883 |
| Less: Unamortized Bond Discount | | | | (133) |
| Net Homeownership Program Bonds | | | | $750,785 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2015 |
|---|---|---|---|---|
| **HOUSING FINANCE PROGRAM BONDS** | | | | |
| 2009-A | 1/1/2011-1/1/2040 | $100,000 | 0.90 to 4.625 | $20,325 |
| 2010-A | 1/1/2011-7/1/2041 | 160,000 | 0.60 to 5.00 | 34,305 |
| 2010-B | 7/1/2011–7/1/2041 | 100,000 | 0.45 to 4.50 | 72,770 |
| 2011-A | 7/1/2011-7/1/2041 | 100,000 | 0.45 to 4.50 | 24,175 |
| 2011-B | 7/1/2012-7/1/2041 | 100,000 | 0.25 to 4.50 | 79,500 |
| 2011-C | 7/1/2012-7/1/2041 | 100,000 | 0.40 to 4.30 | 79,525 |
| 2015-A | 1/1/2016-7/1/2045 | 150,000 | 0.30 to 3.85 | 163,850 |
| Total Housing Finance Program Bonds | | $810,000 | | $474,450 |
| Plus: Unamortized Bond Premiums | | | | 5,415 |
| Net Housing Finance Program Bonds | | | | $479,865 |

| BONDS ISSUED AND OUTSTANDING (Thousands) | | | | |
|---|---|---|---|---|
| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2015 |
| **RESIDENTIAL FINANCE PROGRAM BONDS** | | | | |
| 2013-1 | 1/1/2014-7/1/2043 | $215,905 | 0.40 to 4.00 | $177,520 |
| 2013-2 | 7/1/2014-7/1/2043 | 121,300 | 0.45 to 4.65 | 109,615 |
| 2014-1 | 1/1/2015-7/1/2039 | 150,000 | 0.32 to 4.00 | 143,350 |
| 2014-2 | 7/1/2015-7-1-2045 | 150,000 | 0.25 to 4.00 | 150,000 |
| 2015-1 | 1/1/2016-7/1/2045 | 150,000 | 0.50 to 4.05 | 150,000 |
| Total Residential Finance Program Bonds | | $787,205 | | $730,485 |
| Plus: Unamortized Bond Premiums | | | | 18,035 |
| Net Residential Finance Program Bonds | | | | $748,520 |
| Net Total All Issues | | | | $1,979,170 |

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of $85,290,000. The $85,290,000 was blended with the market rate 2010-A bonds in the amount of $74,710,000 for a total of $160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2010-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-A bonds in the amount of $40,000,000 for a total of $100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of $34,710,000. The $34,710,000 was blended with the market rate 2011-C bonds in the amount of $65,290,000 for a total of $100,000,000.

**b. Debt Service Requirements**

Debt service requirements to maturity at June 30, 2015, are as follows (expressed in thousands):

| For the Year(s) Ending June 30 | Principal | Interest | Total Requirements |
|---|---|---|---|
| 2016 | $130,210 | $66,327 | $196,537 |
| 2017 | 60,840 | 67,253 | 128,093 |
| 2018 | 62,240 | 65,731 | 127,971 |
| 2019 | 65,205 | 63,938 | 129,143 |
| 2020 | 67,515 | 61,921 | 129,436 |
| 2021 – 2025 | 371,950 | 272,510 | 644,460 |
| 2026 – 2030 | 344,895 | 202,692 | 547,587 |
| 2031 – 2035 | 357,140 | 132,603 | 489,743 |
| 2036 – 2040 | 327,036 | 63,012 | 390,048 |
| 2041 – 2045 | 161,939 | 13,973 | 175,912 |
| Total | $1,948,970 | $1,009,960 | $2,958,930 |

**c. Redemption of Bonds and Notes**

During the year ended June 30, 2015, bonds were retired at par before maturity in the Homeownership Program in the amount of $80,555,000, in the Housing Finance Program in the amount of $61,800,000, and in the Residential Finance Program in the amount of $9,740,000. The respective carrying values of the bonds were $82,200,775, $62,080,414 and $10,014,860. This resulted in revenue to the Homeownership Program of $1,645,775, to the Housing Finance Program of $280,414, and to the Residential Finance Program of $274,860.

On May 29, 2014, the agency issued $150,000,000 in Residential Finance Program Bonds, Issue 2014-1. On July 1, 2014, the agency used $30,375,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $30,375,000 early redemption). The carrying amount of these bonds was $30,375,000. The refunding increased the agency’s debt service by $2,086,324 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $603,145.

On November 20, 2014, the agency issued $150,000,000 in Residential Finance Program Bonds, Issue 2014-2. On January 1, 2015, the agency used $32,955,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $32,955,000 early redemption). The carrying amount of these bonds was $32,970,071. The refunding increased the agency's debt service by $2,804,783 over the next 20.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $628,626.

On May 28, 2015, the agency issued $163,850,000 in Housing Finance Program Bonds, Issue 2015-A. On June 1, 2015, the agency used $153,040,000 of these bonds to refund bonds previously issued in the Housing Finance Program (this amount consists of $153,040,000 early redemption). The carrying amount of these bonds was $153,040,000. The refunding reduced the agency's debt service by $12,922,997 over the next 24.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,296,133.

## d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2015.

**Long-term Liabilities**
(Thousands)

| | Beginning Balance July 1, 2014 | Additions | Reductions | Ending Balance June 30, 2015 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | $1,962,990 | $463,850 | ($477,870) | $1,948,970 | $130,455 |
| Plus: Unamortized Bond Premiums | 21,477 | 13,975 | (5,119) | 30,333 | -0- |
| Less: Unamortized Bond Discounts | (169) | -0- | 36 | (133) | -0- |
| Compensated Absences | 1,210 | 80 | (83) | 1,207 | 585 |
| Net Pension Liability | 8,557 | -0- | (5,593) | 2,964 | -0- |
| Escrow Deposits | 2,220 | 1,336 | (1,003) | 2,553 | 76 |
| Arbitrage Rebate Payable | 1,229 | 1,574 | (-0-) | 2,803 | -0- |
| Total | $1,997,514 | $480,815 | ($489,632) | $1,988,697 | $131,116 |

## NOTE 5. RESTRICTED NET POSITION

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

## NOTE 6. PENSION PLANS

### a. Closed State and Higher Education Employee Pension Plan

#### General Information about the Pension Plan

Plan description State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

| | | | | | | |
|---|---|---|---|---|---|---|
| Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level) | **x** | 1.50% | **x** | Years of Service Credit | **x** | 105% |
| **Plus:** Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level) | **x** | 1.75% | **x** | Years of Service Credit | **x** | 105% |

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Tennessee Housing Development Agency employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2015 to the Closed State and Higher Education Employee Pension Plan were $1,652,466 which is 15.03 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

Pension liability At June 30, 2015, Tennessee Housing Development Agency reported a liability of $2,963,885 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension liability was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2014 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2014 measurement date, Tennessee Housing Development Agency's proportion of the central state liability was .424758 percent, representing the first time presentation of this proportion.

Pension expense For the year ended June 30, 2015, Tennessee Housing Development Agency recognized a pension expense of $441,581.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2015, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 639,392 |
| Net difference between projected and actual earnings on pension plan investments | - | 3,631,106 |
| Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2014 | 1,652,466 | - |
| Total | $ 1,652,466 | $ 4,270,498 |

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of $1,652,466 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2016. Other 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 June 30:**

| | | |
|---|---|---|
| 2016 | $ | (1,067,625) |
| 2017 | | (1,067,625) |
| 2018 | | (1,067,625) |
| 2019 | | (1,067,623) |
| 2020 | | - |
| Thereafter | | - |

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions The total pension liability as of the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.0 percent |
| Salary increases | Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent |
| Investment rate of return | 7.5 percent, net of pension plan investment expenses, including inflation |
| Cost-of Living Adjustment | 2.5 percent |

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| **Asset Class** | **Long-Term Expected Real Rate of Return** | **Target Allocation** |
|---|---|---|
| U.S. equity | 6.46% | 33% |
| Developed market international equity | 6.26% | 17% |
| Emerging market international equity | 6.40% | 5% |
| Private equity and strategic lending | 4.61% | 8% |
| U.S. fixed income | 0.98% | 29% |
| Real estate | 4.73% | 7% |
| Short-term securities | 0.00% | 1% |
| | | 100% |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) | $ 10,165,784 | $ 2,963,885 | $ (3,098,235) |

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

**Payable to the Pension Plan**

At June 30, 2015, Tennessee Housing Development Agency reported a payable of $61,392 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

**b. State and Higher Education Employee Retirement Plan**

**General Information about the Pension Plan**

Plan description State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014 and covers employees hired before July 1, 2014. Employees hired after June 30, 2014 are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37.

Benefits provided Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age

65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2015 to the State and Higher Education Employee Retirement Plan were $19,267 which is 3.82 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

Pension liabilities  Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the State and Higher Education Employee Retirement Plan, there is not a net pension liability to report at June 30, 2015.
Pension expense  Since the measurement date is June 30, 2014, Tennessee Housing Development Agency (THDA) did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources  For the year ended June 30, 2015, Tennessee Housing Development Agency reported deferred outflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Tennessee Housing Development Agency's contributions subsequent to the measurement date of June 30, 2014 | $ 19,267 | $ (not applicable) |

Tennessee Housing Development Agency's employer contributions of $19,267 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ended June 30, 2016.

**Payable to the Pension Plan**
At June 30, 2015, THDA reported a payable of $6,568 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

## NOTE 7. DEFERRED COMPENSATION PLANS

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457 and the other pursuant to IRC, Section 401(k). The plans are outsourced to third party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a $50 monthly employer match for employees who participate in the state’s 401(k) plan. Employees hired before July 1, 2014 voluntarily participate in the state’s 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013*, employees hired after June 30, 2014, are automatically enrolled in the state’s 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The Tennessee Housing Development Agency recognized a pension expense of $118,794 for employer contributions.

## NOTE 8. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of $750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional $232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and $500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

## NOTE 9. INSURANCE-RELATED ACTIVITIES

### a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**b. Risk Management Fund**

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2015, the Risk Management Fund held $127.9 million in cash designated for payment of claims. At June 30, 2015, the scheduled coverage for the agency was $1.561 million for furniture and equipment.

**c. Employee Group Insurance Fund**

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

## NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans - the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-101. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency (see Note 11). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates.

Administrative costs of the plan are allocated to plan participants. Retired employees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25.

**THDA Annual OPEB Cost and Net OPEB Obligation**
**State Employee Group Plan**
(Thousands)

| | June 30, 2015 |
|---|---|
| Annual Required Contribution (ARC) | $356 |
| Interest on the Net OPEB Obligation | 56 |
| Adjustment to the ARC | (55) |
| Annual OPEB cost | 357 |
| Amount of contribution | (254) |
| Increase in Net OPEB Obligation | 103 |
| Net OPEB Obligation-beginning of year | 1,413 |
| Net OPEB Obligation-end of year | $1,516 |

| Year End | Plan | Annual OPEB Cost (Thousands) | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation At Year End (Thousands) |
|---|---|---|---|---|
| 6/30/2015 | State Employee Group Plan | $ 357 | 71% | $ 1,516 |
| 6/30/2014 | State Employee Group Plan | $ 346 | 68% | $ 1,413 |
| 6/30/2013 | State Employee Group Plan | $ 359 | 60% | $ 1,303 |

Funded Status and Funding Progress The funded status of THDA's portion of the state Employee Group Plan as of July 1, 2013, was as follows (thousands):

| | |
|---|---|
| Actuarial valuation date | 7/01/2013 |
| Actuarial accrued liability (AAL) | $ 2,964 |
| Actuarial value of plan assets | -0- |
| Unfunded actuarial accrued liability (UAAL) | $ 2,964 |
| Actuarial value of assets as a % of the AAL | 0% |
| Covered payroll (active plan members) | $ 9,841 |
| UAAL as a percentage of covered payroll | 30% |

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2013, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreases to 7% in fiscal year 2015, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

## NOTE 11. ON-BEHALF PAYMENTS

During the year ended June 30, 2015, the State of Tennessee made payments of $5,525 on behalf of THDA for retirees participating in the Medicare Supplement Plan, The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

## NOTE 12. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, $15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, $43,000,000 was transferred from the agency to the State General Fund. The $43,000,000 transferred from the agency came from the following resources of the agency: (i) $15,459,157 from tax revenues previously directed to the Housing Program Fund;

(ii) $5,028,761 from the Housing Program Reserve Fund; and (iii) $22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of $35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

## NOTE 13. SUBSEQUENT EVENTS

**a.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| July 1, 2015 | Homeownership Program | | $40,865,000 |
| | Housing Finance Program | | 10,490,000 |
| | Residential Finance Program | | 10,825,000 |
| | | Total | $62,180,000 |

**b.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| August 1, 2015 | Homeownership Program | | $12,535,000 |
| | Housing Finance Program | | 4,855,000 |
| | Residential Finance Program | | 7,010,000 |
| | | Total | $24,400,000 |

**c.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| September 1, 2015 | Homeownership Program | | $13,760,000 |
| | Housing Finance Program | | 4,880,000 |
| | Residential Finance Program | | 5,845,000 |
| | | Total | $24,485,000 |

**d.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| October 1, 2015 | Homeownership Program | | $13,155,000 |
| | Housing Finance Program | | 4,595,000 |
| | Residential Finance Program | | 5,480,000 |
| | | Total | $23,230,000 |

**e.** Homeownership Program Bonds, Issue 2015-2, were sold on October 15, 2015. The bond maturities are as follow:

| BONDS ISSUED (Thousands) | | | |
|---|---|---|---|
| Series | Maturity Range | Issued Amount | Interest Rate (Percent) |
| 2015-2 | 7/1/2016-1/1/2046 | $175,000 | 0.400 to 4.000 |

**f.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| November 1, 2015 | Homeownership Program | | $11,975,000 |
| | Housing Finance Program | | 6,410,000 |
| | Residential Finance Program | | 4,835,000 |
| | | Total | $23,220,000 |

**g.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| December 1, 2015 | Homeownership Program | | $15,680,000 |
| | Housing Finance Program | | 6,365,000 |
| | Residential Finance Program | | 5,045,000 |
| | | Total | $27,090,000 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST EMPLOYEE BENEFITS SCHEDULE OF FUNDING PROGRESS

(Expressed in Thousands)

| Actuarial Valuation Date | Plan | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|---|
| 7/1/2010 | State Employee Group Plan | $ -0- | $ 3,316 | $ 3,316 | 0% | $ 8,640 | 38% |
| 7/1/2011 | State Employee Group Plan | $ -0- | $ 2,919 | $ 2,919 | 0% | $ 9,818 | 30% |
| 7/1/2013 | State Employee Group Plan | $ -0- | $ 2,964 | $ 2,964 | 0% | $ 9,841 | 30% |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

| | | 2014 |
|---|---|---|
| Tennessee Housing Development Agency's proportion of the net pension liability | | .424758% |
| Tennessee Housing Development Agency's proportionate share of the net pension liability | $ | 2,964 |
| Tennessee Housing Development Agency's covered-employee payroll | $ | 11,601 |
| Tennessee Housing Development Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll | | 25.55% |
| Plan fiduciary net position as a percentage of the total pension liability | | 95.11% |

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

| | 2014 | 2015 |
|---|---|---|
| Contractually Required Contribution | $ 1,744 | $ 1,652 |
| Contribution in relation to the contractually required contribution | 1,744 | 1,652 |
| Contribution deficiency (excess) | $ - | $ - |
| Tennessee Housing Development Agency's covered-employee payroll | $ 11,601 | $ 10,994 |
| Contribution as a percentage of Tennessee Housing Development Agency's covered-employee payroll | 15.03% | 15.03% |

This is a 10-year schedule. However, the information in the schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY’S CONTRIBUTIONS
STATE AND HIGHER EDUCATION EMPLOYEE RETIREMENT PLAN
(Expressed in Thousands)

| | | 2015 |
|---|---|---|
| Contractually Required Contributions | $ | 19 |
| Contributions in relation to the contractually required contribution | | (19) |
| Contribution deficiency (excess) | $ | - |
| Tennessee Housing Development Agency’s covered-employee payroll | $ | 498 |
| Contributions as a percentage of Tennessee Housing Development Agency’s covered-employee payroll | | 3.82% |

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

Exhibit A

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF NET POSITION**
**JUNE 30, 2015**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 5,915 | $ 13,428 | $ 97,295 | $ 39,330 | $ 119,542 | $ 275,510 |
| Investments | - | - | - | - | 42,603 | 42,603 |
| Receivables: | | | | | | |
| Accounts | 3 | 444 | 15,337 | 10,259 | 3,554 | 29,597 |
| Interest | 21 | 58 | 6,240 | 3,594 | 3,643 | 13,556 |
| First mortgage loans | 6 | 164 | 25,100 | 9,874 | 18,321 | 53,465 |
| Due from federal government | 28,051 | - | - | - | - | 28,051 |
| Due from other funds | 3,488 | - | - | - | - | 3,488 |
| Prepaid expenses | 10 | - | - | - | - | 10 |
| Total current assets | 37,494 | 14,094 | 143,972 | 63,057 | 187,663 | 446,280 |
| Noncurrent assets: | | | | | | |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 14,667 | - | 9,321 | 1,068 | 422 | 25,478 |
| Investments | - | - | 135,899 | 19,837 | 22,888 | 178,624 |
| Investment Interest receivable | - | - | 1,401 | 104 | 68 | 1,573 |
| Investments | - | 4,684 | 196 | 1,866 | 28,310 | 35,056 |
| First mortgage loans receivable | 867 | 48,246 | 760,561 | 436,523 | 623,580 | 1,869,777 |
| Second mortgage loans receivable | - | - | 12,505 | | | 12,505 |
| Allowance for forgivable second mortgages | - | - | (2,904) | - | - | (2,904) |
| Advance to local government | 3,084 | - | - | - | - | 3,084 |
| Capital assets: | | | | | | |
| Furniture and equipment | 1,561 | - | - | - | - | 1,561 |
| Less accumulated depreciation | (1,049) | - | - | - | - | (1,049) |
| Total noncurrent assets | 19,130 | 52,930 | 916,979 | 459,398 | 675,268 | 2,123,705 |
| Total assets | 56,624 | 67,024 | 1,060,951 | 522,455 | 862,931 | 2,569,985 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Deferred amount on refundings | - | - | 222 | - | 759 | 981 |
| Deferred outflows related to pensions | 1,672 | - | - | - | - | 1,672 |
| Total deferred outflows of resources | 1,672 | - | 222 | - | 759 | 2,653 |
| **LIABILITIES** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 11,359 | 2 | 35 | 21 | 27 | 11,444 |
| Accrued payroll and related liabilities | 587 | - | - | - | - | 587 |
| Compensated absences | 585 | - | - | - | - | 585 |
| Due to primary government | 71 | - | - | - | - | 71 |
| Interest payable | - | - | 15,964 | 5,807 | 10,554 | 32,325 |
| Escrow deposits | - | 76 | - | - | - | 76 |
| Prepayments on mortgage loans | - | - | 507 | 235 | 423 | 1,165 |
| Due to federal government | 14,667 | - | | | - | 14,667 |
| Due to other funds | - | - | 2,065 | - | 1,423 | 3,488 |
| Bonds payable | - | - | 77,670 | 23,890 | 28,895 | 130,455 |
| Total current liabilities | 27,269 | 78 | 96,241 | 29,953 | 41,322 | 194,863 |
| Noncurrent liabilities: | | | | | | |
| Bonds payable | - | - | 673,115 | 455,975 | 719,625 | 1,848,715 |
| Compensated absences | 622 | - | - | - | - | 622 |
| Net pension liability | 2,964 | - | - | - | - | 2,964 |
| Net OPEB obligation | 1,516 | - | - | - | - | 1,516 |
| Escrow deposits | 294 | 495 | - | - | 1,688 | 2,477 |
| Arbitrage rebate payable | - | - | 2,803 | - | - | 2,803 |
| Total noncurrent liabilities | 5,396 | 495 | 675,918 | 455,975 | 721,313 | 1,859,097 |
| Total liabilities | 32,665 | 573 | 772,159 | 485,928 | 762,635 | 2,053,960 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | |
| Deferred inflows related to pensions | 4,271 | - | - | - | - | 4,271 |
| Total deferred inflows of resources | 4,271 | - | - | - | - | 4,271 |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 512 | - | - | - | - | 512 |
| Restricted for single family bond programs | - | 145 | 289,014 | 36,527 | 101,055 | 426,741 |
| Restricted for grant programs | - | 11,302 | - | - | - | 11,302 |
| Restricted for Homebuyers Revolving Loan Program | 3,153 | - | - | - | - | 3,153 |
| Unrestricted | 17,695 | 55,004 | - | - | - | 72,699 |
| Total net position | $ 21,360 | $ 66,451 | $ 289,014 | $ 36,527 | $ 101,055 | $ 514,407 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**FOR THE YEAR ENDED JUNE 30, 2015**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | |
| Mortgage interest income | $ 36 | $ 119 | $ 47,964 | $ 23,487 | $ 25,393 | $ 96,999 |
| Investment income: | | | | | | |
| Interest | 29 | 27 | 7,827 | 664 | 1,866 | 10,413 |
| Net increase (decrease) in the fair value of investments | - | (1) | (3,550) | 225 | (552) | (3,878) |
| Federal grant administration fees | 14,920 | - | - | - | - | 14,920 |
| Fees and other income | 1,431 | 1 | - | - | 160 | 1,592 |
| Total operating revenues | 16,416 | 146 | 52,241 | 24,376 | 26,867 | 120,046 |
| **OPERATING EXPENSES** | | | | | | |
| Salaries and benefits | 15,147 | - | - | - | - | 15,147 |
| Contractual services | 6,475 | - | 1 | 2 | - | 6,478 |
| Materials and supplies | 657 | - | - | - | - | 657 |
| Rentals and insurance | 30 | - | - | - | - | 30 |
| Other administrative expenses | 476 | - | - | - | - | 476 |
| Other program expenses | 1,931 | 108 | 6,596 | 549 | 1,001 | 10,185 |
| Interest expense | - | - | 32,354 | 16,977 | 17,058 | 66,389 |
| Mortgage service fees | - | 87 | 3,225 | 1,716 | 2,048 | 7,076 |
| Issuance costs | - | - | - | 1,195 | 2,343 | 3,538 |
| Depreciation | 345 | - | - | - | - | 345 |
| Total operating expenses | 25,061 | 195 | 42,176 | 20,439 | 22,450 | 110,321 |
| Operating income (loss) | (8,645) | (49) | 10,065 | 3,937 | 4,417 | 9,725 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | |
| Federal grants revenue | 307,010 | - | - | - | - | 307,010 |
| Other grant revenue | - | - | 2 | - | - | 2 |
| Federal grants expenses | (307,165) | - | - | - | - | (307,165) |
| Local grants expenses | (15,100) | (200) | - | - | - | (15,300) |
| Total nonoperating revenues (expenses) | (15,255) | (200) | 2 | - | - | (15,453) |
| Income (loss) before transfers | (23,900) | (249) | 10,067 | 3,937 | 4,417 | (5,728) |
| Transfers (to) other funds | - | - | (3,592) | (13,036) | (9,069) | (25,697) |
| Transfers from other funds | 16,147 | 9,550 | - | - | - | 25,697 |
| Change in net position | (7,753) | 9,301 | 6,475 | (9,099) | (4,652) | (5,728) |
| Total net position, July 1 | 35,906 | 57,150 | 282,539 | 45,626 | 105,707 | 526,928 |
| Cumulative effect of a change in accounting principle | (6,793) | - | - | - | - | (6,793) |
| Total net position, July 1, as restated | 29,113 | 57,150 | 282,539 | 45,626 | 105,707 | 520,135 |
| Total net position, June 30 | $ 21,360 | $ 66,451 | $ 289,014 | $ 36,527 | $ 101,055 | $ 514,407 |

Exhibit C

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2015**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | |
| Receipts from customers | $ 360 | $ 3,809 | $ 182,632 | $ 78,039 | $ 115,608 | $ 380,448 |
| Receipts from federal government | 14,708 | - | - | - | - | 14,708 |
| Receipts from other funds | 3,634 | 20 | - | - | 1,423 | 5,077 |
| Other miscellaneous receipts | 1,431 | 1 | - | - | 160 | 1,592 |
| Acquisition of mortgage loans | - | (8,259) | (9,052) | (1,716) | (231,737) | (250,764) |
| Payments to service mortgages | - | (87) | (3,225) | (554) | (2,048) | (5,914) |
| Payments to suppliers | (10,755) | (110) | (2,128) | - | (1,252) | (14,245) |
| Payments to other funds | - | - | (5,077) | - | - | (5,077) |
| Payments to or for employees | (16,603) | - | - | - | - | (16,603) |
| Net cash provided (used) by operating activities | (7,225) | (4,626) | 163,150 | 75,769 | (117,846) | 109,222 |
| Cash flows from non-capital financing activities: | | | | | | |
| Operating grants received | 309,192 | - | 2 | - | - | 309,194 |
| Transfers in (out) | 16,147 | 9,475 | 57,588 | (13,036) | (70,174) | - |
| Proceeds from sale of bonds | - | - | - | 168,316 | 309,508 | 477,824 |
| Operating grants paid | (314,829) | (200) | - | - | - | (315,029) |
| Cost of issuance paid | - | - | - | (1,195) | (2,343) | (3,538) |
| Principal payments | - | - | (221,280) | (215,875) | (40,715) | (477,870) |
| Interest paid | - | - | (40,474) | (20,913) | (13,993) | (75,380) |
| Net cash provided (used) by non-capital financing activities | 10,510 | 9,275 | (204,164) | (82,703) | 182,283 | (84,799) |
| Cash flows from capital and related financing activities: | | | | | | |
| Purchases of capital assets | (231) | - | - | - | - | (231) |
| Net cash used by capital and related financing activities | (231) | - | - | - | - | (231) |
| Cash flows from investing activities: | | | | | | |
| Proceeds from sales and maturities of investments | - | 3,055 | 86,016 | 28,137 | 59,270 | 176,478 |
| Purchases of investments | - | (5,036) | (54,090) | (17,044) | (107,486) | (183,656) |
| Investment interest received | 29 | 178 | 7,932 | 680 | 1,729 | 10,548 |
| Increase in fair value of investments subject to fair value reporting and classified as cash equivalents | - | - | 7 | 3 | 13 | 23 |
| Net cash provided (used) by investing activities | 29 | (1,803) | 39,865 | 11,776 | (46,474) | 3,393 |
| Net increase (decrease) in cash and cash equivalents | 3,083 | 2,846 | (1,149) | 4,842 | 17,963 | 27,585 |
| Cash and cash equivalents, July 1 | 17,499 | 10,582 | 107,765 | 35,556 | 102,001 | 273,403 |
| Cash and cash equivalents, June 30 | $ 20,582 | $ 13,428 | $ 106,616 | $ 40,398 | $ 119,964 | $ 300,988 |

(continued)

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)**
**FOR THE YEAR ENDED JUNE 30, 2015**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | | |
| Operating income (loss) | $ (8,645) | $ (49) | $ 10,065 | $ 3,937 | $ 4,417 | $ 9,725 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 345 | - | - | - | - | 345 |
| Pension expense | 442 | - | - | - | - | 442 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) decrease in accounts receivable | - | (53) | 5,997 | (1,895) | (705) | 3,344 |
| (Increase) decrease in mortgage interest receivable | 8 | 45 | 1,486 | 239 | (1,457) | 321 |
| (Increase) in deferred pension outflows | (1,672) | - | - | - | - | (1,672) |
| (Increase) decrease in mortgage loans receivable | 294 | (4,501) | 121,214 | 56,273 | (139,845) | 33,435 |
| Decrease in due from federal government | (212) | - | - | - | - | (212) |
| Decrease in interfund receivables | 3,634 | 20 | - | - | 1,423 | 5,077 |
| (Decrease) in interfund payables | - | - | (5,077) | - | - | (5,077) |
| Increase (decrease) in accounts payable | (1,464) | (62) | (186) | (68) | 234 | (1,546) |
| Increase in accrued payroll / compensated absences | 75 | - | - | - | - | 75 |
| (Decrease) in due to primary government | (1) | - | - | - | - | (1) |
| Increase in arbitrage rebate liability | - | - | 1,574 | - | - | 1,574 |
| Investment income included as operating revenue | (29) | (26) | (4,277) | (889) | (1,314) | (6,535) |
| Interest expense included as operating expense | - | - | 32,354 | 16,977 | 17,058 | 66,389 |
| Issuance cost included as operating expense | - | - | - | 1,195 | 2,343 | 3,538 |
| Total adjustments | 1,420 | (4,577) | 153,085 | 71,832 | (122,263) | 99,497 |
| Net cash provided (used) by operating activities | $ (7,225) | $ (4,626) | $ 163,150 | $ 75,769 | $ (117,846) | $ 109,222 |
| Noncash investing, capital, and financing activities: | | | | | | |
| Increase (decrease) in fair value of investments | $ - | $ 7 | $ (4,298) | $ (179) | $ (463) | $ (4,933) |
| Total noncash investing, capital, and financing activities | $ - | $ 7 | $ (4,298) | $ (179) | $ (463) | $ (4,933) |

Exhibit D

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF NET POSITION - MORTGAGE FINANCE PROGRAM**
**JUNE 30, 2015**
**(Expressed in Thousands)**

| | General Fund | Escrow Fund** | Mortgage Finance Program Total |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 13,275 | $ 153 | $ 13,428 |
| Receivables: | | | |
| Accounts | 439 | 5 | 444 |
| Interest | 57 | 1 | 58 |
| First mortgage loans | 164 | - | 164 |
| Total current assets | 13,935 | 159 | 14,094 |
| Noncurrent assets: | | | |
| Restricted assets: | | | |
| Investments | 4,226 | 458 | 4,684 |
| First mortgage loans receivable | 48,246 | - | 48,246 |
| Total noncurrent assets | 52,472 | 458 | 52,930 |
| Total assets | 66,407 | 617 | 67,024 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | 2 | - | 2 |
| Escrow deposits | - | 76 | 76 |
| Total current liabilities | 2 | 76 | 78 |
| Noncurrent liabilities: | | | |
| Escrow deposits | 99 | 396 | 495 |
| Total noncurrent liabilities | 99 | 396 | 495 |
| Total liabilities | 101 | 472 | 573 |
| **NET POSITION** | | | |
| Restricted for single family bond programs | - | 145 | 145 |
| Restricted for grant programs | 11,302 | - | 11,302 |
| Unrestricted | 55,004 | - | 55,004 |
| Total net position | $ 66,306 | $ 145 | $ 66,451 |

** The Escrow Funds can only be used for escrow payments.

Tennessee Housing Development Agency

*Leading Tennessee Home*

# *FINANCIAL STATEMENTS*

**June 30, 2014**

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

## Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

### Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the years ended June 30, 2014, and June 30, 2013, 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 accounting principles generally accepted in the United States of America; 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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2014, and June 30, 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress 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, which 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
November 3, 2014

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014, AND JUNE 30, 2013

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2014, and June 30, 2013, with comparative information presented for the fiscal year ended June 30, 2012. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

## INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2014, THDA has originated over 115,000 single-family mortgage loans in its 41-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 75 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discreetly presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at www.tn.gov/finance/act/cafr.shtml.

During fiscal year 2013, THDA implemented several accounting standards, including GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement 65, *Items Previously Reported as Assets and Liabilities.* Among the requirements of these pronouncements, GASB Statement 63 required the reclassification of net assets to net position; as well as the reclassification of certain deferred amounts to new categories called deferred outflows of resources and deferred inflows of resources. As applicable to THDA, deferred amounts from bond refundings, which were previously reported as a component of bonds payable (noncurrent), are now reported as deferred outflows of resources. In addition, bond issuance costs, which previously was reported as an asset (deferred charges) and amortized over the life of the bonds, is now recognized as expense in the period when incurred. GASB Statement 65 required retroactive implementation and reporting for all financial periods presented; therefore, beginning net position for fiscal year 2012 was restated to reflect the retroactive application of GASB Statement 65.

## FINANCIAL HIGHLIGHTS

### Year Ended June 30, 2014

- Total assets decreased by $162.7 million, or 6.0%.
- Deferred outflows of resources decreased $1.0 million, or 45.3%.
- Total liabilities decreased by $164.2 million, or 7.5%.
- Net position was $526.9 million. This is an increase of $0.5 million, or 0.1%, from fiscal year 2013.
- Cash and cash equivalents decreased by $130.9 million, or 32.4%.
- Total investments decreased by $31.2 million, or 11.0%.
- Bonds payable decreased by $152.5 million, or 7.1%.
- THDA originated $227.3 million in new loans, which is a decrease of $15.1 million, or 7.1%, from the prior year.

**Year Ended June 30, 2013**

- Total assets increased by $102.4 million, or 3.9%.
- Deferred outflows of resources decreased $0.2 million, or 6.5%.
- Total liabilities increased by $119.3 million, or 5.7%.
- Net position was $526.5 million. This is a decrease of $17.0 million, or 3.1%, from fiscal year 2012.
- Cash and cash equivalents increased by $150.7 million, or 59.4%.
- Total investments increased by $56.9 million, or 25.0%.
- Bonds payable increased by $116.5 million, or 5.8%.
- THDA originated $212.2 million in new loans, which is a decrease of $23.6 million, or 10.0%, from the prior year.

## FINANCIAL ANALYSIS OF THE AGENCY

**Net Position.** The following table focuses on the changes in net position between fiscal years (expressed in thousands):

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Current assets | $ 400,662 | $ 495,605 | $ 314,268 |
| Capital assets | 626 | 194 | 113 |
| Other noncurrent assets | 2,163,308 | 2,231,487 | 2,310,506 |
| Total assets | 2,564,596 | 2,727,286 | 2,624,887 |
| Deferred outflows of resources | 1,250 | 2,287 | 2,445 |
| Current liabilities | 171,907 | 303,224 | 207,708 |
| Noncurrent liabilities | 1,867,011 | 1,899,882 | 1,876,123 |
| Total liabilities | 2,038,918 | 2,203,106 | 2,083,831 |
| Invested in capital assets | 626 | 194 | 114 |
| Restricted net position | 449,905 | 489,105 | 503,563 |
| Unrestricted net position | 76,397 | 37,168 | 39,824 |
| Total net position | $ 526,928 | $ 526,467 | $ 543,501 |

**2014 to 2013**

- THDA's total net position increased by $0.5 million, or 0.1%, from $526.5 million at June 30, 2013 to $526.9 million at June 30, 2014. While various factors accounted for this change, the most significant factors include an increase in investment income, an increase in the net increase/decrease in the fair value of investments, and a decrease in bonds payable.

- Mortgage loans receivable decreased by $21.0 million or 1.1% from $1,987.3 million on June 30, 2013 to $1,966.3 million on June 30, 2014. During FY 2014, single-family mortgage loan originations increased by $15.1 million or 7.1% from $212.2 million at June 30, 2013 to $227.3 million at June 30, 2014. Mortgage loan prepayments and repayments decreased by $22.1 million or 8.3% from $267.3 million at June 30, 2013 to $245.3 million at June 30, 2014.

- Total liabilities decreased $164.2 million or 7.5% from $2,203.1 million on June 30, 2013 to $2,038.9 million on June 30, 2014. The decrease is primarily due to a decrease in the amount of bonds issued during fiscal year 2014 as compared to fiscal year 2013, as well as an increase in the redemption of bonds, due to more frequent bond calls, as compared to fiscal year 2013.

**2013 to 2012**

- THDA's total net position decreased by $17.0 million, or 3.1%, from $543.5 million at June 30, 2012, to $526.5 million at June 30, 2013. While various factors accounted for this change, the most significant factors include a decrease in mortgage interest income, a decrease in the net increase/decrease in the fair value of investments, and an increase in bonds payable.

- Mortgage loans receivable decreased by $109.3 million, or 5.2%, from $2,096.6 million on June 30, 2012, to $1,987.3 million on June 30, 2013. During FY 2013, single-family mortgage loan originations decreased by $23.6 million, or 10.0%, from $235.7 million at June 30, 2012, to $212.2 million at June 30, 2013. Conversely, mortgage loan prepayments and repayments increased by $58.3 million, or 28.0% from $209.0 million at June 30, 2012, to $267.3 million on June 30, 2013.

- Total liabilities increased $119.3 million, or 5.7%, from $2,083.8 million at June 30, 2012, to $2,203.1 million at June 30, 2013. The increase is primarily due to an increase in the amount of bonds issued during fiscal year 2013 as compared to fiscal year 2012, as well as a small decrease in the redemption of bonds as compared to fiscal year 2012.

**Changes in Net Position.** The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Operating revenues | | | |
| Mortgage interest income | $ 102,108 | $ 109,158 | $ 116,015 |
| Investment income | 6,346 | (4,346) | 11,992 |
| Other | 19,027 | 17,865 | 17,693 |
| Total operating revenues | 127,481 | 122,677 | 145,700 |
| Operating expenses | | | |
| Interest expense | 70,390 | 78,643 | 86,020 |
| Other | 42,941 | 41,982 | 41,298 |
| Total operating expenses | 113,331 | 120,625 | 127,318 |
| Operating income | 14,150 | 2,052 | 18,382 |
| Nonoperating revenues (expenses) | | | |
| Grant revenues | 295,814 | 237,638 | 260,371 |
| Payment from primary government | - | - | 34,500 |
| Grant expenses | (309,503) | (256,724) | (274,977) |
| Total nonoperating revenues (expenses) | (13,689) | (19,086) | 19,894 |
| Change in net position | $ 461 | $ (17,034) | $ 38,276 |

**2014 to 2013**

Total operating revenues increased $4.8 million, or 3.9%, from $122.7 million for the year ended June 30, 2013, to $127.5 million for the year ended June 30, 2014. The primary reasons for this increase are as follows:

- Investment income increased $10.7 million or 247.0% from a net loss of $4.3 million in 2013 to $6.3 million in 2014, due to the net increase in the fair value of investments by $10.7 million.

- Mortgage interest income decreased $7.1 million, or 6.4%, from $109.2 million in 2013 to $102.1 million in 2014. This is due to mortgage loan prepayments exceeding the amount of mortgage loan originations. Likewise, new mortgage loan originations typically have lower interest rates than those associated with mortgage loan repayments.

- Total operating expenses decreased $7.3 million, or 6.0%, from $120.6 million in fiscal year 2013 to $113.3 million in fiscal year 2014. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

**2013 to 2012**

Total operating revenues decreased $23.0 million, or 15.8%, from $145.7 million for the year ended June 30, 2012, to $122.7 million for the year ended June 30, 2013. The primary reasons for this decrease are as follows:

- Investment income decreased $16.3 million, or 136.2%, from $12.0 million in 2012 to a net loss of $4.3 million in 2013. While interest income from investments decreased marginally, THDA experienced a net decrease in the fair value of investments of $15.2 million in fiscal year 2013, as compared to a net increase in the fair value of investments of $0.3 million in fiscal year 2012.

- Mortgage interest income decreased $6.9 million, or 5.9%, from $116.0 million in 2012 to $109.1 million in 2013. This is due to mortgage loan prepayments exceeding the amount of mortgage loan originations. Likewise, new mortgage loan originations typically have lower interest rates than those associated with mortgage loan repayments.

- Total operating expenses decreased $6.7 million, or 5.3%, from $127.3 million in fiscal year 2012 to $120.6 million in fiscal year 2013. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

For the year ended June 30, 2013, total operating expenses decreased $6.7 million, or 5.3%, from $127.3 million in 2012 to $120.6 million in 2013. The decrease is not significant.

## DEBT ACTIVITY

Bonds outstanding at June 30 were as follows (expressed in thousands):

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Bonds payable | $ 1,984,298 | $ 2,136,806 | $ 2,020,302 |

**Year Ended June 30, 2014**

Total bonds and notes payable decreased $152.5 million, or 7.1%, due primarily to a decrease in the amount of bonds issued as well as an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $277.8 million, with activity arising from two bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded $61.8 million of outstanding bonds into new bond originations with lower interest rates.

**Year Ended June 30, 2013**

Total bonds and notes payable increased $116.5 million, or 5.8%, due primarily to an increase in the amount of bonds issued as well as a decrease in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $456.7 million, with activity arising from three bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded $66.5 million of outstanding bonds into new bond originations with lower interest rates.

**New Issue Bond Program (NIBP)**
The New Issue Bond Program (NIBP) provides temporary financing for Housing Finance Agencies (HFAs) to issue new housing bonds to fund new mortgages. The United States Treasury Department will purchase securities of Fannie Mae and Freddie Mac backed by these new housing bonds. This will temporarily allow the HFAs to issue an amount of new housing bonds equal to what they would ordinarily be able to issue with the allocations provided them by Congress but are generally unable to issue given the current challenges in housing and related markets.

On December 23, 2009, THDA issued $360 million of bonds under the NIBP, which were $60 million (Bond Issue 2009-A2) and $300 million (Bond Issue 2009-B1). The $300 million 2009-B1 bonds are variable-rate taxable debt, and are to be held in escrow. Upon being placed in escrow, the proceeds from these bonds are re-invested into permissible investments as required by the United States Treasury Department (generally, 28-day Treasury Bills purchased at auction). These bonds are scheduled to be released from escrow, re-designated and be converted to fixed-rate, tax-exempt bonds upon the issuance of market bonds within the framework and guidelines of the NIBP. Subsequently, THDA released, re-designated, and converted escrowed bonds (Bond Issue 2009-B) into fixed-rate, tax-exempt bonds as noted:

| Date | Amount | New Bond Issue |
|---|---|---|
| June 17, 2010 | $ 56,860,000 | Bond Issue 2010-A1 |
| | 17,850,000 | Bond Issue 2010-A2 |
| | 85,290,000 | Bond Issue 2009-B, Subseries B-1 |
| October 27, 2010 | 40,000,000 | Bond Issue 2010-B |
| | 60,000,000 | Bond Issue 2009-B, Subseries B-2 |
| March 24, 2011 | 40,000,000 | Bond Issue 2011-A |
| | 60,000,000 | Bond Issue 2009-B, Subseries B-3 |
| August 25, 2011 | 40,000,000 | Bond Issue 2011-B |
| | 60,000,000 | Bond Issue 2009-B, Subseries B-4 |
| November 03, 2011 | 65,290,000 | Bond Issue 2011-C |
| | 34,710,000 | Bond Issue 2009-B, Subseries B-5 |

As of June 30, 2012, all of the bonds issued under issue 2009-B1 had been released, re-designated, and converted into fixed-rate, tax-exempt bonds.

**Bond Ratings**
For bonds issued under the Mortgage Finance Program, Moody's Investors Service, Inc. ("Moody's") has assigned THDA's bonds a rating of Aa2, and Standard & Poor's Ratings Services ("S&P"), a division of The McGraw-Hill Companies, Inc. has assigned THDA's bonds a rating of AA.

For bonds issued under the Homeownership Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1, and S&P has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2014 or FY 2013.

### Debt Limits

In accordance with *Tennessee Code Annotated,* 13-23-121, THDA operates under a "debt ceiling" of $2,930,000,000.

## GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly has appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors has allocated additional THDA funds for grants. These funds established a grant program that has been titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

| | FY 2014 | FY 2013 | FY 2012 | FY 2011 and Prior | Total |
|---|---|---|---|---|---|
| ***Funding Sources:*** | | | | | |
| THDA | $ 9,300,000 | $ 6,500,000 | $ 6,500,000 | $ 30,000,000 | $ 52,300,000 |
| State Appropriation | - | - | - | 4,350,000 | 4,350,000 |
| **Totals** | **$ 9,300,000** | **$ 6,500,000** | **$ 6,500,000** | **$ 34,350,000** | **$ 56,650,000** |
| | | | | | |
| ***Approved Uses:*** | | | | | |
| Rural repair program (USDA) | $ 700,000 | $ 700,000 | $ 700,000 | $ 3,500,000 | $ 5,600,000 |
| Ramp Program (UCP) | - | - | - | 50,000 | 50,000 |
| Ramp Program | - | - | - | 400,000 | 400,000 |
| Hsg Modification & Ramp Prg | 150,000 | 150,000 | 150,000 | 300,000 | 750,000 |
| Homebuyer Education Initiative | - | - | - | 300,000 | 300,000 |
| Emergency Repairs for Elderly | - | - | 2,000,000 | 10,000,000 | 12,000,000 |
| Emergency Repairs | 2,000,000 | - | - | - | 2,000,000 |
| Competitive Grants | 3,850,000 | 5,150,000 | 3,150,000 | 19,800,000 | 31,950,000 |
| Pilot Program Manufactured Hsg | - | 500,000 | 500,000 | - | 1,000,000 |
| Dunlap New Hope | 300,000 | - | - | - | 300,000 |
| Rebuild & Recover | 2,300,000 | - | - | - | 2,300,000 |
| **Totals** | **$ 9,300,000** | **$ 6,500,000** | **$ 6,500,000** | **$ 34,350,000** | **$ 56,650,000** |

In addition to the above funding, local grants could produce an additional $4 million or more in funding each year. Also, the Emergency Repairs for the Elderly program and the Competitive Grants have a 50% grantee match requirement.

THDA is seeking additional private sector funding. In addition to the above approved uses, THDA received requests that merit funding. These requests totaled approximately $6 million more than the funds available.

## CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the *Great Choice* and the *Great Choice Plus* loan programs were introduced and the *Great Rate*, *Great Advantage* and *Great Start* loan programs were eliminated. The *Great Choice* loan program offers THDA the opportunity to offer a more competitive interest rate on its 30 year fixed rate mortgage product while still offering down payment assistance with the addition of the *Great Choice Plus* loan program which is a second mortgage at a 0% interest rate for a term of 10 years.

A special interest rate reduction on *Great Choice* loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as "*Homeownership for the Brave*", provides a 0.5% rate reduction on the current interest rate for *Great Choice* loans. In addition to the rate reduction, "*Homeownership for the Brave*" applicants are eligible for optional down payment and closing cost assistance through the *Great Choice Plus* second mortgage loan at a 0% interest rate.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans. Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at http://www.thda.org/indes.aspx?NID=8.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2014, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

| Loan Status | Total Number of Loans Serviced | Number of Loans in Status | Principal Amount | Percentage |
|---|---|---|---|---|
| 60-89 Days Past Due | 24,696 | 476 | 36,569,088 | 1.93% |
| 90+ Days Past Due | 24,696 | 1,284 | 102,510,630 | 5.20% |
| In Foreclosure | 24,696 | 485 | 37,182,049 | 1.97% |

As of June 30, 2013, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

| Loan Status | Total Number of Loans Serviced | Number of Loans in Status | Principal Amount | Percentage |
|---|---|---|---|---|
| 60-89 Days Past Due | 25,265 | 554 | 40,491,422 | 2.19% |
| 90+ Days Past Due | 25,265 | 1,181 | 89,505,286 | 4.67% |
| In Foreclosure | 25,265 | 550 | 45,013,301 | 2.18% |

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

## ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five-year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

## CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF NET POSITION**
**JUNE 30, 2014, AND JUNE 30, 2013**
**(Expressed in Thousands)**

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | $ 265,058 | $ 382,434 |
| Investments (Note 2) | 17,006 | 15,310 |
| Receivables: | | |
| Accounts | 32,941 | 18,155 |
| Interest | 13,896 | 13,435 |
| First mortgage loans | 52,087 | 51,350 |
| Due from federal government | 19,668 | 14,921 |
| Prepaid expenses | 6 | - |
| Total current assets | 400,662 | 495,605 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash and cash equivalents (Note 2) | 8,345 | 21,897 |
| Investments (Note 2) | 189,307 | 200,346 |
| Investment interest receivable | 1,689 | 1,753 |
| Investments (Note 2) | 46,692 | 68,533 |
| First mortgage loans receivable | 1,914,213 | 1,935,924 |
| Advance to local government | 3,062 | 3,034 |
| Capital assets: | | |
| Furniture and equipment | 1,437 | 697 |
| Less accumulated depreciation | (811) | (503) |
| Total noncurrent assets | 2,163,934 | 2,231,681 |
| Total assets | 2,564,596 | 2,727,286 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred amount on refundings | 1,250 | 2,287 |
| Total deferred outflows of resources | 1,250 | 2,287 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | 5,755 | 1,642 |
| Accrued payroll and related liabilities | 612 | 535 |
| Compensated absences | 587 | 600 |
| Due to primary government | 72 | 71 |
| Interest payable | 36,502 | 40,279 |
| Escrow deposits | 82 | 172 |
| Prepayments on mortgage loans | 1,293 | 986 |
| Due to federal government | 4,314 | 17,619 |
| Bonds payable (Note 4) | 122,690 | 241,320 |
| Total current liabilities | 171,907 | 303,224 |
| Noncurrent liabilities: | | |
| Bonds payable (Note 4) | 1,861,608 | 1,895,486 |
| Compensated absences | 623 | 630 |
| Net OPEB obligation (Note 9) | 1,413 | 1,303 |
| Escrow deposits | 2,138 | 2,463 |
| Arbitrage rebate payable | 1,229 | - |
| Total noncurrent liabilities | 1,867,011 | 1,899,882 |
| Total liabilities | 2,038,918 | 2,203,106 |
| **NET POSITION** | | |
| Net investment in capital assets | 626 | 194 |
| Restricted for single family bond programs (Note 5 and Note 7) | 434,000 | 472,570 |
| Restricted for grant programs (Note 5) | 12,752 | 13,382 |
| Restricted for Homebuyers Revolving Loan Program (Note 5) | 3,153 | 3,153 |
| Unrestricted (Note 7) | 76,397 | 37,168 |
| Total net position | $ 526,928 | $ 526,467 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**FOR THE YEARS ENDED JUNE 30, 2014, AND JUNE 30, 2013**
**(Expressed in Thousands)**

| | 2014 | 2013 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Mortgage interest income | $ 102,108 | $ 109,158 |
| Investment income: | | |
| Interest | 10,682 | 10,881 |
| Net (decrease) in the fair value of investments | (4,336) | (15,227) |
| Federal grant administration fees | 16,556 | 15,586 |
| Fees and other income | 2,471 | 2,279 |
| Total operating revenues | 127,481 | 122,677 |
| **OPERATING EXPENSES** | | |
| Salaries and benefits | 16,578 | 16,083 |
| Contractual services | 5,973 | 3,930 |
| Materials and supplies | 1,250 | 493 |
| Rentals and insurance | 94 | 115 |
| Other administrative expenses | 527 | 445 |
| Other program expenses | 8,878 | 9,926 |
| Interest expense | 70,390 | 78,643 |
| Mortgage service fees | 7,165 | 7,291 |
| Issuance costs | 2,167 | 3,639 |
| Depreciation | 309 | 60 |
| Total operating expenses | 113,331 | 120,625 |
| Operating income | 14,150 | 2,052 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Federal grants revenue | 295,814 | 237,638 |
| Federal grants expenses | (292,523) | (237,352) |
| Local grants expenses | (16,980) | (19,372) |
| Total nonoperating revenues (expenses) | (13,689) | (19,086) |
| Change in net position | 461 | (17,034) |
| Total net position, July 1 | 526,467 | 543,501 |
| Total net position, June 30 | $ 526,928 | $ 526,467 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2014, AND JUNE 30, 2013**
**(Expressed in Thousands)**

| | 2014 | 2013 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from customers | $ 334,953 | $ 429,234 |
| Receipts from federal government | 16,592 | 15,344 |
| Other miscellaneous receipts | 2,471 | 2,279 |
| Acquisition of mortgage loans | (227,296) | (212,166) |
| Payments to service mortgages | (7,165) | (7,291) |
| Payments to suppliers | (11,935) | (14,366) |
| Payments to employees | (16,720) | (16,123) |
| Net cash provided by operating activities | 90,900 | 196,911 |
| Cash flows from non-capital financing activities: | | |
| Operating grants received | 277,657 | 241,162 |
| Proceeds from sale of bonds | 277,828 | 456,741 |
| Operating grants paid | (308,612) | (256,797) |
| Cost of issuance paid | (2,167) | (3,639) |
| Principal payments | (425,215) | (336,030) |
| Interest paid | (78,251) | (86,039) |
| Net cash provided (used) by non-capital financing activities | (258,760) | 15,398 |
| Cash flows from capital and related financing activities: | | |
| Purchases of capital assets | (740) | (141) |
| Net cash used by capital and related financing activities | (740) | (141) |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 99,486 | 287,825 |
| Purchases of investments | (72,649) | (359,985) |
| Investment interest received | 10,825 | 10,694 |
| Increase in fair value of investments subject to fair value reporting and classified as cash equivalents | 10 | 14 |
| Net cash provided (used) by investing activities | 37,672 | (61,452) |
| Net increase (decrease) in cash and cash equivalents | (130,928) | 150,716 |
| Cash and cash equivalents, July 1 | 404,331 | 253,615 |
| Cash and cash equivalents, June 30 | $ 273,403 | $ 404,331 |

(continued)

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF CASH FLOWS (cont.)**
**FOR THE YEARS ENDED JUNE 30, 2014, AND JUNE 30, 2013**
**(Expressed in Thousands)**

| | 2014 | 2013 |
|---|---|---|
| Reconciliation of operating income to | | |
| net cash provided by operating activities: | | |
| Operating income | $ 14,150 | $ 2,052 |
| Adjustments to reconcile operating income to | | |
| net cash provided by operating activities: | | |
| Depreciation | 309 | 60 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (14,786) | 834 |
| (Increase) in mortgage interest receivable | (538) | (709) |
| Decrease in first mortgage loans receivable | 20,946 | 109,306 |
| (Increase) decrease in due from federal government | 33 | (242) |
| Increase (Decrease) in accounts payable | 3,107 | (1,258) |
| Increase in accrued payroll / compensated absences | 167 | 240 |
| Increase in due to primary government | 72 | - |
| Increase in arbitrage rebate liability | 1,229 | - |
| Investment income (loss) included as operating revenue | (6,346) | 4,346 |
| Interest expense included as operating expense | 70,390 | 78,643 |
| Issuance cost included as operating expense | 2,167 | 3,639 |
| Total adjustments | 76,750 | 194,859 |
| Net cash provided by operating activities | $ 90,900 | $ 196,911 |
| Noncash investing, capital, and financing activities: | | |
| (Decrease) in fair value of investments | $ (4,336) | $ (14,037) |
| Total noncash investing, capital, and financing activities | $ (4,336) | $ (14,037) |

The Notes to the Financial Statements are an integral part of this statement.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

### b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

**c. Basis of Accounting and Measurement Focus**

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

**d. Capital Assets**

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of $5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

| Description | Estimated Life |
|---|---|
| Furniture | 10 years |
| Computer equipment | 3 years |

**e. Restricted Assets**

Restricted assets are comprised of the Debt Service Reserve Funds and the Bond Reserve Funds.

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

**f. Deferred Amount on Refundings and Bond Premiums and Discounts**

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

**g. Cash and Cash Equivalents**

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

**h. Investments**

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody’s Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

**i. Accrual of Interest Income**

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

**j. Mortgages**

Mortgages are carried at their original amount less collected principal.

### k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

## NOTE 2. DEPOSITS AND INVESTMENTS

### a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2014, the bank balance was $4,872,373. At June 30, 2013, the bank balance was $18,982,252. All bank balances at June 30, 2014, and June 30, 2013, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of $250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2014, $4,545,816 was in the BNYM. Of this amount, $4,295,816 exceeded the FDIC insurance coverage. Of the bank balance at June 30, 2013, $18,490,778 was in the BNYM. Of this amount, $18,240,778 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State

Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report.* That report is available on the state's website at www.treasury.tn.gov.

**b. Investments**

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

| | June 30, 2014 | | June 30, 2013 | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Effective Duration (Years)** | **Fair Value** | **Effective Duration (Years)** |
| U.S. Agency Coupon | $156,546,020 | 2.713 | $183,618,170 | 2.660 |
| U.S. Treasury Coupon | 81,458,618 | 3.010 | 85,574,572 | 3.899 |
| U.S. Agency Discount | 185,126,090 | 0.033 | 151,647,000 | 0.051 |
| | | | | |
| Total | $423,130,728 | 1.598 | $420,839,742 | 1.972 |

The portfolios include the following investments, stated at par or face value, which have fair values highly sensitive to interest rate changes. These investments are recorded at fair value in the statement of net position.

Variable Rate Bonds

The agency purchased $2,350,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on June 11, 2012, and mature on June 11, 2027. The fair value of these securities on June 30, 2014, is $2,221,859, and on June 30, 2013, was $2,186,370, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016, to 3.0% on June 11, 2020; to 4.0% on June 11, 2022; to 6.0% on June 11, 2023; to 7.0% on June 11, 2024; to 8.0% on December 11, 2024; to 10.0% on June 11, 2025; to 12.0% on December 11, 2025; to 14.0% on June 11, 2026; and to 16.0% on December 11, 2026.

The agency purchased $3,210,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on June 28, 2012, and mature on June 27, 2027. The fair value of these securities on June 30, 2014 is $3,110,387, and on June 30, 2013 was $2,990,898, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 28, 2015; to 3.0% on June 28, 2018; to 4.0% on June 28, 2021; to 5.0% on June 28, 2023; and to 6.5% on June 28, 2025.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 100.12 of par on November 15, 2012 and mature on June 11, 2027. The fair value of these securities on June 30, 2014 is $2,836,416, and on June 30, 2013, was $2,791,110, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016; to 3.0% on June 11, 2020; to 4.0% on June 11, 2022; to 6.0% on June 11, 2023; to 7.0% on June 11, 2024; to 8.0% on December 11, 2024; to 10.0% on June 11, 2025; to

12.0% on December 11, 2025; to 14.0% on June 11, 2026; and to 16.0% on December 11, 2026.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on November 8, 2012 and mature on November 8, 2027. The fair value of these securities on June 30, 2014 is $3,712,532, and on June 30, 2013, was $3,678,796, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 3.0% on November 8, 2017, and to 4.0% on November 8, 2022. This investment is callable quarterly beginning February 8, 2013, and ending November 8, 2016.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.45 of par on November 23, 2012, and mature on November 23, 2027. The fair value of these securities on June 30, 2014 is $2,562,837, and on June 30, 2013, was $2,746,311, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.125% on November 23, 2017; to 2.25% on November 23, 2020; to 2.5% on November 23, 2023; to 3.0% on November 23, 2024; to 4.0% on May 23, 2025; to 6.0% on November 23, 2025; to 8.0% on May 23, 2026; to 11.0% on November 23, 2026; and to 14% on May 23, 2027. This investment is callable quarterly beginning May 23, 2013, and ending November 23, 2015.

The agency purchased $2,400,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.65 of par on December 21, 2012 and mature on December 21, 2027. The fair value of these securities on June 30, 2014 is $2,157,096, and on June 30, 2013, was $2,231,131, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.25% on December 21, 2017; to 2.5% on December 21, 2020; to 3.0% on December 21, 2022; to 4.0% on December 21, 2023; to 5.0% on December 21, 2024; to 6.0% on December 21, 2025; to 8.0% on June 21, 2026; to 10.0% on December 21, 2026; and to 12.0% on June 21, 2027. This investment is callable quarterly beginning June 21, 2013, and ending December 21, 2018.

The agency purchased $2,750,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.90 of par on January 30, 2013 and mature on January 30, 2025. The fair value of these securities on June 30, 2014 is $2,646,001, and on June 30, 2013, was $2,612,555, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.25% on January 30, 2018; to 2.5% on January 30, 2021; to 3.0% on January 30, 2022; to 5.0% on January 30, 2023; to 7.0% on July 30, 2023; and to 9.0% on January 30, 2024. This investment is callable quarterly beginning July 30, 2013, and ending October 30, 2016.

The agency purchased $650,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 101.55 of par on September 6, 2012. Although these securities were scheduled to mature on August 26, 2025, these bonds were called on August 26, 2013. The fair value of these securities on June 30, 2013, was $651,348, which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.18 of par on November 7, 2012, and mature on June 28, 2027. The fair value of these securities on June 30, 2014 is $1,482,593, and on June 30, 2013, was $1,426,929, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on June 28, 2017; to 5.0% on June 28, 2024; and to 6.5% on June 28, 2026. This investment is callable quarterly beginning December 28, 2012, and ending December 28, 2015.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on August 27, 2012, and mature on August 27, 2027. The fair value of these securities on June 30, 2014 is $1,909,610, and on June 30, 2013, was $1,919,370, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 1.5% with a step-up option to 2.5% on August 27, 2015; to 3.5% on August 27, 2018; to 4.5% on August 27, 2021; and to 5.5% on August 27, 2024. This investment is callable quarterly beginning August 27, 2012, and ending November 27, 2015.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012, and mature on December 27, 2027. The fair value of these securities on June 30, 2014 is $4,759,185, and on June 30, 2013, was $4,694,220, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 1.0% with a step-up option to 2.0% on June 27, 2013, and to 3.15% on December 27, 2013. This investment is callable quarterly beginning June 27, 2013, and ending December 27, 2016.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012, and mature on December 27, 2017. The fair value of these securities on June 30, 2014 is $2,995,674, and on June 30, 2013, was $2,945,187, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 0.6% with a step-up option to 0.7% on December 27, 2014; to 1.0% on December 27, 2015; to 1.5% on December 27, 2016; and to 3.0% on June 27, 2017. This investment is callable quarterly beginning December 27, 2013, and ending December 27, 2016.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 28, 2012, and mature on December 28, 2027. The fair value of these securities on June 30, 2014 is $2,788,104, and on June 30, 2013, was $2,813,145, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 3.0% on December 28, 2017; to 4.0% on December 28, 2020; to 5.0% on December 28, 2024; and to 6.0% on December 28, 2025. This investment is callable quarterly beginning June 28, 2013, and ending December 28, 2017.

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1. h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2014, and June 30, 2013, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

| June 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|
| | | | Credit Quality Rating | | | |
| **Investment Type** | **Fair Value** | **U.S. Treasury**[1] | **AA+** | **A-1** | **AA-2** | **Not Rated**[2] |
| U.S. Agency Coupon | $156,546,020 | | $140,991,257 | | $4,867,772 | $10,686,991 |
| U.S. Treasury Coupon | 81,458,618 | $81,458,618 | | | | |
| U.S. Agency Discount | 185,126,090 | | | $160,126,740 | | 24,999,350 |
| | | | | | | |
| Total | $423,130,728 | $81,458,618 | $140,991,257 | $160,126,740 | $4,867,772 | $35,686,341 |

[1]This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

[2]This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

| June 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|
| | | | Credit Quality Rating | | | |
| **Investment Type** | **Fair Value** | **U.S. Treasury[1]** | **AA+** | **A-1** | **AA-2** | **Not Rated[2]** |
| U.S. Agency Coupon | $183,618,170 | | $167,220,366 | | $5,114,633 | $11,283,171 |
| U.S. Treasury Coupon | 85,574,572 | $85,574,572 | | | | |
| U.S. Agency Discount | 151,647,000 | | | $131,647,320 | | 19,999,680 |
| | | | | | | |
| Total | $420,839,742 | $85,574,572 | $167,220,366 | $131,647,320 | $5,114,633 | $31,282,851 |

Concentration of Credit Risk   Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

| | June 30, 2014 | | June 30, 2013 | |
|---|---|---|---|---|
| **Issuer** | **Fair Value** | **% of Portfolio** | **Fair Value** | **% of Portfolio** |
| Federal Home Loan Bank | $222,526,613 | 52.59 | $173,049,950 | 41.12 |
| Federal Home Loan Mortgage Corp | $0 | N/A | $42,892,295 | 10.19 |
| Federal National Mortgage Assoc. | $81,963,986 | 19.37 | $95,869,861 | 22.78 |

## NOTE 3. ACCOUNTING CHANGE

During the year ended June 30, 2013, the agency implemented GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*.

Implementation of GASB 62 did not have any financial reporting impact to the agency. Implementation of GASB 63 required the reclassification of net assets to net position, and it

[1]This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.
[2]This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

also required the deferred amount on refundings to be classified as a deferred outflow of resources. Implementation of GASB 65 recognizes bond cost of issuance as an expense.

## NOTE 4. LIABILITIES

### a. Bonds Issued and Outstanding

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2014 | Ending Balance 6/30/2013 |
|---|---|---|---|---|---|
| **MORTGAGE FINANCE PROGRAM BONDS** | | | | | |
| 2003A | 7/1/2004-7/1/2034 | $191,885 | 1.70 to 5.35 | $ -0- | $48,965 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2014 | Ending Balance 6/30/2013 |
|---|---|---|---|---|---|
| **HOMEOWNERSHIP PROGRAM BONDS** | | | | | |
| 2004-1 | 1/1/2005-1/1/2035 | 80,000 | 1.30 to 5.00 | -0- | 28,185 |
| 2004-2 | 7/1/2005-1/1/2035 | 100,000 | 1.85 to 5.25 | -0- | 38,435 |
| 2004-3 | 1/1/2006-7/1/2035 | 100,000 | 2.55 to 5.125 | 31,010 | 39,070 |
| 2005-1 | 7/1/2006-1/1/2036 | 100,000 | 2.75 to 5.00 | 35,955 | 46,605 |
| 2005-2 | 1/1/2007-7/1/2036 | 100,000 | 3.00 to 5.00 | 33,675 | 43,960 |
| 2006-1 | 7/1/2007-1/1/2037 | 100,000 | 3.55 to 5.75 | 31,585 | 44,500 |
| 2006-2 | 7/1/2007-1/1/2037 | 100,000 | 3.90 to 5.75 | 29,610 | 41,175 |
| 2006-3 | 1/1/2008-7/1/2037 | 100,000 | 3.65 to 5.75 | 39,555 | 49,935 |
| 2007-1 | 7/1/2008-1/1/2038 | 100,000 | 3.65 to 5.50 | 42,840 | 53,755 |
| 2007-2 | 7/1/2008-7/1/2038 | 120,000 | 3.75 to 5.25 | 53,980 | 71,385 |
| 2007-3 | 1/1/2009-7/1/2038 | 150,000 | 3.85 to 5.50 | 64,930 | 81,950 |
| 2007-4 | 1/1/2009-7/1/2038 | 150,000 | 3.75 to 5.50 | 72,120 | 90,360 |
| 2008-1 | 7/1/2009-1/1/2039 | 60,000 | 2.45 to 5.70 | 26,695 | 33,675 |
| 2008-2 | 7/1/2009-1/1/2027 | 50,000 | 3.25 to 5.75 | 2,660 | 11,915 |
| 2008-3 | 7/1/2009-7/1/2038 | 90,000 | 2.00 to 5.45 | 32,490 | 47,790 |
| 2008-4 | 1/1/2010-7/1/2028 | 30,000 | 3.125 to 6.125 | -0- | 2,975 |
| 2009-1 | 1/1/2010-7/1/2029 | 50,000 | 0.75 to 5.00 | 31,935 | 36,870 |
| 2009-2 | 7/1/2010-7/1/2030 | 75,000 | 0.90 to 5.00 | 48,935 | 59,395 |
| 2010-1 | 1/1/2011-7/1/2025 | 120,700 | 0.35 to 4.50 | 73,055 | 87,655 |
| 2011-1 | 7/1/2012-7/1/2042 | 141,255 | 0.60 to 4.65 | 108,415 | 125,005 |
| 2012-1 | 1/1/2013-7/1/2042 | 133,110 | 0.80 to 4.50 | 115,380 | 127,265 |
| 2012-2 | 7/1/2013-7/1/2043 | 97,625 | 0.50 to 4.00 | 90,490 | 96,960 |
| Total Homeownership Program Bonds | | $2,147,690 | | $965,315 | $1,258,820 |
| Plus: Unamortized Bond Premiums | | | | 10,214 | 14,419 |
| Less: Unamortized Bond Discount | | | | (169) | (218) |
| Net Homeownership Program Bonds | | | | $975,360 | $1,273,021 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2014 | Ending Balance 6/30/2013 |
|---|---|---|---|---|---|
| **HOUSING FINANCE PROGRAM BONDS** | | | | | |
| 2009-A | 1/1/2011-1/1/2040 | $100,000 | 0.90 to 4.625 | $72,555 | $83,295 |
| 2010-A | 1/1/2011-7/1/2041 | 160,000 | 0.60 to 5.00 | 114,125 | 133,945 |
| 2010-B | 7/1/2011–7/1/2041 | 100,000 | 0.45 to 4.50 | 82,385 | 91,245 |
| 2011-A | 7/1/2011-7/1/2041 | 100,000 | 0.45 to 4.50 | 78,405 | 90,730 |
| 2011-B | 7/1/2012-7/1/2041 | 100,000 | 0.25 to 4.50 | 88,890 | 96,980 |
| 2011-C | 7/1/2012-7/1/2041 | 100,000 | 0.40 to 4.30 | 90,115 | 97,020 |
| Total Housing Finance Program Bonds | | $660,000 | | $526,475 | $593,215 |
| Plus: Unamortized Bond Premiums | | | | 1,357 | 1,829 |
| Net Housing Finance Program Bonds | | | | $527,832 | $595,044 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2014 | Ending Balance 6/30/2013 |
|---|---|---|---|---|---|
| **RESIDENTIAL FINANCE PROGRAM BONDS** | | | | | |
| 2013-1 | 1/1/2014-7/1/2043 | $215,905 | 0.40 to 4.00 | $199,900 | $215,905 |
| 2013-2 | 7/1/2014-7/1/2043 | 121,300 | 0.45 to 4.65 | 121,300 | -0- |
| 2014-1 | 1/1/2015-7/1/2039 | 150,000 | 0.32 to 4.00 | 150,000 | -0- |
| Total Residential Finance Program Bonds | | $487,205 | | $471,200 | $215,905 |
| Plus: Unamortized Bond Premiums | | | | 9,906 | 3,871 |
| Net Residential Finance Program Bonds | | | | $481,106 | $219,776 |
| Net Total All Issues | | | | $1,984,298 | $2,136,806 |

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of $85,290,000. The $85,290,000 was blended with the market rate 2010-A bonds in the amount of $74,710,000 for a total of $160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2010-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-A bonds in the amount of $40,000,000 for a total of $100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of $34,710,000. The $34,710,000 was blended with the market rate 2011-C bonds in the amount of $65,290,000 for a total of $100,000,000.

### b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2014, are as follows (expressed in thousands):

| For the Year(s) Ending June 30 | Principal | Interest | Total Requirements |
|---|---|---|---|
| 2015 | $139,455 | $72,622 | $212,077 |
| 2016 | 56,210 | 70,196 | 126,406 |
| 2017 | 57,190 | 68,863 | 126,053 |
| 2018 | 56,315 | 67,338 | 123,653 |
| 2019 | 54,550 | 65,707 | 120,257 |
| 2020 – 2024 | 249,355 | 302,779 | 552,134 |
| 2025 – 2029 | 278,485 | 249,077 | 527,562 |
| 2030 – 2034 | 256,105 | 194,321 | 450,426 |
| 2035 – 2039 | 343,460 | 142,690 | 486,150 |
| 2040 – 2044 | 471,865 | 45,677 | 517,542 |
| Total | $1,962,990 | $1,279,270 | $3,242,260 |

### c. Redemption of Bonds and Notes

During the year ended June 30, 2014, bonds were retired at par before maturity in the Homeownership Program in the amount of $217,425,000, in the Housing Finance Program in the amount of $60,775,000, and in the Residential Finance Program in the amount of $15,555,000. The respective carrying values of the bonds were $221,007,463, $61,136,292 and $15,821,689. This resulted in revenue to the Homeownership Program of $3,582,463, to the Housing Finance Program of $361,292, and to the Residential Finance Program of $266,689.

On May 30, 2013, the agency issued $215,905,000 in Residential Finance Program Bonds, Issue 2013-1. On July 1, 2013, the agency used $75,905,000 of these bonds to refund bonds previously issued in the Mortgage Finance Program (this amount consists of $47,985,000 early redemption) and Homeownership Program (this amount consists of $27,920,000 early redemption). The carrying amount of these bonds was $75,905,000. The refunding reduced the agency's debt service by $8,688,786 over the next 18 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $9,063,606.

On November 19, 2013, the agency issued $121,300,000 in Residential Finance Program Bonds, Issue 2013-2. On January 1, 2014, the agency used $31,300,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $31,300,000 early redemption). The carrying amount of these bonds was $31,300,000. The refunding increased the agency's debt service by $1,548,956 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,485,956.

During the year ended June 30, 2013, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $10,235,000, in the Homeownership Program in the amount of $199,355,000, and in the Housing Finance Program in the amount of $31,315,000. The respective carrying values of the bonds were $10,235,000, $202,501,590, and $31,515,181. This resulted in revenue to the Homeownership Program of $3,146,590 and to the Housing Finance Program of $200,181.

On July 19, 2012, the agency issued $133,110,000 in Homeownership Program Bonds, Issue 2012-1. On September 1, 2012, the agency used $43,865,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $43,865,000 early redemption). The carrying amount of these bonds was $43,865,000. The refunding reduced the agency's debt service by $10,700,210 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $6,206,292.

On November 15, 2012, the agency issued $97,625,000 in Homeownership Program Bonds, Issue 2012-2. On January 1, 2013, the agency used $22,625,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $22,625,000 early redemption). The carrying amount of these bonds was $22,625,000. The refunding reduced the agency's debt service by $8,510,283 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $3,758,068.

### d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2014.

**Long-term Liabilities**
(Thousands)

| | Beginning Balance July 1, 2013 | Additions | Reductions | Ending Balance June 30, 2014 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | $2,116,905 | $271,300 | ($425,215) | $1,962,990 | $122,690 |
| Plus: Unamortized Bond Premiums | 20,119 | 6,528 | (5,170) | 21,477 | -0- |
| Less: Unamortized Bond Discounts | (218) | -0- | 49 | (169) | -0- |
| Compensated Absences | 1,230 | -0- | (20) | 1,210 | 587 |
| Escrow Deposits | 2,635 | 558 | (973) | 2,220 | 82 |
| Arbitrage Rebate Payable | -0- | 1,229 | (-0-) | 1,229 | -0- |
| Total | $2,140,671 | $279,615 | ($431,329) | $1,988,957 | $123,359 |

The following table is a summary of the long-term liability activity for the year ended June 30, 2013.

**Long-term Liabilities**
(Thousands)

| | Beginning Balance July 1, 2012 | Additions | Reductions | Ending Balance June 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | $2,006,295 | $446,640 | ($336,030) | $2,116,905 | $241,320 |
| Plus: Unamortized Bond Premiums | 14,280 | 10,101 | (4,262) | 20,119 | -0- |
| Less: Unamortized Bond Discounts | (273) | -0- | 55 | (218) | -0- |
| Compensated Absences | 1,156 | 74 | (-0-) | 1,230 | 600 |
| Escrow Deposits | 3,731 | 1,610 | (2,706) | 2,635 | 172 |
| Total | $2,025,189 | $458,425 | ($342,943) | $2,140,671 | $242,092 |

## NOTE 5. RESTRICTED NET POSITION

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

## NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the Tennessee State and Political Subdivision Employees Pension Plan (TSPSEPP), an agent, multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits, as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for TSPSEPP. That report is available on the state's website at www.treasury.tn.gov/tcrs.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 15.03% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2014, 2013, and 2012, were $1,739,493, $1,692,847, and $1,632,095. Those contributions met the required contributions for each year.

## NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of $750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional $232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and $500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

## NOTE 8. INSURANCE-RELATED ACTIVITIES

### a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### b. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property and crime and fidelity coverage on the state's officials and employees. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report*. The

CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

**c. Employee Group Insurance Fund**

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

## NOTE 9. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans - the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-101. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency (see Note 10). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members of the State Employment Group Plan are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retires 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 but less than 30 years of service, $37.50; and retirees with 15 but less than 20 years of service, $25.

**THDA Annual OPEB Cost and Net OPEB Obligation**
**State Employee Group Plan**
(Thousands)

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Annual Required Contribution (ARC) | $345 | $362 |
| Interest on the Net OPEB Obligation | 52 | 46 |
| Adjustment to the ARC | (51) | (49) |
| Annual OPEB cost | 346 | 359 |
| Amount of contribution | (236) | (213) |
| Increase in Net OPEB Obligation | 110 | 146 |
| Net OPEB Obligation-beginning of year | 1,303 | 1,157 |
| Net OPEB Obligation-end of year | $1,413 | $1,303 |

| Year End | Plan | Annual OPEB Cost (Thousands) | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation At Year End (Thousands) |
|---|---|---|---|---|
| 6/30/2014 | State Employee Group Plan | $ 346 | 68% | $ 1,413 |
| 6/30/2013 | State Employee Group Plan | $ 359 | 60% | $ 1,303 |
| 6/30/2012 | State Employee Group Plan | $ 390 | 58% | $ 1,157 |

Funded Status and Funding Progress The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2013, was as follows (thousands):

| | |
|---|---|
| Actuarial valuation date | 7/01/2013 |
| Actuarial accrued liability (AAL) | $ 2,964 |
| Actuarial value of plan assets | -0- |
| Unfunded actuarial accrued liability (UAAL) | $ 2,964 |
| Actuarial value of assets as a % of the AAL | 0% |
| Covered payroll (active plan members) | $ 9,841 |
| UAAL as a percentage of covered payroll | 30% |

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2013, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreases to 7% in fiscal year 2015, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

## NOTE 10. ON-BEHALF PAYMENTS

During the year ended June 30, 2014, the State of Tennessee made payments of $4,942 on behalf of THDA for retirees participating in the Medicare Supplement Plan, and during the year ended June 30, 2013, made payments of $4,715. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

## NOTE 11. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, $15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, $43,000,000 was transferred from the agency to the State General Fund. The $43,000,000 transferred from the agency came from the following resources of the agency: (i) $15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) $5,028,761 from the Housing Program Reserve Fund; and (iii) $22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of $35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

## NOTE 12. NATIONAL MORTGAGE SETTLEMENT FUNDS

The State of Tennessee received $41,207,810 from the United States Attorney General for the National Mortgage Settlement. In June 2012, the agency received $34,500,000 of the $41,207,810. The agency plans to use those funds to expand the Keep My Tennessee Home financial assistance program to include long-term medical hardships and to provide foreclosure counseling.

## NOTE 13. FINAL REDEMPTION / TRANSFER OF ASSETS

### a. Final Redemption under Mortgage Finance Program Bonds

During the fiscal year ended June 30, 2014, the agency redeemed all remaining bonds that were issued under the Mortgage Finance Program.

### b. Transfer of Assets to General Residential Finance Program Bonds

During the fiscal year ended June 30, 2014, the agency transferred certain assets from the Mortgage Finance Program to the General Residential Program for the purpose of improving the Program Assets to Debt Ratios in the General Residential Finance Program.

## NOTE 14. SUBSEQUENT EVENTS

**a.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| July 1, 2014 | Homeownership Program | | $56,290,000 |
| | Housing Finance Program | | 9,715,000 |
| | Residential Finance Program | | 5,415,000 |
| | | Total | $71,420,000 |

**b.** Residential Finance Program Bonds, Issue 2014-2, were authorized by the Board of directors on July 29, 2014, not to exceed $150,000,000.

**c.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| August 1, 2014 | Homeownership Program | | $13,360,000 |
| | Housing Finance Program | | 4,610,000 |
| | Residential Finance Program | | 1,645,000 |
| | | Total | $19,615,000 |

**d.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| September 1, 2014 | Homeownership Program | | $11,275,000 |
| | Housing Finance Program | | 4,950,000 |
| | Residential Finance Program | | 1,685,000 |
| | | Total | $17,910,000 |

**e.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| October 1, 2014 | Homeownership Program | | $14,965,000 |
| | Housing Finance Program | | 6,130,000 |
| | Residential Finance Program | | 3,175,000 |
| | | Total | $24,270,000 |

**f.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| November 1, 2014 | Homeownership Program | | $12,455,000 |
| | Housing Finance Program | | 5,015,000 |
| | Residential Finance Program | | 2,040,000 |
| | | Total | $19,510,000 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
UNAUDITED
(Expressed in Thousands)

| Actuarial Valuation Date | Plan | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|---|
| 7/1/2010 | State Employee Group Plan | $ -0- | $ 3,316 | $ 3,316 | 0% | $ 8,640 | 38% |
| 7/1/2011 | State Employee Group Plan | $ -0- | $ 2,919 | $ 2,919 | 0% | $ 9,818 | 30% |
| 7/1/2013 | State Employee Group Plan | $ -0- | $ 2,964 | $ 2,964 | 0% | $ 9,841 | 30% |

Exhibit A

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF NET POSITION**
**JUNE 30, 2014**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 13,030 | $ 10,582 | $ 105,031 | $ 35,259 | $ 101,156 | $ 265,058 |
| Investments | - | 682 | 9,175 | 4,478 | 2,671 | 17,006 |
| Receivables: | | | | | | |
| Accounts | 3 | 391 | 21,334 | 8,364 | 2,849 | 32,941 |
| Interest | 29 | 254 | 7,746 | 3,850 | 2,017 | 13,896 |
| First mortgage loans | 5 | 145 | 29,002 | 10,636 | 12,299 | 52,087 |
| Due from federal government | 19,668 | - | - | - | - | 19,668 |
| Due from other funds | 7,122 | 20 | - | - | - | 7,142 |
| Prepaid expenses | 6 | - | - | - | - | 6 |
| Total current assets | 39,863 | 12,074 | 172,288 | 62,587 | 120,992 | 407,804 |
| Noncurrent assets: | | | | | | |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 4,469 | - | 2,734 | 297 | 845 | 8,345 |
| Investments | - | - | 154,344 | 20,304 | 14,659 | 189,307 |
| Investment Interest receivable | - | - | 1,486 | 104 | 99 | 1,689 |
| Investments | - | 2,022 | 8,058 | 7,792 | 28,820 | 46,692 |
| First mortgage loans receivable | 1,184 | 43,689 | 948,669 | 492,034 | 428,637 | 1,914,213 |
| Advance to local government | 3,062 | - | - | - | - | 3,062 |
| Capital assets: | | | | | | |
| Furniture and equipment | 1,437 | - | - | - | - | 1,437 |
| Less accumulated depreciation | (811) | - | - | - | - | (811) |
| Total noncurrent assets | 9,341 | 45,711 | 1,115,291 | 520,531 | 473,060 | 2,163,934 |
| Total assets | 49,204 | 57,785 | 1,287,579 | 583,118 | 594,052 | 2,571,738 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Deferred amount on refundings | - | - | 337 | - | 913 | 1,250 |
| Total deferred outflows of resources | - | - | 337 | - | 913 | 1,250 |
| **LIABILITIES** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 5,405 | 4 | 44 | 24 | 278 | 5,755 |
| Accrued payroll and related liabilities | 612 | - | - | - | - | 612 |
| Compensated absences | 587 | - | - | - | - | 587 |
| Due to primary government | 72 | - | - | - | - | 72 |
| Interest payable | - | - | 20,918 | 9,336 | 6,248 | 36,502 |
| Escrow deposits | - | 82 | - | - | - | 82 |
| Prepayments on mortgage loans | - | 5 | 684 | 300 | 304 | 1,293 |
| Due to federal government | 4,314 | - | | | - | 4,314 |
| Due to other funds | - | - | 7,142 | - | - | 7,142 |
| Bonds payable | - | - | 87,865 | 22,860 | 11,965 | 122,690 |
| Total current liabilities | 10,990 | 91 | 116,653 | 32,520 | 18,795 | 179,049 |
| Noncurrent liabilities: | | | | | | |
| Bonds payable | - | - | 887,495 | 504,972 | 469,141 | 1,861,608 |
| Compensated absences | 623 | - | - | - | - | 623 |
| Net OPEB obligation | 1,413 | - | - | - | - | 1,413 |
| Escrow deposits | 272 | 544 | - | - | 1,322 | 2,138 |
| Arbitrage rebate payable | - | - | 1,229 | - | - | 1,229 |
| Total noncurrent liabilities | 2,308 | 544 | 888,724 | 504,972 | 470,463 | 1,867,011 |
| Total liabilities | 13,298 | 635 | 1,005,377 | 537,492 | 489,258 | 2,046,060 |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 626 | - | - | - | - | 626 |
| Restricted for single family bond programs | - | 128 | 282,539 | 45,626 | 105,707 | 434,000 |
| Restricted for grant programs | - | 12,752 | - | - | - | 12,752 |
| Restricted for Homebuyers Revolving Loan Program | 3,153 | - | - | - | - | 3,153 |
| Unrestricted | 32,127 | 44,270 | - | - | - | 76,397 |
| Total net position | $ 35,906 | $ 57,150 | $ 282,539 | $ 45,626 | $ 105,707 | $ 526,928 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**FOR THE YEAR ENDED JUNE 30, 2014**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | |
| Mortgage interest income | $ 65 | $ 1,565 | $ 60,536 | $ 26,424 | $ 13,518 | $ 102,108 |
| Investment income: | | | | | | |
| Interest | 34 | 1,283 | 8,287 | 743 | 335 | 10,682 |
| Net increase (decrease) in the fair value of investments | - | (618) | (3,718) | 146 | (146) | (4,336) |
| Federal grant administration fees | 16,556 | - | - | - | - | 16,556 |
| Fees and other income | 2,322 | 149 | - | - | - | 2,471 |
| Total operating revenues | 18,977 | 2,379 | 65,105 | 27,313 | 13,707 | 127,481 |
| **OPERATING EXPENSES** | | | | | | |
| Salaries and benefits | 16,578 | - | - | - | - | 16,578 |
| Contractual services | 5,973 | - | - | - | - | 5,973 |
| Materials and supplies | 1,250 | - | - | - | - | 1,250 |
| Rentals and insurance | 94 | - | - | - | - | 94 |
| Other administrative expenses | 527 | - | - | - | - | 527 |
| Other program expenses | 3,993 | 719 | 3,433 | 494 | 239 | 8,878 |
| Interest expense | - | 814 | 41,649 | 18,840 | 9,087 | 70,390 |
| Mortgage service fees | - | 184 | 4,109 | 1,892 | 980 | 7,165 |
| Issuance costs | - | - | - | - | 2,167 | 2,167 |
| Depreciation | 309 | - | - | - | - | 309 |
| Total operating expenses | 28,724 | 1,717 | 49,191 | 21,226 | 12,473 | 113,331 |
| Operating income (loss) | (9,747) | 662 | 15,914 | 6,087 | 1,234 | 14,150 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | |
| Federal grants revenue | 295,814 | - | - | - | - | 295,814 |
| Federal grants expenses | (292,523) | - | - | - | - | (292,523) |
| Local grants expenses | (12,855) | - | (4,125) | - | - | (16,980) |
| Total nonoperating revenues (expenses) | (9,564) | - | (4,125) | - | - | (13,689) |
| Income (loss) before transfers | (19,311) | 662 | 11,789 | 6,087 | 1,234 | 461 |
| Transfers (to) other funds | - | (129,308) | (51,950) | (6,196) | - | (187,454) |
| Transfers from other funds | 14,702 | - | - | - | 172,752 | 187,454 |
| Change in net position | (4,609) | (128,646) | (40,161) | (109) | 173,986 | 461 |
| Total net position, July 1 | 40,515 | 185,796 | 322,700 | 45,735 | (68,279) | 526,467 |
| Total net position, June 30 | $ 35,906 | $ 57,150 | $ 282,539 | $ 45,626 | $ 105,707 | $ 526,928 |

Exhibit C

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2014**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | |
| Receipts from customers | $ 194 | $ 7,413 | $ 222,358 | $ 75,814 | $ 29,174 | $ 334,953 |
| Receipts from federal government | 16,589 | - | 3 | - | - | 16,592 |
| Receipts from other funds | 2,213 | 10 | - | - | - | 2,223 |
| Other miscellaneous receipts | 2,322 | 149 | - | - | - | 2,471 |
| Acquisition of mortgage loans | - | (5,866) | (1,614) | (1,139) | (218,677) | (227,296) |
| Payments to service mortgages | - | (184) | (4,109) | (1,892) | (980) | (7,165) |
| Payments to suppliers | (8,499) | (719) | (2,220) | (497) | - | (11,935) |
| Payments to other funds | - | - | (2,223) | - | - | (2,223) |
| Payments to employees | (16,720) | - | - | - | - | (16,720) |
| Net cash provided (used) by operating activities | (3,901) | 803 | 212,195 | 72,286 | (190,483) | 90,900 |
| Cash flows from non-capital financing activities: | | | | | | |
| Operating grants received | 277,657 | - | - | - | - | 277,657 |
| Transfers in (out) | 14,702 | (42,143) | 47,097 | (6,196) | (13,460) | - |
| Proceeds from sale of bonds | - | - | - | - | 277,828 | 277,828 |
| Operating grants paid | (304,487) | - | (4,125) | - | - | (308,612) |
| Cost of issuance paid | - | - | - | - | (2,167) | (2,167) |
| Principal payments | - | (48,965) | (293,505) | (66,740) | (16,005) | (425,215) |
| Interest paid | - | (1,249) | (52,825) | (20,405) | (3,772) | (78,251) |
| Net cash provided (used) by non-capital financing activities | (12,128) | (92,357) | (303,358) | (93,341) | 242,424 | (258,760) |
| Cash flows from capital and related financing activities: | | | | | | |
| Purchases of capital assets | (740) | - | - | - | - | (740) |
| Net cash used by capital and related financing activities | (740) | - | - | - | - | (740) |
| Cash flows from investing activities: | | | | | | |
| Proceeds from sales and maturities of investments | - | 40,403 | 53,402 | 13,342 | 28,185 | 135,332 |
| Purchases of investments | - | (10,686) | (35,711) | (10,260) | (51,838) | (108,495) |
| Investment interest received | 34 | 1,278 | 8,495 | 796 | 222 | 10,825 |
| Increase in fair value of investments subject to fair value reporting and classified as cash equivalents | - | - | 5 | - | 5 | 10 |
| Net cash provided (used) by investing activities | 34 | 30,995 | 26,191 | 3,878 | (23,426) | 37,672 |
| Net increase (decrease) in cash and cash equivalents | (16,735) | (60,559) | (64,972) | (17,177) | 28,515 | (130,928) |
| Cash and cash equivalents, July 1 | 34,234 | 71,141 | 172,737 | 52,733 | 73,486 | 404,331 |
| Cash and cash equivalents, June 30 | $ 17,499 | $ 10,582 | $ 107,765 | $ 35,556 | $ 102,001 | $ 273,403 |

(continued)

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)**
**FOR THE YEAR ENDED JUNE 30, 2014**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| Reconciliation of operating income to | | | | | | |
| net cash provided (used) by operating activities: | | | | | | |
| Operating income (loss) | $ (9,747) | $ 662 | $ 15,914 | $ 6,087 | $ 1,234 | $ 14,150 |
| Adjustments to reconcile operating income to | | | | | | |
| net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 309 | - | - | - | - | 309 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) decrease in accounts receivable | (2) | 498 | (7,381) | (5,067) | (2,834) | (14,786) |
| (Increase) decrease in mortgage interest receivable | (15) | 572 | 1,252 | (428) | (1,919) | (538) |
| (Increase) decrease in first mortgage loans receivable | 156 | 685 | 166,314 | 53,691 | (199,900) | 20,946 |
| Decrease in due from federal government | 33 | - | - | - | - | 33 |
| Decrease in interfund receivables | 2,213 | 10 | - | - | - | 2,223 |
| (Decrease) in interfund payables | - | - | (2,223) | - | - | (2,223) |
| Increase (decrease) in accounts payable | 2,947 | (1,773) | 10 | 52 | 1,871 | 3,107 |
| Increase in accrued payroll / compensated absences | 167 | - | - | - | - | 167 |
| Increase in due to primary government | 72 | - | - | - | - | 72 |
| Increase in arbitrage rebate liability | - | - | 1,229 | - | - | 1,229 |
| Investment income included as operating revenue | (34) | (665) | (4,569) | (889) | (189) | (6,346) |
| Interest expense included as operating expense | - | 814 | 41,649 | 18,840 | 9,087 | 70,390 |
| Issuance cost included as operating expense | - | - | - | - | 2,167 | 2,167 |
| Total adjustments | 5,846 | 141 | 196,281 | 66,199 | (191,717) | 76,750 |
| Net cash provided (used) by operating activities | $ (3,901) | $ 803 | $ 212,195 | $ 72,286 | $ (190,483) | $ 90,900 |
| Noncash investing, capital, and financing activities: | | | | | | |
| Increase (decrease) in fair value of investments | $ - | $ (618) | $ (3,718) | $ 146 | $ (146) | $ (4,336) |
| Total noncash investing, capital, and financing activities | $ - | $ (618) | $ (3,718) | $ 146 | $ (146) | $ (4,336) |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF NET POSITION - MORTGAGE FINANCE PROGRAM**
**JUNE 30, 2014**
**(Expressed in Thousands)**

| | Mortgage Finance Bond | General Fund | Mortgage Finance Bond Group Total* | Escrow Fund** | Mortgage Finance Program Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ (2) | $ 10,446 | $ 10,444 | $ 138 | $ 10,582 |
| Investments | - | 627 | 627 | 55 | 682 |
| Receivables: | | | | | |
| Accounts | - | 386 | 386 | 5 | 391 |
| Interest | 33 | 220 | 253 | 1 | 254 |
| First mortgage loans | - | 145 | 145 | - | 145 |
| Due from other funds | - | 20 | 20 | - | 20 |
| Total current assets | 31 | 11,844 | 11,875 | 199 | 12,074 |
| Noncurrent assets: | | | | | |
| Restricted assets: | | | | | |
| Investments | - | 1,567 | 1,567 | 455 | 2,022 |
| First mortgage loans receivable | - | 43,689 | 43,689 | - | 43,689 |
| Total noncurrent assets | - | 45,256 | 45,256 | 455 | 45,711 |
| Total assets | 31 | 57,100 | 57,131 | 654 | 57,785 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 2 | 2 | 4 | - | 4 |
| Escrow deposits | - | - | - | 82 | 82 |
| Prepayments on mortgage loans | 3 | 2 | 5 | - | 5 |
| Total current liabilities | 5 | 4 | 9 | 82 | 91 |
| Noncurrent liabilities: | | | | | |
| Escrow deposits | - | 99 | 99 | 445 | 544 |
| Total noncurrent liabilities | - | 99 | 99 | 445 | 544 |
| Total liabilities | 5 | 103 | 108 | 527 | 635 |
| **NET POSITION** | | | | | |
| Restricted for single family bond programs | - | 1 | 1 | 127 | 128 |
| Restricted for grant programs | - | 12,752 | 12,752 | - | 12,752 |
| Unrestricted | 26 | 44,244 | 44,270 | - | 44,270 |
| Total net position | $ 26 | $ 56,997 | $ 57,023 | $ 127 | $ 57,150 |

* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.
** The Escrow Funds can only be used for escrow payments.

Tennessee Housing Development Agency

*Leading Tennessee Home*

# *FINANCIAL STATEMENTS*

**June 30, 2013**

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

# Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

## Report on the Financial Statements

We have audited the accompanying statements of net position of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2013, and June 30, 2012, the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the agency's basic financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the agency.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2013, and June 30, 2012, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress 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, which 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 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 accompanying financial information, following the schedule of funding progress, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards,* we have also issued our report dated October 1, 2013, on our consideration of the Tennessee Housing Development Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
October 1, 2013

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2013 and June 30, 2012. This information is being presented to provide additional information regarding the activities of THDA and to meet the reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

## INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2013, THDA has originated over 110,000 single-family mortgage loans in its 40-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at www.tn.gov/finance/act/cafr.shtml.

During fiscal year 2013, THDA implemented several accounting standards including GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Reported as Assets and Liabilities.* Among the requirements of these pronouncements, GASB Statement 63 required the reclassification of Net Assets to Net Position, as well as the reclassification of certain deferred amounts to new categories called Deferred Outflows of Resources and Deferred Inflows of Resources. As applicable to THDA, deferred amounts from bond refundings, which were previously reported as a component of bonds payable (noncurrent), are now reported as Deferred Outflows of Resources. In addition, bond issuance costs, which previously was reported as an asset (deferred charges) and amortized over the life of the bonds, is now recognized as expense in the period when incurred. GASB statement 65 required retroactive implementation and reporting for all financial periods presented; therefore, beginning net position for fiscal year 2012 was restated to reflect the retroactive application of GASB statement 65.

## FINANCIAL HIGHLIGHTS

### Year Ended June 30, 2013

- Total assets increased by $102.4 million, or 3.9%.
- Deferred outflows of resources decreased $0.2 million, or 6.5%.
- Total liabilities increased by $119.3 million, or 5.7%.
- Net position was $526.5 million. This is a decrease of $17.0 million, or 3.1% from fiscal year 2012.
- Cash and cash equivalents increased by $150.7 million, or 59.4%.
- Total investments increased by $56.9 million, or 25.0%.
- Bonds payable increased by $116.5 million, or 5.8%.

- THDA originated $212.2 million in new loans, which is a decrease of $23.6 million, or 10.0%, from the prior year.

**Year Ended June 30, 2012**

- Total assets decreased by $97.7 million, or 3.6%.
- Deferred outflows of resources decreased $0.9 million, or 26.9%.
- Total liabilities decreased by $136.8 million, or 6.2%.
- Net position was $543.5 million. This is an increase of $38.3 million, or 7.5%, from fiscal year 2011.
- Cash and cash equivalents decreased $57.0 million, or 18.3%.
- Total investments decreased $8.5 million, or 3.6%.
- Bonds and notes payable decreased $123.4 million, or 5.8%.
- THDA originated $235.7 million in new loans, which is an increase of $4.6 million, or 2.0%, from the prior year.

## FINANCIAL ANALYSIS OF THE AGENCY

**Net Position.** The following table focuses on the changes in net position between fiscal years (expressed in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Current assets | $ 495,605 | $ 314,268 | $ 304,429 |
| Capital assets | 194 | 113 | 157 |
| Other noncurrent assets | 2,231,487 | 2,310,506 | 2,418,006 |
| Total assets | 2,727,286 | 2,624,887 | 2,722,592 |
| Deferred outflows of resources | 2,287 | 2,445 | 3,346 |
| Current liabilities | 303,224 | 207,708 | 150,534 |
| Noncurrent liabilities | 1,899,882 | 1,876,123 | 2,070,179 |
| Total liabilities | 2,203,106 | 2,083,831 | 2,220,713 |
| Invested in capital assets | 194 | 114 | 157 |
| Restricted net position | 489,105 | 503,563 | 502,856 |
| Unrestricted net position | 37,168 | 39,824 | 2,212 |
| Total net position | $ 526,467 | $ 543,501 | $ 505,225 |

**2013 to 2012**

- THDA's total net position decreased by $17.0 million, or 3.1%, from $543.5 million at June 30, 2012 to $526.5 million at June 30, 2013. While various factors accounted for this change, the most significant factors include a decrease in mortgage interest income, a decrease in the net increase/decrease in the fair value of investments, and an increase in bonds payable.

- Mortgage loans receivable decreased by $109.3 million, or 5.2% from $2,096.6 million on June 30, 2012 to $1,987.3 million on June 30, 2013. During FY 2013, single-family mortgage loan originations decreased by $23.6 million, or 10.0% from $235.7 million at June 30, 2012 to $212.2 million at June 30, 2013. Conversely, mortgage loan prepayments and repayments increased by $58.3 million, or 28.0% from $209.0 million at June 30, 2012 to $267.3 million on June 30, 2013.

- Total liabilities increased $119.3 million, or 5.7% from $2,083.8 million at June 30, 2012 to $2,203.1 million on June 30, 2013. The increase is primarily due to an increase in the amount of bonds issued during fiscal year 2013 as compared to fiscal year 2012, as well as a small decrease in the redemption of bonds as compared to fiscal year 2012.

**2012 to 2011**

- THDA's total net position increased $38.3 million, or 7.6%, from $505.2 million at June 30, 2011 to $543.5 million at June 30, 2012. The net position of $505.2 million at June 30, 2011 was reduced by $14.7 million from the amount previously reported, due to the effect of implementing GASB 65. The primary factor that contributed to this increase was the receipt of $34.5 million of funds from the multi-state national mortgage settlement with the nation's leading mortgage servicers. In addition, THDA's total net position as of July 1, 2011 was revised downward by $14.7 million due to the implementation of GASB Statement 65.

- Mortgage loans receivable decreased $22.8 million, or 1.1%, from $2,119.4 million at June 30, 2011 to $2,096.6 million at June 30, 2012. During FY 2012, single-family mortgage loan originations increased $4.6 million or 2.0% from $231.1 million in FY 2011 to $235.7 million in FY 2012. Conversely, mortgage loan prepayments and repayments increased $28.8 million, or 16.0%, from $180.2 million in FY 2011 to $209.0 million in FY 2012.

- Total liabilities decreased $136.9 million, or 6.2%, from $2,220.7 million at June 30, 2011 to $2,083.8 million at June 30, 2012. As noted above, the implementation of GASB 65 was applied retroactively, therefore requiring a minor revision to the amount of liabilities as previously reported. While there were several factors that led to this decrease, notable year-to-year changes include a decrease of warrants / wires payable from $10.9 million at June 30, 2011 to $0 at June 30, 2012, and a decrease in the total amount of bonds and notes outstanding from $2,143.7 million at June 30, 2011 to $2,015.1 million at June 30, 2012.

**Changes in Net Position.** The following table summarizes the changes in revenues, expenses and changes in net position between fiscal years (expressed in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Operating revenues | | | |
| Mortgage interest income | $ 109,158 | $ 116,015 | $ 119,406 |
| Investment income | (4,346) | 11,992 | 6,156 |
| Other | 17,865 | 17,693 | 17,041 |
| Total operating revenues | 122,677 | 145,700 | 142,603 |
| Operating expenses | | | |
| Interest expense | 78,643 | 86,020 | 84,137 |
| Other | 41,982 | 41,298 | 40,082 |
| Total operating expenses | 120,625 | 127,318 | 124,219 |
| Operating income | 2,052 | 18,382 | 18,384 |
| Nonoperating revenues (expenses) | | | |
| Grant revenues | 237,638 | 260,371 | 355,754 |
| Payment from primary government | - | 34,500 | - |
| Grant expenses | (256,724) | (274,977) | (369,957) |
| Total nonoperating revenues (expenses) | (19,086) | 19,894 | (14,203) |
| Change in net position | $ (17,034) | $ 38,276 | $ 4,181 |

**2013 to 2012**

Total operating revenues decreased $23.0 million, or 15.8% from $145.7 million for the year ended June 30, 2012 to $122.7 million for the year ended June 30, 2013. The primary reasons for this decrease are as follows:

- Investment income decreased $16.3 million, or 136.2% from $12.0 million in 2012 to a net loss of $4.3 million in 2013. While interest income from investments decreased marginally, THDA experienced a net decrease in the fair value of investments of $15.2 million in fiscal year 2013, as compared to a net increase in the fair value of investments of $0.3 million in fiscal year 2012.

- Mortgage interest income decreased $6.9 million, or 5.9%, from $116.0 million in 2012 to $109.1 million in 2013. This is due to mortgage loan prepayments exceeding the amount of mortgage loan originations. Likewise, new mortgage loan originations typically have lower interest rates than those associated with mortgage loan repayments.

- Total operating expenses decreased $6.7 million, or 5.3%, from $127.3 million in fiscal year 2012 to $120.6 million in fiscal year 2013. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

**2012 to 2011**
Total operating revenues increased $3.1 million from $142.6 million for the year ended June 30, 2011 to $145.7 million for the year ended June 30, 2012. The primary reasons for this increase are as follows:

- Mortgage interest revenue decreased $3.4 million, or $2.8%, from $119.4 million in FY 2011 to $116.0 million in FY 2012. This decrease is due to prepayments of older mortgage loans with higher interest rates, as compared to new loans being originated at historically low interest rates.

- Investment income increased $5.8 million, or 94.8%, from $6.2 million in 2011 to $12.0 million in 2012. While the increase in investment interest income was insignificant, the net increase (decrease) in the fair value of investments improved $5.2 million, or 106.5%, from a net decrease of $4.9 million in FY 2011 to a net increase of $0.3 million in FY 2012.

For the year ended June 30, 2012, total operating expenses increased $3.1 million, or 2.5%, from $124.2 million in 2011 to $127.3 million in 2012. The increase is not significant.

## DEBT ACTIVITY

Bonds and notes outstanding at June 30 were as follows (expressed in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Bonds payable | $ 2,136,806 | $ 2,020,302 | $ 2,140,486 |
| Notes payable | - | - | 3,250 |
| Total bonds and notes payable | $ 2,136,806 | $ 2,020,302 | $ 2,143,736 |

**Year Ended June 30, 2013**
Total bonds and notes payable increased $116.5 million, or 5.8% due primarily to an increase in the amount of bonds issued as well as a decrease in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $456.7 million, with activity arising from three bond issues. With interest rates remaining at historically low

levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded $66.5 million of outstanding bonds into new bond originations with lower interest rates.

**Year Ended June 30, 2012**

Total bonds and notes payable decreased $123.4 million, or 5.8%, due primarily to a decrease in the amount of bonds issued as well as an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $153.7 million, with activity arising from three bond issues. With investment interest rates at historically low levels, THDA has sought out opportunities to call bonds with proceeds from mortgage repayments and prepayments as practical. In addition to nominal advanced bond redemptions from mortgage loan prepayments, THDA refunded $135.1 million of bonds into bonds with lower interest rates.

**New Issue Bond Program (NIBP)**

The New Issue Bond Program (NIBP) provides temporary financing for Housing Finance Agencies (HFAs) to issue new housing bonds to fund new mortgages. The United States Treasury Department will purchase securities of Fannie Mae and Freddie Mac backed by these new housing bonds. This will temporarily allow the HFAs to issue an amount of new housing bonds equal to what they would ordinarily be able to issue with the allocations provided them by Congress but are generally unable to issue given the current challenges in housing and related markets.

On December 23, 2009, THDA issued $360 million of bonds under the NIBP, which were $60 million (Bond Issue 2009-A2) and $300 million (Bond Issue 2009-B1). The $300 million 2009-B1 bonds are variable-rate taxable debt, and are to be held in escrow. Upon being placed in escrow, the proceeds from these bonds are re-invested into permissible investments as required by the United States Treasury Department (generally, 28-day Treasury Bills purchased at auction). These bonds are scheduled to be released from escrow, re-designated and be converted to fixed-rate, tax-exempt bonds upon the issuance of market bonds within the framework and guidelines of the NIBP.

Subsequently, THDA released, re-designated, and converted escrowed bonds (Bond Issue 2009-B) into fixed-rate, tax-exempt bonds as noted below:

| Date | Amount | New Bond Issue |
|---|---|---|
| June 17, 2010 | $ 56,860,000 | Bond Issue 2010-A1 |
| | 17,850,000 | Bond Issue 2010-A2 |
| | 85,290,000 | Bond Issue 2009-B, Subseries B-1 |
| October 27, 2010 | 40,000,000 | Bond Issue 2010-B |
| | 60,000,000 | Bond Issue 2009-B, Subseries B-2 |
| March 24, 2011 | 40,000,000 | Bond Issue 2011-A |
| | 60,000,000 | Bond Issue 2009-B, Subseries B-3 |
| August 25, 2011 | 40,000,000 | Bond Issue 2011-B |
| | 60,000,000 | Bond Issue 2009-B, Subseries B-4 |
| November 03, 2011 | 65,290,000 | Bond Issue 2011-C |
| | 34,710,000 | Bond Issue 2009-B, Subseries B-5 |

As of June 30, 2012, all of the bonds issued under issue 2009-B1 had been released, re-designated, and converted into fixed-rate, tax-exempt bonds.

**Bond Ratings**

For bonds issued under the Mortgage Finance Program, Moody's Investors Service, Inc. ("Moody's") has assigned THDA's bonds a rating of Aa2 and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has assigned THDA's bonds a rating of AA.

For bonds issued under the Homeownership Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2013 or FY 2012.

**Debt Limits**

In accordance with *Tennessee Code Annotated,* 13-23-121, THDA operates under a "debt ceiling" of $2,930,000,000.

## GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly has appropriated revenue to THDA for grant programs. Likewise, THDA's Board of Directors has allocated additional THDA funds for grants. These funds established a grant program that has been titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

| | FY 2013 | FY 2012 | FY 2011 | FY 2010 and Prior | Total |
|---|---|---|---|---|---|
| ***Funding Sources:*** | | | | | |
| THDA | $ 6,500,000 | $ 6,500,000 | $ 6,000,000 | $ 24,000,000 | $ 43,000,000 |
| State Appropriation | - | - | - | 4,350,000 | 4,350,000 |
| **Totals** | **$ 6,500,000** | **$ 6,500,000** | **$ 6,000,000** | **$ 28,350,000** | **$ 47,350,000** |
| ***Approved Uses:*** | | | | | |
| Rural repair program (USDA) | $ 700,000 | $ 700,000 | $ 700,000 | $ 2,800,000 | $ 4,900,000 |
| Ramp Program (UCP) | - | - | - | 50,000 | 50,000 |
| Ramp Program | - | - | - | 400,000 | 400,000 |
| Hsg Modification & Ramp Prg | 150,000 | 150,000 | 150,000 | 150,000 | 600,000 |
| Homebuyer Education Initiative | - | - | - | 300,000 | 300,000 |
| Emergency Repairs for Elderly | - | 2,000,000 | 2,000,000 | 8,000,000 | 12,000,000 |
| Competitive Grants | 4,426,409 | 3,150,000 | 3,150,000 | 16,650,000 | 27,376,409 |
| Pilot Program Manufactured Hsg | 500,000 | 500,000 | - | - | 1,000,000 |
| Pending Allocations | 723,591 | - | - | - | 723,591 |
| **Totals** | **$ 6,500,000** | **$ 6,500,000** | **$ 6,000,000** | **$ 28,350,000** | **$ 47,350,000** |

In addition to the above funding, local grants could produce an additional $4 million or more funding each year. Also, the Emergency Repairs for the Elderly program and the Competitive Grants have a 50% grantee match requirement.

THDA is seeking additional private sector funding. In addition to the above approved uses, THDA received requests that merit funding. These requests totaled approximately $6 million more than the funds available.

## CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

THDA offers three primary choices for single-family mortgages. The *Great Rate* mortgage product offers an attractive interest rate loan secured by a first mortgage. The *Great Start* program offers a loan with an interest rate that is, as of June 30, 2013, 60 basis points higher than the Great Rate product, but provides 4% of the loan amount as down payment and closing cost assistance. In addition, THDA introduced the *Great Advantage* product during fiscal year 2006, which offers a loan with an interest rate that is, as of June 30, 2013, 30 basis points higher than the Great Rate product, and 2% of the loan amount as down payment and closing cost assistance.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

Single-family mortgage loans purchased by THDA with Loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee; and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value.

Loans with a 78% LTV or lower do not require mortgage insurance.

A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at http://www.thda.org/index.aspx?NID=282.

More recently, media attention has focused on mortgage loan delinquencies and foreclosures. For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Rate, Great Start, and Great Advantage), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2013, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

| Loan Status | Total Number of Loans Serviced | Number of Loans in Status | Principal Amount | Percentage |
|---|---|---|---|---|
| 60-89 Days Past Due | 25,265 | 554 | 40,491,422 | 2.19% |
| 90+ Days Past Due | 25,265 | 1,181 | 89,505,286 | 4.67% |
| In Foreclosure | 25,265 | 550 | 45,013,301 | 2.18% |

As of June 30, 2012, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

| Loan Status | Total Number of Loans Serviced | Number of Loans in Status | Principal Amount | Percentage |
|---|---|---|---|---|
| 60-89 Days Past Due | 26,430 | 561 | 42,078,643 | 2.12% |
| 90+ Days Past Due | 26,430 | 1,247 | 93,521,824 | 4.72% |
| In Foreclosure | 26,430 | 166 | 12,663,174 | 0.63% |

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

## ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

## CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

# TENNESSEE HOUSING DEVELOPMENT AGENCY
## STATEMENTS OF NET POSITION
## JUNE 30, 2013 AND JUNE 30, 2012
## (Expressed in Thousands)

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | $ 382,434 | $ 219,397 |
| Investments (Note 2) | 15,310 | 578 |
| Receivables: | | |
| Accounts | 18,155 | 18,989 |
| Interest | 13,435 | 12,611 |
| First mortgage loans | 51,350 | 51,702 |
| Due from federal government | 14,921 | 10,991 |
| Total current assets | 495,605 | 314,268 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash and cash equivalents (Note 2) | 21,897 | 34,218 |
| Investments (Note 2) | 200,346 | 186,562 |
| Investment interest receivable | 1,753 | 1,683 |
| Investments (Note 2) | 68,533 | 40,130 |
| First mortgage loans receivable | 1,935,924 | 2,044,906 |
| Advance to local government | 3,034 | 3,007 |
| Capital assets: | | |
| Furniture and equipment | 697 | 556 |
| Less accumulated depreciation | (503) | (443) |
| Total noncurrent assets | 2,231,681 | 2,310,619 |
| Total assets | 2,727,286 | 2,624,887 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred amount on refundings | 2,287 | 2,445 |
| Total deferred outflows of resources | 2,287 | 2,445 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | 1,642 | 1,451 |
| Accrued payroll and related liabilities | 535 | 515 |
| Compensated absences | 600 | 555 |
| Due to primary government | 71 | 71 |
| Interest payable | 40,279 | 43,626 |
| Escrow deposits | 172 | 433 |
| Prepayments on mortgage loans | 986 | 1,414 |
| Due to federal government | 17,619 | 10,408 |
| Bonds payable (Note 4) | 241,320 | 149,235 |
| Total current liabilities | 303,224 | 207,708 |
| Noncurrent liabilities: | | |
| Bonds payable (Note 4) | 1,895,486 | 1,871,067 |
| Compensated absences | 630 | 601 |
| Net OPEB obligation (Note 9) | 1,303 | 1,157 |
| Escrow deposits | 2,463 | 3,298 |
| Total noncurrent liabilities | 1,899,882 | 1,876,123 |
| Total liabilities | 2,203,106 | 2,083,831 |
| **NET POSITION** | | |
| Net investment in capital assets | 194 | 114 |
| Restricted for single family bond programs (Note 5 and Note 7) | 472,570 | 494,270 |
| Restricted for grant programs (Note 5) | 13,382 | 6,140 |
| Restricted for Homebuyers Revolving Loan Program (Note 5) | 3,153 | 3,153 |
| Unrestricted (Note 7) | 37,168 | 39,824 |
| Total net position | $ 526,467 | $ 543,501 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012**
**(Expressed in Thousands)**

| | 2013 | 2012 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Mortgage interest income | $ 109,158 | $ 116,015 |
| Investment income: | | |
| Interest | 10,881 | 11,672 |
| Net increase (decrease) in the fair value of investments | (15,227) | 320 |
| Federal grant administration fees | 15,586 | 14,475 |
| Fees and other income | 2,279 | 3,218 |
| Total operating revenues | 122,677 | 145,700 |
| **OPERATING EXPENSES** | | |
| Salaries and benefits | 16,083 | 15,671 |
| Contractual services | 3,930 | 3,208 |
| Materials and supplies | 493 | 184 |
| Rentals and insurance | 115 | 100 |
| Other administrative expenses | 445 | 482 |
| Other program expenses | 9,926 | 11,727 |
| Interest expense | 78,643 | 86,020 |
| Mortgage service fees | 7,291 | 7,539 |
| Issuance costs | 3,639 | 2,243 |
| Depreciation | 60 | 144 |
| Total operating expenses | 120,625 | 127,318 |
| Operating income | 2,052 | 18,382 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Federal grants revenue | 237,638 | 260,371 |
| Payment from primary government (Note 12) | - | 34,500 |
| Federal grants expenses | (237,352) | (260,587) |
| Local grants expenses | (19,372) | (14,390) |
| Total nonoperating revenues (expenses) | (19,086) | 19,894 |
| Change in net position | (17,034) | 38,276 |
| Total net position, July 1 | 543,501 | 519,956 |
| Cumulative effect of a change in accounting principle (Note 3) | - | (14,731) |
| Total net position, July 1, as restated | 543,501 | 505,225 |
| Total net position, June 30 | $ 526,467 | $ 543,501 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012**
**(Expressed in Thousands)**

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from customers | $ 429,234 | $ 378,193 |
| Receipts from federal government | 15,344 | 15,243 |
| Other miscellaneous receipts | 2,279 | 3,218 |
| Acquisition of mortgage loans | (212,166) | (235,740) |
| Payments to service mortgages | (7,291) | (7,539) |
| Payments to suppliers | (14,366) | (15,527) |
| Payments to federal government | - | (1,216) |
| Payments to employees | (16,123) | (15,644) |
| Net cash provided by operating activities | 196,911 | 120,988 |
| Cash flows from non-capital financing activities: | | |
| Operating grants received | 241,162 | 308,398 |
| Negative cash balance implicitly financed (repaid) | - | (10,913) |
| Proceeds from sale of bonds | 456,741 | 248,382 |
| Operating grants paid | (256,797) | (278,480) |
| Cost of issuance paid | (3,639) | (2,243) |
| Principal payments | (336,030) | (372,940) |
| Interest paid | (86,039) | (91,195) |
| Net cash provided (used) by non-capital financing activities | 15,398 | (198,991) |
| Cash flows from capital and related financing activities: | | |
| Purchases of capital assets | (141) | (100) |
| Net cash used by capital and related financing activities | (141) | (100) |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 287,825 | 409,752 |
| Purchases of investments | (359,985) | (400,926) |
| Investment interest received | 10,694 | 12,311 |
| Increase in fair value of investments subject to fair value reporting and classified as cash equivalents | 14 | 8 |
| Net cash provided (used) by investing activities | (61,452) | 21,145 |
| Net increase (decrease) in cash and cash equivalents | 150,716 | (56,958) |
| Cash and cash equivalents, July 1 | 253,615 | 310,573 |
| Cash and cash equivalents, June 30 | $ 404,331 | $ 253,615 |

(continued)

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF CASH FLOWS (cont.)**
**FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012**
**(Expressed in Thousands)**

| | 2013 | 2012 |
|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | $ 2,052 | $ 18,382 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 60 | 144 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | 834 | 4,758 |
| (increase) decrease in mortgage interest receivable | (709) | 183 |
| Decrease in first mortgage loans receivable | 109,306 | 22,790 |
| (Increase) decrease in due from federal government | (242) | 768 |
| (Decrease) in accounts payable | (1,258) | (1,460) |
| Increase in accrued payroll / compensated absences | 240 | 368 |
| (Decrease) in arbitrage rebate liability | - | (1,216) |
| Investment income included as operating revenue | 4,346 | (11,992) |
| Interest expense included as operating expense | 78,643 | 86,020 |
| Issuance cost included as operating expense | 3,639 | 2,243 |
| Total adjustments | 194,859 | 102,606 |
| Net cash provided by operating activities | $ 196,911 | $ 120,988 |
| Noncash investing, capital, and financing activities: | | |
| Increase (decrease) in fair value of investments | $ (14,037) | $ 12,603 |
| Total noncash investing, capital, and financing activities | $ (14,037) | $ 12,603 |

The Notes to the Financial Statements are an integral part of this statement.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq.* The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession, local governments, or one of the three grand divisions of the state, and be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

### b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, and Housing Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

**c. Basis of Accounting and Measurement Focus**

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

**d. Capital Assets**

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of $5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

| Description | Estimated Life |
|---|---|
| Furniture | 10 years |
| Computer equipment | 3 years |

**e. Restricted Assets**

Restricted assets are comprised of the Debt Service Reserve Funds.

The bond resolutions require the agency to establish a Debt Service Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund to cover any deficiency.

**f. Deferred Amount on Refundings and Bond Premiums and Discounts**

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

**g. Cash and Cash Equivalents**

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

**h. Investments**

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements which are reported at cost.

**i. Accrual of Interest Income**

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

**j. Mortgages**

Mortgages are carried at their original amount less collected principal.

### k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

## NOTE 2. DEPOSITS AND INVESTMENTS

### a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2013, the bank balance was $18,982,252. At June 30, 2012, the bank balance was $12,042,605. All bank balances at June 30, 2013 and June 30, 2012 were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury required the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of $250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2013, $18,490,778 was in the BNYM. Of this amount, $18,240,778 exceeded the FDIC insurance coverage. Of the bank balance at June 30, 2012, $11,588,423 was in the BNYM. Of this amount, $11,338,423 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State

Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report.* That report is available on the state's website at www.treasury.tn.gov.

**b. Investments**

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest one hundred percent (100%) of its portfolio in U.S. government securities. A minimum of five percent (5%) of the par value of total investments must mature within five years. No more than fifty percent (50%) of the par value of the combined portfolios can be invested in maturities greater than fifteen (15) years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

| | June 30, 2013 | | June 30, 2012 | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Effective Duration (Years)** | **Fair Value** | **Effective Duration (Years)** |
| U.S. Agency Coupon | $183,618,170 | 2.660 | $135,888,316 | 2.153 |
| U.S. Treasury Coupon | 85,574,572 | 3.899 | 91,381,418 | 4.673 |
| U.S. Agency Discount | 151,647,000 | 0.051 | 0 | N/A |
| | | | | |
| Total | $420,839,742 | 1.972 | $227,269,734 | 1.851 |

The portfolios include the following investments, stated at par or face value, which have fair values highly sensitive to interest rate changes. These investments are recorded at fair value in the statement of net position.

Variable Rate Bonds

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 30, 2012. Although these securities were scheduled to mature on January 30, 2017, these bonds were called January 30, 2013. The fair value of these securities on June 30, 2012 was $3,007,326, which is included in U.S. Agency Coupon in the table above.

The agency purchased $4,280,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.93 of par on February 24, 2012. Although these securities were scheduled to mature on December 28, 2026, these bonds were called December 28, 2012. The fair value of these securities on June 30, 2012 was $4,297,377, which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,140,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.875 of par on April 30, 2012. Although these securities were scheduled to mature on October 30, 2019, these bonds were called July 30, 2012. The fair value of these securities on June 30, 2012 was $2,135,998, which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on May 24, 2012. Although these securities were scheduled to mature on November 24, 2017, these bonds were called on November 24, 2012. The fair value of these securities on June 30, 2012 was $1,000,179, which is included in U.S. Agency Coupon in the table above.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on June 14, 2012. Although these securities were scheduled to mature on June 14, 2027, these bonds were called December 14, 2012. The fair value of these securities on June 30, 2012 was $5,001,205, which is included in U.S. Agency Coupon in the table above.

The agency purchased $6,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on June 28, 2012. Although these securities were scheduled to mature on June 28, 2027, these bonds were called December 28, 2012. The fair value of these securities on June 30, 2012 was $5,995,374, which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,350,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on June 11, 2012 and mature on June 11, 2027. The fair value of these securities on June 30, 2013 is $2,186,370, and on June 30, 2012 was $2,335,775, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016, to 3.0% on June 11, 2020, to 4.0% on June 11, 2022, to 6.0% on June 11, 2023, to 7.0% on June 11, 2024, to 8.0% on December 11, 2024, to 10.0% on June 11, 2025, to 12.0% on December 11, 2025, to 14.0% on June 11, 2026, and to 16.0% on December 11, 2026.

The agency purchased $3,210,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on June 28, 2012 and mature on June 27, 2027. The fair value of these securities on June 30, 2013 is $2,990,898, and on June 30, 2012 was $3,190,002, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 28, 2015, to 3.0% on June 28, 2018, to 4.0% on June 28, 2021, to 5.0% on June 28, 2023, and to 6.5% on June 28, 2025.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 100.12 of par on November 15, 2012 and mature on June 11, 2027. The fair value of these securities on June 30, 2013, is $2,791,110 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016, to 3.0% on June 11, 2020, to 4.0% on June 11, 2022, to 6.0% on June 11, 2023, to 7.0% on June 11, 2024, to 8.0% on December 11, 2024, to 10.0% on June 11, 2025, to 12.0% on December 11, 2025, to 14.0% on June 11, 2026, and to 16.0% on December 11, 2026.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on November 8, 2012 and mature on November 8, 2027. The fair value of these securities on June 30, 2013, is $3,678,796 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 3.0% on November 8, 2017, and to 4.0% on November 8, 2022. This investment is callable quarterly beginning February 8, 2013, and ending November 8, 2016.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.45 of par on November 23, 2012 and mature on November 23, 2027. The fair value of these securities on June 30, 2013, is $2,746,311 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.125% on November 23, 2017, to 2.25% on November 23, 2020, to 2.5% on November 23, 2023, to 3.0% on November 23, 2024, to 4.0% on May 23, 2025, to 6.0% on November 23, 2025, to 8.0% on May 23, 2026, to 11.0% on November 23, 2026, and to 14% on May 23, 2027. This investment is callable quarterly beginning May 23, 2013, and ending November 23, 2015.

The agency purchased $2,400,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.65 of par on December 21, 2012 and mature on December 21, 2027. The fair value of these securities on June 30, 2013, is $2,231,131 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.25% on December 21, 2017, to 2.5% on December 21, 2020, to 3.0% on December 21, 2022, to 4.0% on December 21, 2023, to 5.0% on December 21, 2024, to 6.0% on December 21, 2025, to 8.0% on June 21, 2026, to 10.0% on December 21, 2026, and to 12.0% on June 21, 2027. This investment is callable quarterly beginning June 21, 2013, and ending December 21, 2018.

The agency purchased $2,750,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.90 of par on January 30, 2013 and mature on January 30, 2025. The fair value of these securities on June 30, 2013, is $2,612,555 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.25% on January 30, 2018, to 2.5% on January 30, 2021, to 3.0% on January 30, 2022, to 5.0% on January 30, 2023, to 7.0% on July 30, 2023, and to 9.0% on January 30, 2024. This investment is callable quarterly beginning July 30, 2013, and ending October 30, 2016.

The agency purchased $650,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 101.55 of par on September 6, 2012 and mature on August 26, 2025. The fair value of these securities on June 30, 2013, is $651,348 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on August 26, 2013, to 5.0% on August 26, 2016, to 6.0% on August 26, 2019, and to 7.0% on

August 26, 2022. This investment is callable August 26, 2013, August 26, 2016, August 26, 2019, and August 26, 2022.

The agency purchased $1,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.18 of par on November 7, 2012 and mature on June 28, 2027. The fair value of these securities on June 30, 2013, is $1,426,929 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on June 28, 2017, to 5.0% on June 28, 2024, and to 6.5% on June 28, 2026. This investment is callable quarterly beginning December 28, 2012, and ending December 28, 2015.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on August 27, 2012 and mature on August 27, 2027. The fair value of these securities on June 30, 2013, is $1,919,370 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.5% with a step-up option to 2.5% on August 27, 2015, to 3.5% on August 27, 2018, to 4.5% on August 27, 2021, and to 5.5% on August 27, 2024. This investment is callable quarterly beginning August 27, 2012, and ending November 27, 2015.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012 and mature on December 27, 2027. The fair value of these securities on June 30, 2013, is $4,694,220 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.0% with a step-up option to 2.0% on June 27, 2013, and to 3.15% on December 27, 2013. This investment is callable quarterly beginning June 27, 2013, and ending December 27, 2016.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012 and mature on December 27, 2017. The fair value of these securities on June 30, 2013, is $2,945,187 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 0.6% with a step-up option to 0.7% on December 27, 2014, to 1.0% on December 27, 2015, to 1.5% on December 27, 2016, and to 3.0% on June 27, 2017. This investment is callable quarterly beginning December 27, 2013, and ending December 27, 2016.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 28, 2012 and mature on December 28, 2027. The fair value of these securities on June 30, 2013, is $2,813,145 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 3.0% on December 28, 2017, to 4.0% on December 28, 2020, to 5.0% on December 28, 2024, and to 6.0% on December 28, 2025. This investment is callable quarterly beginning June 28, 2013, and ending December 28, 2017.

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2013 and June 30, 2012 are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

**June 30, 2013**

| | | | Credit Quality Rating | | | |
|---|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **U.S. Treasury[1]** | **AA+** | **A-1** | **AA-2** | **Not Rated[2]** |
| U.S. Agency Coupon | $183,618,170 | | $167,220,366 | | $5,114,633 | $11,283,171 |
| U.S. Treasury Coupon | 85,574,572 | $85,574,572 | | | | |
| U.S. Agency Discount | 151,647,000 | | | $131,647,320 | | 19,999,680 |
| | | | | | | |
| Total | $420,839,742 | $85,574,572 | $167,220,366 | $131,647,320 | $5,114,633 | $31,282,851 |

**June 30, 2012**

| | | | Credit Quality Rating | | |
|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **U.S. Treasury[1]** | **AA+** | **AA-2** | **Not Rated[2]** |
| U.S. Agency Coupon | $135,888,316 | | $118,089,513 | $5,237,564 | $12,561,239 |
| U.S. Treasury Coupon | 91,381,418 | $91,381,418 | | | |
| Repurchase Agreements | 110,000,000 | | | | 110,000,000 |
| | | | | | |
| Total | $337,269,734 | $91,381,418 | $118,089,513 | $5,237,564 | $122,561,239 |

[1]This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

[2]This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than five percent of the agency's investments are invested in the following single issuers:

| | June 30, 2013 | | June 30, 2012 | |
|---|---|---|---|---|
| **Issuer** | **Fair Value** | **% of Portfolio** | **Fair Value** | **% of Portfolio** |
| Federal Home Loan Bank | $173,049,950 | 41.12 | $20,608,842 | 6.11 |
| Federal Home Loan Mortgage Corp | $42,892,295 | 10.19 | $22,155,470 | 6.57 |
| Federal National Mortgage Assoc. | $95,869,861 | 22.78 | $73,997,504 | 21.94 |
| Repurchase Agreements – UBS | $0 | N/A | $110,000,000 | 32.61 |

## NOTE 3. ACCOUNTING CHANGE

During the year ended June 30, 2013, the agency implemented GASB Statement 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"; GASB Statement 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"; and GASB Statement 65, "Items Previously Reported as Assets and Liabilities".

Implementation of GASB 62 did not have any financial reporting impact to the agency. Implementation of GASB 63 required the reclassification of net assets to net position, and it also required the deferred amount on refundings to be classified as a deferred outflow of resources.

Implementation of GASB 65 recognizes bond cost of issuance as an expense; therefore the adoption of this statement resulted in the write-off of unamortized cost of issuance as of July 1, 2011. Cost of issuance incurred by the agency is reported as expense in the fiscal years ending June 30, 2012 and June 30, 2013. The cumulative effect of this change in accounting principle decreased the net position at July 1, 2011 by $14,730,999. The financial statements for the fiscal year ending June 30, 2012 have been restated.

## NOTE 4. LIABILITIES

### a. Bonds Issued and Outstanding

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2013 | Ending Balance 6/30/2012 |
|---|---|---|---|---|---|
| **MORTGAGE FINANCE PROGRAM BONDS** | | | | | |
| 2003A | 7/1/2004-7/1/2034 | $191,885 | 1.70 to 5.35 | $48,965 | $61,400 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2013 | Ending Balance 6/30/2012 |
|---|---|---|---|---|---|
| **HOMEOWNERSHIP PROGRAM BONDS** | | | | | |
| 2003-1 | 7/1/2004-7/1/2033 | $50,000 | 1.20 to 5.10 | $ -0- | $17,550 |
| 2003-2 | 7/1/2004-1/1/2034 | 60,000 | 1.10 to 4.40 | -0- | 25,210 |
| 2003-3 | 7/1/2004-7/1/2034 | 75,000 | 1.20 to 5.00 | -0- | 28,115 |
| 2004-1 | 1/1/2005-1/1/2035 | 80,000 | 1.30 to 5.00 | 28,185 | 34,125 |
| 2004-2 | 7/1/2005-1/1/2035 | 100,000 | 1.85 to 5.25 | 38,435 | 44,830 |
| 2004-3 | 1/1/2006-7/1/2035 | 100,000 | 2.55 to 5.125 | 39,070 | 47,545 |
| 2005-1 | 7/1/2006-1/1/2036 | 100,000 | 2.75 to 5.00 | 46,605 | 55,550 |
| 2005-2 | 1/1/2007-7/1/2036 | 100,000 | 3.00 to 5.00 | 43,960 | 54,970 |
| 2006-1 | 7/1/2007-1/1/2037 | 100,000 | 3.55 to 5.75 | 44,500 | 55,975 |
| 2006-2 | 7/1/2007-1/1/2037 | 100,000 | 3.90 to 5.75 | 41,175 | 53,450 |
| 2006-3 | 1/1/2008-7/1/2037 | 100,000 | 3.65 to 5.75 | 49,935 | 62,075 |
| 2007-1 | 7/1/2008-1/1/2038 | 100,000 | 3.65 to 5.50 | 53,755 | 64,530 |
| 2007-2 | 7/1/2008-7/1/2038 | 120,000 | 3.75 to 5.25 | 71,385 | 83,880 |
| 2007-3 | 1/1/2009-7/1/2038 | 150,000 | 3.85 to 5.50 | 81,950 | 97,925 |
| 2007-4 | 1/1/2009-7/1/2038 | 150,000 | 3.75 to 5.50 | 90,360 | 102,995 |
| 2008-1 | 7/1/2009-1/1/2039 | 60,000 | 2.45 to 5.70 | 33,675 | 41,610 |
| 2008-2 | 7/1/2009-1/1/2027 | 50,000 | 3.25 to 5.75 | 11,915 | 28,175 |
| 2008-3 | 7/1/2009-7/1/2038 | 90,000 | 2.00 to 5.45 | 47,790 | 58,695 |
| 2008-4 | 1/1/2010-7/1/2028 | 30,000 | 3.125 to 6.125 | 2,975 | 8,105 |
| 2009-1 | 1/1/2010-7/1/2029 | 50,000 | 0.75 to 5.00 | 36,870 | 43,490 |
| 2009-2 | 7/1/2010-7/1/2030 | 75,000 | 0.90 to 5.00 | 59,395 | 65,220 |
| 2010-1 | 1/1/2011-7/1/2025 | 120,700 | 0.35 to 4.50 | 87,655 | 100,050 |
| 2011-1 | 7/1/2012-7/1/2042 | 141,255 | 0.60 to 4.65 | 125,005 | 138,915 |
| 2012-1 | 1/1/2013-7/1/2042 | 133,110 | 0.80 to 4.50 | 127,265 | -0- |
| 2012-2 | 7/1/2013-7/1/2043 | 97,625 | 0.50 to 4.00 | 96,960 | -0- |
| Total Homeownership Program Bonds | | $2,332,690 | | $1,258,820 | $1,312,985 |
| Plus: Unamortized Bond Premiums | | | | 14,419 | 12,119 |
| Less: Unamortized Bond Discount | | | | (218) | (273) |
| Net Homeownership Program Bonds | | | | $1,273,021 | $1,324,831 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2013 | Ending Balance 6/30/2012 |
|---|---|---|---|---|---|
| **HOUSING FINANCE PROGRAM BONDS** | | | | | |
| 2009-A | 1/1/2011-1/1/2040 | $100,000 | 0.90 to 4.625 | $83,295 | $91,845 |
| 2010-A | 1/1/2011-7/1/2041 | 160,000 | 0.60 to 5.00 | 133,945 | 146,225 |
| 2010-B | 7/1/2011–7/1/2041 | 100,000 | 0.45 to 4.50 | 91,245 | 96,795 |
| 2011-A | 7/1/2011-7/1/2041 | 100,000 | 0.45 to 4.50 | 90,730 | 97,475 |
| 2011-B | 7/1/2012-7/1/2041 | 100,000 | 0.25 to 4.50 | 96,980 | 99,575 |
| 2011-C | 7/1/2012-7/1/2041 | 100,000 | 0.40 to 4.30 | 97,020 | 99,995 |
| Total Housing Finance Program Bonds | | $660,000 | | $593,215 | $631,910 |
| Plus: Unamortized Bond Premiums | | | | 1,829 | 2,161 |
| Net Housing Finance Program Bonds | | | | $595,044 | $634,071 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2013 | Ending Balance 6/30/2012 |
|---|---|---|---|---|---|
| **RESIDENTIAL FINANCE PROGRAM BONDS** | | | | | |
| 2013-1 | 1/1/2014-7/1/2043 | $215,905 | 0.40 to 4.00 | $215,905 | $ -0- |
| Plus: Unamortized Bond Premiums | | | | 3,871 | -0- |
| Net Residential Finance Program Bonds | | | | $219,776 | $ -0- |
| Net Total All Issues | | | | $2,136,806 | $2,020,302 |

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of $85,290,000. The $85,290,000 was blended with the market rate 2010-A bonds in the amount of $74,710,000 for a total of $160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2010-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-A bonds in the amount of $40,000,000 for a total of $100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of $34,710,000. The $34,710,000 was blended with the market rate 2011-C bonds in the amount of $65,290,000 for a total of $100,000,000.

## b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2013, are as follows (expressed in thousands):

| For the Year(s) Ending June 30 | Principal | Interest | Total Requirements |
|---|---|---|---|
| 2014 | $238,985 | $78,133 | $317,118 |
| 2015 | 53,630 | 74,673 | 128,303 |
| 2016 | 52,575 | 73,392 | 125,967 |
| 2017 | 53,870 | 71,970 | 125,840 |
| 2018 | 55,030 | 70,361 | 125,391 |
| 2019 – 2023 | 230,070 | 325,553 | 555,623 |
| 2024 – 2028 | 302,590 | 273,929 | 576,519 |
| 2029 – 2033 | 228,440 | 214,564 | 443,004 |
| 2034 – 2038 | 289,200 | 166,610 | 455,810 |
| 2039 – 2043 | 544,490 | 58,617 | 603,107 |
| 2044 | 68,025 | 1,342 | 69,367 |
| Total | $2,116,905 | $1,409,144 | $3,526,049 |

## c. Redemption of Bonds and Notes

During the year ended June 30, 2013, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $10,235,000, in the Homeownership Program in the amount of $199,355,000 and in the Housing Finance Program in the amount of $31,315,000. The respective carrying values of the bonds were $10,235,000, $202,501,590 and $31,515,181. This resulted in revenue to the Homeownership Program of $3,146,590 and to the Housing Finance Program of $200,181.

On July 19, 2012, the agency issued $133,110,000 in Homeownership Program Bonds, Issue 2012-1. On September 1, 2012, the agency used $43,865,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $43,865,000 early redemption). The carrying amount of these bonds was $43,865,000. The refunding reduced the agency's debt service by $10,700,210 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $6,206,292.

On November 15, 2012, the agency issued $97,625,000 in Homeownership Program Bonds, Issue 2012-2. On January 1, 2013, the agency used $22,625,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $22,625,000 early redemption). The carrying amount of these bonds was $22,625,000. The refunding reduced the agency's debt service by $8,510,283 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $3,758,068.

During the year ended June 30, 2012, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $11,200,000, in the Homeownership Program in the amount of $180,970,000 and in the Housing Finance Program in the amount of $17,055,000. The respective carrying values of the bonds were $11,157,769, $183,542,332 and $17,099,460. This resulted in an expense to the Mortgage Finance Program of $42,231 and revenue to the Homeownership Program of $2,572,332 and to the Housing Finance Program of $44,460.

On December 1, 2011, the agency issued $141,255,000 in Homeownership Program Bonds, Issue 2011-1. On January 1, 2012, the agency used $135,095,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $135,095,000 early redemption). The carrying amount of these bonds was $134,393,628. The refunding resulted in a difference of $701,372 between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by $37,847,406 over the next 18 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $17,103,985.

**d. Long-term Liability Activity**

The following table is a summary of the long-term liability activity for the year ended June 30, 2013.

**Long-term Liabilities**
(Thousands)

| | Beginning Balance July 1, 2012 | Additions | Reductions | Ending Balance June 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | $2,006,295 | $446,640 | ($336,030) | $2,116,905 | $241,320 |
| Plus: Unamortized Bond Premiums | 14,280 | 10,101 | (4,262) | 20,119 | -0- |
| Less: Unamortized Bond Discounts | (273) | -0- | 55 | (218) | -0- |
| Compensated Absences | 1,156 | 74 | (-0-) | 1,230 | 600 |
| Escrow Deposits | 3,731 | 1,610 | (2,706) | 2,635 | 172 |
| Total | $2,025,189 | $458,425 | ($342,943) | $2,140,671 | $242,092 |

The following table is a summary of the long-term liability activity for the year ended June 30, 2012.

**Long-term Liabilities**
(Thousands)

| | Beginning Balance July 1, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Notes Payable | $3,250 | $-0- | ($3,250) | $-0- | $-0- |
| Bonds Payable | 2,129,440 | 246,545 | (369,690) | 2,006,295 | 149,235 |
| Plus: Unamortized Bond Premiums | 17,120 | 1,837 | (4,677) | 14,280 | -0- |
| Less: Unamortized Bond Discounts | (322) | -0- | 49 | (273) | -0- |
| Compensated Absences | 994 | 162 | (-0-) | 1,156 | 555 |
| Escrow Deposits | 4,776 | 1,484 | (2,529) | 3,731 | 433 |
| Arbitrage Rebate Payable | 1,217 | 418 | (1,635) | -0- | -0- |
| Total | $2,156,475 | $250,446 | ($381,732) | $2,025,189 | $150,223 |

## e. Notes Issued and Outstanding

Promissory Note On December 22, 2008, the agency borrowed $3,250,000 for the Preserve Loan Program, which is part of the Housing Trust Fund. Interest was charged quarterly at 3%. The principal matured and was paid on December 22, 2011. The activity of the promissory note is included in the summary of long-term liability activity in part d. of this note.

## NOTE 5. RESTRICTED NET POSITION

The amount shown on the Statement of Net Position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

## NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at www.treasury.tn.gov/tcrs.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 15.03% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2013, 2012, and 2011, were $1,692,847 $1,632,095, and $1,585,654. Those contributions met the required contributions for each year.

## NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has established a loan loss reserve of $750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional $232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and $500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

## NOTE 8. INSURANCE-RELATED ACTIVITIES

### a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### b. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property and crime and fidelity coverage on the state's officials and employees. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

**c. Employee Group Insurance Fund**

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

## NOTE 9. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-101. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency. The state is the sole contributor for the THDA retirees participating in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20, but less than 30, years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 but less than 30 years of service, $37.50; and retirees with 15, but less than 20 years of service, $25.

**THDA Annual OPEB Cost and Net OPEB Obligation**
**State Employee Group Plan**
(Thousands)

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Annual Required Contribution (ARC) | $362 | $393 |
| Interest on the Net OPEB Obligation | 46 | 41 |
| Adjustment to the ARC | (49) | (44) |
| Annual OPEB cost | 359 | 390 |
| Amount of contribution | (213) | (227) |
| Increase in Net OPEB Obligation | 146 | 163 |
| Net OPEB obligation-beginning of year | 1,157 | 994 |
| Net OPEB obligation-end of year | $1,303 | $1,157 |

| Year End | Plan | Annual OPEB Cost (Thousands) | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation At Year End (Thousands) |
|---|---|---|---|---|
| 6/30/2013 | State Employee Group Plan | $ 359 | 60% | $ 1,303 |
| 6/30/2012 | State Employee Group Plan | $ 390 | 58% | $ 1,157 |
| 6/30/2011 | State Employee Group Plan | $ 360 | 44% | $ 994 |

Funded Status and Funding Progress The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2011, was as follows (thousands):

| | |
|---|---|
| Actuarial valuation date | 7/01/2011 |
| Actuarial accrued liability (AAL) | $ 2,919 |
| Actuarial value of plan assets | -0- |
| Unfunded actuarial accrued liability (UAAL) | $ 2,919 |
| Actuarial value of assets as a % of the AAL | 0% |
| Covered payroll (active plan members) | $ 9,818 |
| UAAL as a percentage of covered payroll | 30% |

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2011, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.75 percent in fiscal year 2013. The rate decreases to 8.25 percent in fiscal year 2014, and then reduces by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

## NOTE 10. ON-BEHALF PAYMENTS

During the year ended June 30, 2013, the State of Tennessee made payments of $4,715 on behalf of THDA for retirees participating in the Medicare Supplement Plan, and during the year ended June 30, 2012, made payments of $2,980. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

## NOTE 11. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, $15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, $43,000,000 was transferred from the agency to the State General Fund. The $43,000,000 transferred from the agency came from the following resources of the agency: (i) $15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) $5,028,761 from the Housing Program Reserve Fund; and (iii) $22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of $35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

## NOTE 12. NATIONAL MORTGAGE SETTLEMENT FUNDS

The State of Tennessee received $41,207,810 from the United States Attorney General for the National Mortgage Settlement. In June 2012, the agency received $34,500,000 of the $41,207,810. The agency plans to use those funds to expand the Keep My Tennessee Home financial assistance program to include long term medical hardships and to provide foreclosure counseling.

## NOTE 13. SUBSEQUENT EVENTS

**a.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| July 1, 2013 | Mortgage Finance Program | | $ 48,965,000 |
| | Homeownership Program | | 110,810,000 |
| | Housing Finance Program | | 24,060,000 |
| | | Total | $183,835,000 |

**b.** Residential Finance Program Bonds, Issue 2013-2, were authorized by the Board of directors on July 23, 2013, not to exceed $125,000,000.

**c.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| August 1, 2013 | Homeownership Program | | $ 21,110,000 |
| | Housing Finance Program | | 5,795,000 |
| | Residential Finance Program | | 5,620,000 |
| | | Total | $32,525,000 |

**d.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | | |
|---|---|---|---|
| October 1, 2013 | Homeownership Program | | $ 38,165,000 |
| | Housing Finance Program | | 10,820,000 |
| | Residential Finance Program | | 2,935,000 |
| | | Total | $51,920,000 |

**e.** *Tennessee Code Annotated* Section 13-23-101 *et seq.* was amended to revise the composition of the Board of Directors, effective July 1, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
UNAUDITED
(Expressed in Thousands)

| Actuarial Valuation Date | Plan | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|---|
| 7/1/2009 | State Employee Group Plan | $ -0- | $ 3,629 | $ 3,629 | 0% | $ 9,238 | 39% |
| 7/1/2010 | State Employee Group Plan | $ -0- | $ 3,316 | $ 3,316 | 0% | $ 8,640 | 38% |
| 7/1/2011 | State Employee Group Plan | $ -0- | $ 2,919 | $ 2,919 | 0% | $ 9,818 | 30% |

Exhibit A

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF NET POSITION**
**JUNE 30, 2013**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Homeownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 16,407 | $ 71,109 | $ 172,570 | $ 52,682 | $ 69,666 | $ 382,434 |
| Investments | - | 236 | 76 | - | 14,998 | 15,310 |
| Receivables: | | | | | | |
| Accounts | 1 | 889 | 13,953 | 3,297 | 15 | 18,155 |
| Interest | 14 | 702 | 9,170 | 3,466 | 83 | 13,435 |
| First mortgage loans | 155 | 4,568 | 34,612 | 11,073 | 942 | 51,350 |
| Due from federal government | 14,921 | - | - | - | - | 14,921 |
| Due from other funds | 9,335 | 30 | - | - | - | 9,365 |
| Total current assets | 40,833 | 77,534 | 230,381 | 70,518 | 85,704 | 504,970 |
| Noncurrent assets: | | | | | | |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 17,827 | 32 | 167 | 51 | 3,820 | 21,897 |
| Investments | - | 13,048 | 163,796 | 20,472 | 3,030 | 200,346 |
| Investment Interest receivable | - | 118 | 1,522 | 111 | 2 | 1,753 |
| Investments | - | 19,755 | 29,119 | 15,040 | 4,619 | 68,533 |
| First mortgage loans receivable | 1,218 | 126,080 | 1,208,420 | 545,288 | 54,918 | 1,935,924 |
| Advance to local government | 3,034 | - | - | - | - | 3,034 |
| Capital assets: | | | | | | |
| Furniture and equipment | 697 | - | - | - | - | 697 |
| Less accumulated depreciation | (503) | - | - | - | - | (503) |
| Total noncurrent assets | 22,273 | 159,033 | 1,403,024 | 580,962 | 66,389 | 2,231,681 |
| Total assets | 63,106 | 236,567 | 1,633,405 | 651,480 | 152,093 | 2,736,651 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Deferred amount on refundings | - | 1,850 | 437 | - | - | 2,287 |
| Total deferred outflows of resources | - | 1,850 | 437 | - | - | 2,287 |
| **LIABILITIES** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 1,552 | 4 | 57 | 27 | 2 | 1,642 |
| Accrued payroll and related liabilities | 535 | - | - | - | - | 535 |
| Compensated absences | 600 | - | - | - | - | 600 |
| Due to primary government | 71 | - | - | - | - | 71 |
| Interest payable | | 1,249 | 28,037 | 10,430 | 563 | 40,279 |
| Escrow deposits | - | 172 | - | - | - | 172 |
| Prepayments on mortgage loans | | 49 | 661 | 245 | 31 | 986 |
| Due to federal government | 17,619 | - | | | - | 17,619 |
| Due to other funds | - | - | 9,365 | - | - | 9,365 |
| Bonds payable | - | 48,965 | 149,535 | 35,165 | 7,655 | 241,320 |
| Total current liabilities | 20,377 | 50,439 | 187,655 | 45,867 | 8,251 | 312,589 |
| Noncurrent liabilities: | | | | | | |
| Bonds payable | - | - | 1,123,487 | 559,878 | 212,121 | 1,895,486 |
| Compensated absences | 630 | - | - | - | - | 630 |
| Net OPEB obligation | 1,303 | - | - | - | - | 1,303 |
| Escrow deposits | 281 | 2,182 | - | - | - | 2,463 |
| Total noncurrent liabilities | 2,214 | 2,182 | 1,123,487 | 559,878 | 212,121 | 1,899,882 |
| Total liabilities | 22,591 | 52,621 | 1,311,142 | 605,745 | 220,372 | 2,212,471 |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 194 | - | - | - | - | 194 |
| Restricted for single family bond programs | - | 172,414 | 322,700 | 45,735 | (68,279) | 472,570 |
| Restricted for grant programs | - | 13,382 | - | - | - | 13,382 |
| Restricted for Homebuyers Revolving Loan Program | 3,153 | - | - | - | - | 3,153 |
| Unrestricted | 37,168 | - | - | - | - | 37,168 |
| Total net position | $ 40,515 | $ 185,796 | $ 322,700 | $ 45,735 | $ (68,279) | $ 526,467 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**FOR THE YEAR ENDED JUNE 30, 2013**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | |
| Mortgage interest income | $ 56 | $ 5,406 | $ 74,057 | $ 29,417 | $ 222 | $ 109,158 |
| Investment income: | | | | | | |
| Interest | 46 | 1,309 | 8,704 | 812 | 10 | 10,881 |
| Net (decrease) in the fair value of investments | - | (1,812) | (11,724) | (1,608) | (83) | (15,227) |
| Federal grant administration fees | 15,586 | - | - | - | - | 15,586 |
| Fees and other income | 1,845 | 358 | - | - | 76 | 2,279 |
| Total operating revenues | 17,533 | 5,261 | 71,037 | 28,621 | 225 | 122,677 |
| **OPERATING EXPENSES** | | | | | | |
| Salaries and benefits | 16,083 | - | - | - | - | 16,083 |
| Contractual services | 3,930 | - | - | - | - | 3,930 |
| Materials and supplies | 493 | - | - | - | - | 493 |
| Rentals and insurance | 115 | - | - | - | - | 115 |
| Other administrative expenses | 445 | - | - | - | - | 445 |
| Other program expenses | 3,557 | 3,074 | 3,008 | 286 | 1 | 9,926 |
| Interest expense | - | 2,819 | 54,352 | 20,921 | 551 | 78,643 |
| Mortgage service fees | - | 396 | 4,750 | 2,127 | 18 | 7,291 |
| Issuance costs | - | - | 1,960 | - | 1,679 | 3,639 |
| Depreciation | 60 | - | - | - | - | 60 |
| Total operating expenses | 24,683 | 6,289 | 64,070 | 23,334 | 2,249 | 120,625 |
| Operating income (loss) | (7,150) | (1,028) | 6,967 | 5,287 | (2,024) | 2,052 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | |
| Federal grants revenue | 237,636 | 2 | - | - | - | 237,638 |
| Payment from primary government | - | - | - | - | - | - |
| Federal grants expenses | (237,333) | (19) | - | - | - | (237,352) |
| Local grants expenses | (11,417) | - | (7,955) | - | - | (19,372) |
| Total nonoperating revenues (expenses) | (11,114) | (17) | (7,955) | - | - | (19,086) |
| Income (loss) before transfers | (18,264) | (1,045) | (988) | 5,287 | (2,024) | (17,034) |
| Transfers (to) other funds | - | - | (11,424) | (1,652) | (66,255) | (79,331) |
| Transfers from other funds | 15,688 | 63,643 | - | - | - | 79,331 |
| Change in net position | (2,576) | 62,598 | (12,412) | 3,635 | (68,279) | (17,034) |
| Total net position, July 1 | 43,091 | 123,198 | 335,112 | 42,100 | - | 543,501 |
| Total net position, June 30 | $ 40,515 | $ 185,796 | $ 322,700 | $ 45,735 | $ (68,279) | $ 526,467 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2013**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | |
| Receipts from customers | $ 180 | $ 20,876 | $ 322,786 | $ 85,147 | $ 245 | $ 429,234 |
| Receipts from federal government | 15,344 | - | - | - | - | 15,344 |
| Receipts from other funds | - | - | 2,790 | - | - | 2,790 |
| Other miscellaneous receipts | 1,845 | 358 | - | - | 76 | 2,279 |
| Acquisition of mortgage loans | - | (7,058) | (149,162) | - | (55,946) | (212,166) |
| Payments to service mortgages | - | (396) | (4,750) | (2,127) | (18) | (7,291) |
| Payments to suppliers | (7,806) | (3,262) | (3,006) | (292) | - | (14,366) |
| Payments to other funds | (2,761) | (29) | - | - | - | (2,790) |
| Payments to employees | (16,123) | - | - | - | - | (16,123) |
| Net cash provided (used) by operating activities | (9,321) | 10,489 | 168,658 | 82,728 | (55,643) | 196,911 |
| Cash flows from non-capital financing activities: | | | | | | |
| Operating grants received | 241,160 | 2 | - | - | - | 241,162 |
| Transfers in (out) | 15,688 | 63,643 | (11,424) | (1,652) | (66,255) | - |
| Proceeds from sale of bonds | - | - | 236,952 | - | 219,789 | 456,741 |
| Operating grants paid | (248,823) | (19) | (7,955) | - | - | (256,797) |
| Cost of issuance paid | - | - | (1,960) | - | (1,679) | (3,639) |
| Principal payments | - | (12,435) | (284,900) | (38,695) | - | (336,030) |
| Interest paid | - | (3,000) | (60,872) | (22,166) | (1) | (86,039) |
| Net cash provided (used) by non-capital financing activities | 8,025 | 48,191 | (130,159) | (62,513) | 151,854 | 15,398 |
| Cash flows from capital and related financing activities: | | | | | | |
| Purchases of capital assets | (141) | - | - | - | - | (141) |
| Net cash used by capital and related financing activities | (141) | - | - | - | - | (141) |
| Cash flows from investing activities: | | | | | | |
| Proceeds from sales and maturities of investments | - | 48,776 | 186,776 | 63,704 | - | 299,256 |
| Purchases of investments | - | (62,946) | (211,487) | (74,250) | (22,733) | (371,416) |
| Investment interest received | 46 | 1,321 | 8,556 | 766 | 5 | 10,694 |
| Increase in fair value of investments subject to fair value reporting and classified as cash equivalents | - | - | 10 | 1 | 3 | 14 |
| Net cash provided (used) by investing activities | 46 | (12,849) | (16,145) | (9,779) | (22,725) | (61,452) |
| Net increase (decrease) in cash and cash equivalents | (1,391) | 45,831 | 22,354 | 10,436 | 73,486 | 150,716 |
| Cash and cash equivalents, July 1 | 35,625 | 25,310 | 150,383 | 42,297 | - | 253,615 |
| Cash and cash equivalents, June 30 | $ 34,234 | $ 71,141 | $ 172,737 | $ 52,733 | $ 73,486 | $ 404,331 |

(continued)

Exhibit C

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)**
**FOR THE YEAR ENDED JUNE 30, 2013**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | General Residential Finance Program Bonds | Totals |
|---|---|---|---|---|---|---|
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | | |
| Operating income (loss) | $ (7,150) | $ (1,028) | $ 6,967 | $ 5,287 | $ (2,024) | $ 2,052 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 60 | - | - | - | - | 60 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) decrease in accounts receivable | (1) | (246) | 1,170 | (74) | (15) | 834 |
| (Increase) decrease in mortgage interest receivable | 1 | 84 | (176) | (538) | (80) | (709) |
| (Increase) decrease in first mortgage loans receivable | 154 | 9,660 | 98,873 | 56,479 | (55,860) | 109,306 |
| Decrease in due from federal government | (242) | - | - | - | - | (242) |
| Decrease in interfund receivables | - | - | 2,790 | - | - | 2,790 |
| (Decrease) in interfund payables | (2,761) | (29) | - | - | - | (2,790) |
| Increase (decrease) in accounts payable | 424 | (1,274) | (298) | (143) | 33 | (1,258) |
| Increase in accrued payroll / compensated absences | 240 | - | - | - | - | 240 |
| Investment income included as operating revenue | (46) | 503 | 3,020 | 796 | 73 | 4,346 |
| Interest expense included as operating expense | - | 2,819 | 54,352 | 20,921 | 551 | 78,643 |
| Issuance cost included as operating expense | - | - | 1,960 | - | 1,679 | 3,639 |
| Total adjustments | (2,171) | 11,517 | 161,691 | 77,441 | (53,619) | 194,859 |
| Net cash provided (used) by operating activities | $ (9,321) | $ 10,489 | $ 168,658 | $ 82,728 | $ (55,643) | $ 196,911 |
| Noncash investing, capital, and financing activities: | | | | | | |
| Increase in fair value of investments | $ - | $ (1,560) | $ (11,008) | $ (1,385) | (84) | $ (14,037) |
| Total noncash investing, capital, and financing activities | $ - | $ (1,560) | $ (11,008) | $ (1,385) | $ (84) | $ (14,037) |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF NET POSITION - MORTGAGE FINANCE PROGRAM**
**JUNE 30, 2013**
**(Expressed in Thousands)**

| | Mortgage Finance Bond | General Fund | Mortgage Finance Bond Group Total* | Escrow Fund** | Mortgage Finance Program Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 62,838 | $ 8,062 | $ 70,900 | $ 209 | $ 71,109 |
| Investments | 95 | 122 | 217 | 19 | 236 |
| Receivables: | | | | | |
| Accounts | 585 | 299 | 884 | 5 | 889 |
| Interest | 643 | 57 | 700 | 2 | 702 |
| First mortgage loans | 4,283 | 285 | 4,568 | - | 4,568 |
| Due from other funds | - | 30 | 30 | - | 30 |
| Total current assets | 68,444 | 8,855 | 77,299 | 235 | 77,534 |
| Noncurrent assets: | | | | | |
| Restricted assets: | | | | | |
| Cash and cash equivalents | 32 | - | 32 | - | 32 |
| Investments | 13,048 | - | 13,048 | - | 13,048 |
| Investment interest receivable | 118 | - | 118 | - | 118 |
| Investments | 2,781 | 16,177 | 18,958 | 797 | 19,755 |
| First mortgage loans receivable | 120,720 | 5,360 | 126,080 | - | 126,080 |
| Total noncurrent assets | 136,699 | 21,537 | 158,236 | 797 | 159,033 |
| Total assets | 205,143 | 30,392 | 235,535 | 1,032 | 236,567 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| Deferred amount on refundings | 1,850 | - | 1,850 | - | 1,850 |
| Total deferred outflows of resources | 1,850 | - | 1,850 | - | 1,850 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 2 | 2 | 4 | - | 4 |
| Interest payable | 1,249 | - | 1,249 | - | 1,249 |
| Escrow deposits | - | - | - | 172 | 172 |
| Prepayments on mortgage loans | 46 | 3 | 49 | - | 49 |
| Bonds payable | 48,965 | - | 48,965 | - | 48,965 |
| Total current liabilities | 50,262 | 5 | 50,267 | 172 | 50,439 |
| Noncurrent liabilities: | | | | | |
| Escrow deposits | - | 1,436 | 1,436 | 746 | 2,182 |
| Total noncurrent liabilities | - | 1,436 | 1,436 | 746 | 2,182 |
| Total liabilities | 50,262 | 1,441 | 51,703 | 918 | 52,621 |
| **NET POSITION** | | | | | |
| Restricted for single family bond programs | 156,731 | 15,569 | 172,300 | 114 | 172,414 |
| Restricted for grant programs | - | 13,382 | 13,382 | - | 13,382 |
| Total net position | $ 156,731 | $ 28,951 | $ 185,682 | $ 114 | $ 185,796 |

* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.
** The Escrow Funds can only be used for escrow payments.

Tennessee Housing Development Agency

*Leading Tennessee Home*

# *FINANCIAL STATEMENTS*

**June 30, 2012**

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

## Independent Auditor's Report

October 26, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Members of the Board of Directors
Tennessee Housing Development Agency
and
Mr. Ted Fellman, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1200
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2012, and June 30, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2012, and June 30, 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress 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 the 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplementary information, following the schedule of funding progress, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with generally accepted government auditing standards, we will issue a report dated October 26, 2012, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/tlh

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2012 and June 30, 2011. This information is being presented to provide additional information regarding the activities of THDA and to meet the reporting and disclosure requirements of the Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

## INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2012, THDA has originated over 108,000 single-family mortgage loans in its 39-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at www.tn.gov/finance/act/cafr.shtml.

## FINANCIAL HIGHLIGHTS

**Year Ended June 30, 2012**

- Total assets decreased by $98.3 million, or 3.6%.
- Total liabilities decreased by $136.3 million, or 6.2%.
- Net assets (the amount that total assets exceeds total liabilities) were $557.9 million. This is an increase of $37.9 million, or 7.3%, from fiscal year 2011.
- Cash and cash equivalents decreased $57.0 million, or 18.3%.
- Total investments decreased $8.5 million, or 3.6%.
- Bonds and notes payable decreased $128.6 million, or 6.0%.
- THDA originated $235.7 million in new loans, which is an increase of $4.6 million, or 2.0%, from the prior year.

**Year Ended June 30, 2011**

- Total assets decreased by $180.0 million, or 6.2 %.
- Total liabilities decreased by $181.2 million, or 7.6%.
- Net assets (the amount that total assets exceeds total liabilities) were $520.0 million. This is an increase of $1.2 million, or 0.2%, from fiscal year 2010.
- Cash and cash equivalents decreased $193.9 million, or 38.4%.
- Total investments increased $23.8 million, or 11.2%.
- Bonds and notes payable decreased $176.7 million, or 7.6%.
- THDA originated $231.1 million in new loans, which is a decrease of $113.0 million, or 32.8%, from the prior year.

## FINANCIAL ANALYSIS OF THE AGENCY

**Net Assets.** The following table focuses on the changes in net assets between fiscal years (expressed in thousands):

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Current assets | $ 314,268 | $ 304,429 | $ 397,864 |
| Capital assets | 113 | 157 | 79 |
| Other noncurrent assets | 2,322,247 | 2,430,331 | 2,516,989 |
| Total assets | 2,636,628 | 2,734,917 | 2,914,932 |
| Current liabilities | 207,708 | 150,534 | 193,765 |
| Noncurrent liabilities | 1,871,002 | 2,064,427 | 2,202,405 |
| Total liabilities | 2,078,710 | 2,214,961 | 2,396,170 |
| Invested in capital assets | 114 | 157 | 79 |
| Restricted net assets | 517,980 | 517,587 | 514,383 |
| Unrestricted net assets | 39,824 | 2,212 | 4,300 |
| Total net assets | $ 557,918 | $ 519,956 | $ 518,762 |

**2012 to 2011**

- THDA's total net assets increased $37.9 million, or 7.3%, from $520.0 million at June 30, 2011 to $557.9 million at June 30, 2012. The primary factor that contributed to this increase was the receipt of $34.5 million of funds from the multi-state national mortgage settlement with the nation's leading mortgage servicers.

- Mortgage loans receivable decreased $22.8 million, or 1.1%, from $2,119.4 million at June 30, 2011 to $2,096.6 million at June 30, 2012. During FY 2012, single-family mortgage loan originations increased $4.6 million or 2.0% from $231.1 million in FY 2011 to $235.7 million in FY 2012. Conversely, mortgage loan prepayments and repayments increased $28.8 million, or 16.0%, from $180.2 million in FY 2011 to $209.0 million in FY 2012.

- Total liabilities decreased $136.3 million, or 6.2%, from $2,215.0 million at June 30, 2011 to $2,078.7 million at June 30, 2012. While there were several factors that led to this decrease, notable year-to-year changes include a decrease of warrants / wires payable from $10.9 million at June 30, 2011 to $0 at June 30, 2012, and a decrease in the total amount of bonds and notes outstanding from $2,143.7 million at June 30, 2011 to $2,015.1 million at June 30, 2012.

**2011 to 2010**

- THDA's total net assets increased $1.2 million, or 0.2%, from $518.8 million at June 30, 2010 to $520.0 million at June 30, 2011. While various factors accounted for this change, the most significant factors include a decrease in interest expense, an increase in mortgage interest income, a decrease in the net increase/decrease in the fair value of investments, an increase in other program expenses, and a decrease in federal grant administration fees.

- Mortgage loans receivable increased $3.8 million, or 0.2%, from $2,115.6 million at June 30, 2010 to $2,119.4 million at June 30, 2011. During FY 2011, single-family mortgage loan originations decreased $113.0 million, or 32.8% from $344.1 million in FY 2010 to $231.1 million in FY 2011. Conversely, mortgage loan prepayments and repayments increased $0.9 million, or 0.5%, from $179.3 million in FY 2010 to $180.2 million in FY 2011.

- Total liabilities decreased $181.2 million, or 7.6%, from $2,396.2 million at June 30, 2010 to $2,215.0 million at June 30, 2011. The decrease is primarily due to a reduction in the amount of bonds issued during fiscal year 2011 as compared to fiscal year 2010, as well as an increase in the redemption of bonds as compared to fiscal year 2010.

**Changes in Net Assets.** The following table summarizes the changes in revenues, expenses and changes in net assets between fiscal years (expressed in thousands):

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Operating revenues | | | |
| Mortgage interest income | $ 116,015 | $ 119,406 | $ 118,572 |
| Investment income | 11,992 | 6,156 | 14,517 |
| Other | 17,693 | 17,041 | 17,588 |
| Total operating revenues | 145,700 | 142,603 | 150,677 |
| Operating expenses | | | |
| Interest expense | 87,835 | 88,301 | 93,154 |
| Other | 39,797 | 38,905 | 32,677 |
| Total operating expenses | 127,632 | 127,206 | 125,831 |
| Operating income | 18,068 | 15,397 | 24,846 |
| Nonoperating revenues (expenses) | | | |
| Grant revenues | 260,371 | 355,754 | 254,417 |
| Payment from primary government | 34,500 | - | - |
| Grant expenses | (274,977) | (369,957) | (270,474) |
| Total nonoperating revenues (expenses) | 19,894 | (14,203) | (16,057) |
| Change in net assets | $ 37,962 | $ 1,194 | $ 8,789 |

**2012 to 2011**

Total operating revenues increased $3.1 million from $142.6 million for the year ended June 30, 2011 to $145.7 million for the year ended June 30, 2012. The primary reasons for this increase are as follows:

- Mortgage interest revenue decreased $3.4 million, or $2.8%, from $119.4 million in FY 2011 to $116.0 million in FY 2012. This decrease is due to prepayments of older mortgage loans with higher interest rates, as compared to new loans being originated at historically low interest rates.

- Investment income increased $5.8 million, or 93.5%, from $6.2 million in 2011 to $12.0 million in 2012. While the increase in investment interest income was insignificant, the net increase (decrease) in the fair value of investments improved $5.2 million, or 106.5%, from a net decrease of $4.9 million in FY 2011 to a net increase of $0.3 million in FY 2012.

For the year ended June 30, 2012, total operating expenses increased $0.4 million, or 0.3%, from $127.2 million in 2011 to $127.6 million in 2012. The increase is not significant.

**2011 to 2010**

Total operating revenues decreased $8.1 million from $150.7 million for the year ended June 30, 2010 to $142.6 million for the year ended June 30, 2011. The primary reasons for this decrease are as follows:

- Investment income decreased $8.4 million, or 57.6%, from $14.5 million in 2010 to $6.2 million in 2011. This decrease is primarily due to a decrease in the fair value of investments of $4.9 million in FY 2011 as compared to an increase in the fair value of investments of $1.7 million in FY 2010.

- Federal grant administration fees decreased $1.2 million, or 8.1%, from $15.1 million in 2010 to $13.9 million in 2011. This primarily resulted from a decrease in federal administrative fees earned on the Section 8 tenant-based HCV program.

For the year ended June 30, 2011, total operating expenses increased $1.4 million, or 1.1%, from $125.8 million in 2010 to $127.2 million in 2011. The primary reasons for this increase are as follows:

- Interest expense decreased $4.9 million, or 5.2%, from $93.2 million in 2010 to $88.3 million in 2011. This decrease is primarily due to a decrease in bonds payable during FY 2011.

- Other program expenses increased $5.4 million, or 84.6%, from $6.4 million in 2010 to $11.9 million in 2011. There were several factors that contributed to this increase, among which were an increase in expenses related to mortgage loan foreclosures and incurring administrative expenses in administering ARRA grants as well as in implementing the Hardest Hit Fund (HHF).

## DEBT ACTIVITY

Bonds and notes outstanding at June 30 were as follows (expressed in thousands):

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Bonds payable | $ 2,015,181 | $ 2,140,486 | $ 2,316,748 |
| Notes payable | - | 3,250 | 3,672 |
| Total bonds and notes payable | $ 2,015,181 | $ 2,143,736 | $ 2,320,420 |

**Year Ended June 30, 2012**
Total bonds and notes payable decreased $128.6 million, or 6.0%, due primarily to a decrease in the amount of bonds issued as well as an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $153.7 million, with activity arising from three bond issues. With investment interest rates at historically low levels, THDA has sought out opportunities to call bonds with proceeds from mortgage repayments and prepayments as practical. In addition to nominal advanced bond redemptions from mortgage loan prepayments, THDA refunded $135.1 million of bonds into bonds with lower interest rates.

**Year Ended June 30, 2011**
Total bonds and notes payable decreased $176.7 million, or 7.6%, due primarily to a decrease in the amount of bonds issued as well as an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $201.9 million, with activity arising from three bond issues.

**New Issue Bond Program (NIBP)**
The New Issue Bond Program (NIBP) provides temporary financing for Housing Finance Agencies (HFAs) to issue new housing bonds to fund new mortgages. The United States Treasury Department will purchase securities of Fannie Mae and Freddie Mac backed by these new housing bonds. This will temporarily allow the HFAs to issue an amount of new housing bonds equal to what they would ordinarily be able to issue with the allocations provided them by Congress but are generally unable to issue given the current challenges in housing and related markets.

On December 23, 2009, THDA issued $360 million of bonds under the NIBP, which were $60 million (Bond Issue 2009-A2) and $300 million (Bond Issue 2009-B1). The $300 million 2009-B1 bonds are variable-rate taxable debt, and are to be held in escrow. Upon being placed in escrow, the proceeds from these bonds are re-invested into permissible investments as required by the United States Treasury Department (generally, 28-day Treasury Bills purchased at auction). These bonds are scheduled to be released from escrow, re-designated and be converted to fixed-rate, tax-exempt bonds upon the issuance of market bonds within the framework and guidelines of the NIBP.

Subsequently, THDA released, re-designated, and converted escrowed bonds (Bond Issue 2009-B) into fixed-rate, tax-exempt bonds as noted below:

| Date | Amount | New Bond Issue |
|---|---|---|
| June 17, 2010 | $ 85,290,000 | Bond Issue 2009-B, Subseries B-1 |
| October 27, 2010 | 60,000,000 | Bond Issue 2009-B, Subseries B-2 |
| March 24, 2011 | 60,000,000 | Bond Issue 2009-B, Subseries B-3 |
| August 25, 2011 | 60,000,000 | Bond Issue 2009-B, Subseries B-4 |
| November 03, 2011 | 34,710,000 | Bond Issue 2009-B, Subseries B-5 |

As of June 30, 2012, all of the bonds issued under issue 2009-B1 had been released, re-designated, and converted into fixed-rate, tax-exempt bonds.

**Bond Ratings**
For bonds issued under the Mortgage Finance Program, Moody's Investors Service, Inc. ("Moody's") has assigned THDA's bonds a rating of Aa2 and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has assigned THDA's bonds a rating of AA.

For bonds issued under the Homeownership Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

There were no revisions to THDA's bond ratings during FY 2012 or FY 2011.

**Debt Limits**
In accordance with *Tennessee Code Annotated*, 13-23-121, THDA operates under a "debt ceiling" of $2,930,000,000.

## GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly has appropriated revenue to THDA for grant programs. Likewise, THDA's Board of Directors has allocated additional THDA funds for grants. These funds established a grant program that has been titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

| | FY 2012 | FY 2011 | FY 2010 and Prior | Total |
|---|---|---|---|---|
| ***Funding Sources:*** | | | | |
| THDA | $ 6,500,000 | $ 6,000,000 | $ 24,000,000 | $ 36,500,000 |
| State Appropriation | - | - | 4,350,000 | 4,350,000 |
| **Totals** | **$ 6,500,000** | **$ 6,000,000** | **$ 28,350,000** | **$ 40,850,000** |
| | | | | |
| ***Approved Uses:*** | | | | |
| Rural repair program (USDA) | $ 700,000 | $ 700,000 | $ 2,800,000 | $ 4,200,000 |
| Ramp Program (UCP) | - | - | 50,000 | 50,000 |
| Ramp Program | - | - | 400,000 | 400,000 |
| Hsg Modification & Ramp Prg | 150,000 | 150,000 | 150,000 | 450,000 |
| Homebuyer Education Initiative | - | - | 300,000 | 300,000 |
| Emergency Repairs for Elderly | 2,000,000 | 2,000,000 | 8,000,000 | 12,000,000 |
| Competitive Grants | 3,150,000 | 3,150,000 | 16,650,000 | 22,950,000 |
| Manuf. Hsg. Replacement | 500,000 | - | - | 500,000 |
| **Totals** | **$ 6,500,000** | **$ 6,000,000** | **$ 28,350,000** | **$ 40,850,000** |

In addition to the above funding, local grants could produce an additional $4 million or more funding each year. Also, the Emergency Repairs for the Elderly program and the Competitive Grants have a 50% grantee match requirement.

THDA is seeking additional private sector funding. In addition to the above approved uses, THDA received requests that merit funding. These requests totaled approximately $6 million more than the funds available.

## <u>CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT</u>

THDA offers three primary choices for single-family mortgages. The *Great Rate* mortgage product offers an attractive interest rate loan secured by a first mortgage. The *Great Start* program offers a loan with an interest rate that is, as of June 30, 2012, 60 basis points higher than the Great Rate product, but provides 4% of the loan amount as down payment and closing cost assistance. In addition, THDA introduced the *Great Advantage* product during fiscal year 2006, which offers a loan with an interest rate that is, as of June 30, 2012, 30 basis points higher than the Great Rate product, and 2% of the loan amount as down payment and closing cost assistance.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

Single-family mortgage loans purchased by THDA with Loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee; and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value.

Loans with a 78% LTV or lower do not require mortgage insurance.

A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at http://www.thda.org/index.aspx?NID=282.

More recently, media attention has focused on mortgage loan delinquencies and foreclosures. For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Rate, Great Start, and Great Advantage), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2012, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

| Loan Status | Total Number of Loans Serviced | Number of Loans in Status | Principal Amount | Percentage |
|---|---|---|---|---|
| 60-89 Days Past Due | 26,430 | 561 | 42,078,643 | 2.12% |
| 90+ Days Past Due | 26,430 | 1,247 | 93,521,824 | 4.72% |
| In Foreclosure | 26,430 | 166 | 12,663,174 | 0.63% |

As of June 30, 2011, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

| Loan Status | Total Number of Loans Serviced | Number of Loans in Status | Principal Amount | Percentage |
|---|---|---|---|---|
| 60-89 Days Past Due | 26,725 | 521 | 39,122,105 | 1.95% |
| 90+ Days Past Due | 26,725 | 1,085 | 81,167,263 | 4.06% |
| In Foreclosure | 26,725 | 308 | 24,127,169 | 1.15% |

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

## ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term collateralized repurchase agreements, as well as short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

## CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF NET ASSETS**
**JUNE 30, 2012 AND JUNE 30, 2011**
**(Expressed in Thousands)**

| | 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | $ 219,397 | $ 203,071 |
| Investments (Note 2) | 578 | - |
| Receivables: | | |
| Accounts | 18,989 | 23,750 |
| Interest | 12,611 | 12,854 |
| First mortgage loans | 51,702 | 49,947 |
| Due from federal government | 10,991 | 14,807 |
| Total current assets | 314,268 | 304,429 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash and cash equivalents (Note 2) | 34,218 | 107,502 |
| Investments (Note 2) | 186,562 | 196,928 |
| Investment interest receivable | 1,683 | 2,261 |
| Investments (Note 2) | 40,130 | 38,857 |
| First mortgage loans receivable | 2,044,906 | 2,069,473 |
| Deferred charges | 11,741 | 12,327 |
| Advance to local government | 3,007 | 2,983 |
| Capital assets: | | |
| Furniture and equipment | 556 | 517 |
| Less accumulated depreciation | (443) | (360) |
| Total noncurrent assets | 2,322,360 | 2,430,488 |
| Total assets | 2,636,628 | 2,734,917 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Warrants / wires payable (Note 3) | - | 10,913 |
| Accounts payable | 1,451 | 5,121 |
| Accrued payroll and related liabilities | 515 | 472 |
| Compensated absences | 555 | 477 |
| Due to primary government | 71 | - |
| Interest payable | 43,626 | 45,076 |
| Escrow deposits | 433 | 528 |
| Prepayments on mortgage loans | 1,414 | 1,662 |
| Deferred revenue - U.S. Treasury | 10,408 | - |
| Notes payable (Note 4) | - | 3,250 |
| Bonds payable (Note 4) | 149,235 | 83,035 |
| Total current liabilities | 207,708 | 150,534 |
| Noncurrent liabilities: | | |
| Bonds payable (Note 4) | 1,865,946 | 2,057,451 |
| Compensated absences | 601 | 517 |
| Net OPEB obligation (Note 9) | 1,157 | 994 |
| Escrow deposits | 3,298 | 4,248 |
| Arbitrage rebate payable | - | 1,217 |
| Total noncurrent liabilities | 1,871,002 | 2,064,427 |
| Total liabilities | 2,078,710 | 2,214,961 |
| **NET ASSETS** | | |
| Invested in capital assets | 114 | 157 |
| Restricted for single family bond programs (Note 5 and Note 7) | 508,687 | 504,874 |
| Restricted for grant programs (Note 5) | 6,140 | 9,560 |
| Restricted for Homebuyers Revolving Loan Program (Note 5) | 3,153 | 3,153 |
| Unrestricted (Note 7) | 39,824 | 2,212 |
| Total net assets | $ 557,918 | $ 519,956 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**
**FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**
**(Expressed in Thousands)**

| | 2012 | 2011 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Mortgage interest income | $ 116,015 | $ 119,406 |
| Investment income: | | |
| Interest | 11,672 | 11,042 |
| Net increase (decrease) in the fair value of investments | 320 | (4,886) |
| Federal grant administration fees | 14,475 | 13,916 |
| Fees and other income | 3,218 | 3,125 |
| Total operating revenues | 145,700 | 142,603 |
| **OPERATING EXPENSES** | | |
| Salaries and benefits | 15,671 | 15,190 |
| Contractual services | 3,208 | 2,625 |
| Materials and supplies | 184 | 226 |
| Rentals and insurance | 100 | 97 |
| Other administrative expenses | 482 | 465 |
| Other program expenses | 11,727 | 11,878 |
| Interest expense | 87,835 | 88,301 |
| Mortgage service fees | 7,539 | 7,601 |
| Issuance costs | 742 | 730 |
| Depreciation | 144 | 93 |
| Total operating expenses | 127,632 | 127,206 |
| Operating income | 18,068 | 15,397 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Federal grants revenue | 260,371 | 355,754 |
| Payment from primary government (Note 12) | 34,500 | - |
| Federal grants expenses | (260,587) | (355,862) |
| Local grants expenses | (14,390) | (14,095) |
| Total nonoperating revenues (expenses) | 19,894 | (14,203) |
| Change in net assets | 37,962 | 1,194 |
| Total net assets, July 1 | 519,956 | 518,762 |
| Total net assets, June 30 | $ 557,918 | $ 519,956 |

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**
**(Expressed in Thousands)**

| | 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from customers | $ 378,193 | $ 352,565 |
| Receipts from federal government | 15,243 | 14,241 |
| Other miscellaneous receipts | 3,218 | 3,125 |
| Acquisition of mortgage loans | (235,740) | (231,061) |
| Payments to service mortgages | (7,539) | (7,601) |
| Payments to suppliers | (17,439) | (21,317) |
| Payments to federal government | (1,216) | (3,331) |
| Payments to employees | (15,644) | (15,266) |
| Net cash provided by operating activities | 119,076 | 91,355 |
| Cash flows from non-capital financing activities: | | |
| Operating grants received | 308,398 | 363,397 |
| Negative cash balance implicitly financed (repaid) | (10,913) | 2,616 |
| Proceeds from sale of bonds | 248,382 | 201,856 |
| Operating grants paid | (278,480) | (370,436) |
| Cost of issuance paid | (2,243) | (1,907) |
| Principal payments | (372,940) | (371,942) |
| Interest paid | (89,283) | (90,953) |
| Net cash used by non-capital financing activities | (197,079) | (267,369) |
| Cash flows from capital and related financing activities: | | |
| Purchases of capital assets | (100) | (172) |
| Net cash used by capital and related financing activities | (100) | (172) |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 409,752 | 282,923 |
| Purchases of investments | (400,926) | (311,750) |
| Investment interest received | 12,311 | 11,000 |
| Increase in fair value of investments subject to fair value reporting and classified as cash equivalents | 8 | 130 |
| Net cash provided (used) by investing activities | 21,145 | (17,697) |
| Net decrease in cash and cash equivalents | (56,958) | (193,883) |
| Cash and cash equivalents, July 1 | 310,573 | 504,456 |
| Cash and cash equivalents, June 30 | $ 253,615 | $ 310,573 |

(continued)

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**STATEMENTS OF CASH FLOWS (cont.)**
**FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**
**(Expressed in Thousands)**

| | 2012 | 2011 |
|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | $ 18,068 | $ 15,397 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 886 | 823 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | 4,758 | 4,716 |
| Decrease in mortgage interest receivable | 183 | 352 |
| (Increase) decrease in first mortgage loans receivable | 22,790 | (3,854) |
| Decrease in due from federal government | 768 | 325 |
| (Increase) in deferred charges | (1,912) | (4,076) |
| (Decrease) in accounts payable | (1,460) | (1,420) |
| Increase in accrued payroll / compensated absences | 368 | 278 |
| (Decrease) in arbitrage rebate liability | (1,216) | (3,331) |
| Investment income included as operating revenue | (11,992) | (6,156) |
| Interest expense included as operating expense | 87,835 | 88,301 |
| Total adjustments | 101,008 | 75,958 |
| Net cash provided by operating activities | $ 119,076 | $ 91,355 |
| Noncash investing, capital, and financing activities: | | |
| Increase (decrease) in fair value of investments | $ 12,603 | $ (3,643) |
| Total noncash investing, capital, and financing activities | $ 12,603 | $ (3,643) |

The Notes to the Financial Statements are an integral part of this statement.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq.* The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, and home building industries, the mortgage profession, local governments, and the three grand divisions of the state and be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

### b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency generally follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The agency also has the option of following subsequent private-sector guidance subject to this same limitation. The agency has elected not to follow subsequent private-sector guidance. Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, and Housing Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

### c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred. When both restricted and unrestricted resources are available for use, generally it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

**d. Capital Assets**

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of $5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

| Description | Estimated Life |
|---|---|
| Furniture | 10 years |
| Computer equipment | 3 years |

**e. Restricted Assets**

Restricted assets are comprised of the Debt Service Reserve Funds and the New Issue Bond Program (NIBP) 2009-B escrowed bond investments.

The bond resolutions require the agency to establish a Debt Service Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund to cover any deficiency.

The NIBP 2009-B escrowed bond investments are restricted for use in the 2009 resolution. These invested funds are restricted to be released, converted and blended with market rate bonds.

**f. Bond Issuance Costs and Refunding Costs**

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the interest method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.

2. Bond Refunding Costs: The agency amortizes bond refunding costs using the straight-line method. Bonds payable is reported net of the deferred amount on refundings.

3. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

**g. Cash and Cash Equivalents**

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

**h. Investments**

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements which are reported at cost.

**i. Accrual of Interest Income**

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

**j. Mortgages**

Mortgages are carried at their original amount less principal collected.

**k. Operating Revenues and Expenses**

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

**NOTE 2. DEPOSITS AND INVESTMENTS**

**a. Deposits**

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned to it.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2012, the bank balance was $12,042,605. At June 30, 2011, the bank balance was $6,806,625. All bank balances at June 30, 2012 and June 30, 2011 were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury required the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of $250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2012, $11,588,423 was in the BNYM. Of this amount,

$11,338,423 was above the FDIC insurance coverage. Of the bank balance at June 30, 2011, $4,304,256 was in the BNYM. Of this amount, $4,054,256 was above the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report.* That report is available on the state's website at www.treasury.tn.gov.

**b. Investments**

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of their own affairs. That would be to consider the safety of capital and the probability of income, while avoiding speculative investments.

The agency's investment policy states that the agency portfolios will be diversified in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest one hundred percent (100%) of its portfolio in U.S. government securities. A minimum of five percent (5%) of the par value of total investments must mature within five years. No more than fifty percent (50%) of the par value of the combined portfolios can be invested in maturities greater than fifteen (15) years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk. Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

| | **June 30, 2012** | | **June 30, 2011** | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Effective Duration (Years)** | **Fair Value** | **Effective Duration (Years)** |
| U.S. Agency Coupon | $135,888,316 | 2.153 | $146,532,606 | 2.052 |
| U.S. Treasury Coupon | 91,381,418 | 4.673 | 89,252,190 | 5.248 |
| U.S. Treasury Discount | 0 | N/A | 94,789,957 | 0.073 |
| | | | | |
| Total | $227,269,734 | 1.851 | $330,574,753 | 1.803 |

The portfolios include the following investments (stated at par or face value) that have fair values highly sensitive to interest rate changes. These investments are recorded at fair value in the statement of net assets.

*Variable Rate Bonds.*

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.55 of par on August 4, 2010. Although these securities were scheduled to mature on August 4, 2025, these bonds were called on February 4, 2012. The fair value of these securities on June 30, 2011, was $1,971,350, which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,500,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.75 of par on August 26, 2010. Although these securities were scheduled to mature on August 26, 2022, these bonds were called on August 26, 2011. The fair value of these securities on June 30, 2011, was $1,490,622 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at par on September 29, 2010. Although these securities were scheduled to mature on September 29, 2025, these bonds were called on September 29, 2011. The fair value of these securities on June 30, 2011, was $1,998,572 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.73 of par on September 30, 2010. Although these securities were scheduled to mature on September 30, 2015, these bonds were called on September 30, 2011. The fair value of these securities on June 30, 2011, was $2,004,608 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on September 30, 2010. Although these securities were scheduled to mature on September 30, 2020, these bonds were called on September 30, 2011. The fair value of these securities on June 30, 2011, was $2,007,976 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on October 15, 2010. Although these securities were scheduled to mature on October 15, 2025, these bonds were called on October 15, 2011. The fair value of these securities on June 30, 2011, was $2,000,916 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 28, 2011. Although these securities were scheduled to mature on January 28, 2026, these bonds were called on October 28, 2011. The fair value of these securities on June 30, 2011, was $2,996,115 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 28, 2011. Although these securities were scheduled to mature on July 28, 2016, these bonds were called on July 28, 2011. The fair value of these securities on June 30, 2011, was $1,001,257 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on February 9, 2011. Although these securities were scheduled to mature on February 9, 2021, these bonds were called on August 9, 2011. The fair value of these securities on June 30, 2011, was $3,003,411 which is included in U.S. Agency Coupon in the table above.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on February 16, 2011. Although these securities were scheduled to mature on February 16, 2021, these bonds were called on August 16, 2011. The fair value of these securities on June 30, 2011, was $4,004,460 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,150,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.95 of par on April 27, 2011. Although these securities were scheduled to mature on April 27, 2026, these bonds were called on April 27, 2012. The fair value of these securities on June 30, 2011, was $2,166,542 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.92 of par on May 6, 2011. Although these securities were scheduled to mature on July 14, 2015, these bonds were called on July 14, 2011. The fair value of these securities on June 30, 2011, was $3,500,522 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.75 of par on May 18, 2011. Although these securities were scheduled to mature on May 18, 2026, these bonds were called on May 18, 2012. The fair value of these securities on June 30, 2011, was $2,005,234 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.60 of par on June 17, 2011. Although these securities were scheduled to mature on December 17, 2025, these bonds were called on September 17, 2011. The fair value of these securities on June 30, 2011, was $977,172 which is included in U.S. Agency Coupon in the table above.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on June 30, 2011. Although these securities were scheduled to mature on June 30, 2016, these bonds were called on September 30, 2011. The fair value of these securities on June 30, 2011, was $3,965,880 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 30, 2012 and mature on January 30, 2017. The fair value of these securities on June 30, 2012, is $3,007,326 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 0.625% with a step-up option to 1.5% on January 30, 2013. This investment is callable on January 30, 2013.

The agency purchased $4,280,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.93 of par on February 24, 2012 and mature on December 28, 2026. The fair value of these securities on June 30, 2012, is $4,297,377 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.5% with a step-up option to 4.0% on December 28, 2012, to 5.0% on December 28, 2017, and to 6.0% on December 28, 2022. This investment is callable quarterly beginning on December 28, 2012 and ending on September 28, 2013.

The agency purchased $2,140,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.875 of par on April 30, 2012 and mature on October 30, 2019. The fair value of these securities on June 30, 2012, is $2,135,998 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.25% with a step-up option to 1.5% on October 30, 2015, to 1.75% on October 30, 2016, to 2.0% on October 30, 2017, to 3.0% on April 30, 2018, to 4.0% on October 30, 2018, and to 6.0% on April 30, 2019. This investment is callable on July 30, 2012.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on May 24, 2012 and mature on November 24, 2017. The fair value of these securities on June 30, 2012, is $1,000,179 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 0.75% with a step-up option to 1.0% on May 24, 2014, to 1.25% on May 24, 2015, to 1.5% on May 24, 2016, to 1.75% on November 24, 2016, and to 2.0% on May 24, 2017. This investment is callable on August 24, 2012.

The agency purchased $2,350,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on June 11, 2012 and mature on June 11, 2027. The fair value of these securities on June 30, 2012, is $2,335,775 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016, to 3.0% on June 11, 2020, to 4.0% on June 11, 2022, to 6.0% on June 11, 2023, to 7.0% on June 11, 2024, to 8.0% on December 11, 2024, to 10.0% on June 11, 2025, to 12.0% on December 11, 2025, to 14.0% on June 11, 2026, and to 16.0% on December 11, 2026. This investment is callable on July 11, 2012.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on June 14, 2012 and mature on June 14, 2027. The fair value of these securities on June 30, 2012, is $5,001,205 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.0% with a step-up option to 3.0% on December 14, 2012, to 4.0% on December 14, 2017, to 5.0% on June 14, 2022, and to 6.0% on June 14, 2024. This investment is callable on December 14, 2012.

The agency purchased $3,210,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on June 28, 2012 and mature on June 27, 2027. The fair value of these securities on June 30, 2012, is $3,190,002 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 28, 2015, to 3.0% on June 28, 2018, to 4.0% on June 28, 2021, to 5.0% on June 28, 2023, and to 6.5% on June 28, 2025. This investment is callable on June 28, 2013.

The agency purchased $6,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on June 28, 2012 and mature on June 28, 2027. The fair value of these securities on June 30, 2012, is $5,995,374 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.0% with a step-up option to 3.0% on December 28, 2012, to 4.0% on June 28, 2018, to 5.0% on June 28, 2022, and to 6.0% on December 28, 2025. This investment is callable quarterly beginning on December 28, 2012 and ending on December 28, 2015.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2012 and June 30, 2011 are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

| **June 30, 2012** | | | | | |
|---|---|---|---|---|---|
| | | | **Credit Quality Rating** | | |
| **Investment Type** | **Fair Value** | **U.S. Treasury**[1] | **AA+** | **AA-2** | **Not Rated**[2] |
| U.S. Agency Coupon | $135,888,316 | | $118,089,513 | $5,237,564 | $12,561,239 |
| U.S. Treasury Coupon | 91,381,418 | $91,381,418 | | | |
| Repurchase Agreements | 110,000,000 | | | | 110,000,000 |
| | | | | | |
| Total | $337,269,734 | $91,381,418 | $118,089,513 | $5,237,564 | $122,561,239 |

| **June 30, 2011** | | | | | |
|---|---|---|---|---|---|
| | | | **Credit Quality Rating** | | |
| **Investment Type** | **Fair Value** | **U.S. Treasury**[1] | **AAA** | **AA-2** | **Not Rated**[2] |
| U.S. Agency Coupon | $146,532,606 | | $140,738,006 | $5,176,721 | $617,879 |
| U.S. Treasury Coupon | 89,252,190 | $89,252,190 | | | |
| U.S. Treasury Discount | 94,789,957 | 94,789,957 | | | |
| Repurchase Agreements | 100,000,000 | | | | 100,000,000 |
| | | | | | |
| Total | $430,574,753 | $184,042,147 | $140,738,006 | $5,176,721 | $100,617,879 |

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than five percent of the agency's investments are invested in the following single issuers:

| | **June 30, 2012** | | **June 30, 2011** | |
|---|---|---|---|---|
| **Issuer** | **Fair Value** | **% of Portfolio** | **Fair Value** | **% of Portfolio** |
| Federal Home Loan Bank | $20,608,842 | 6.11 | $24,769,777 | 5.75 |
| Federal Home Loan Mortgage Corp | $22,155,470 | 6.57 | $32,375,496 | 7.52 |
| Federal National Mortgage Assoc | $73,997,504 | 21.94 | $75,255,894 | 17.48 |
| Repurchase Agreements – Morgan Stanley Dean Witter | $0 | N/A | $60,000,000 | 13.93 |
| Repurchase Agreements – UBS | $110,000,000 | 32.61 | $40,000,000 | 9.29 |

[1]This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.
[2] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

## NOTE 3. WARRANTS / WIRES PAYABLE

This amount includes the sum of warrants and wires initiated by the agency at year-end in excess of the agency's balance in the State Pooled Investment Fund that have not completely processed through the banking system. These warrants and wires are primarily for grant payments for the Section 8 grant programs and will be reimbursed by the U. S. Department of Housing and Urban Development.

## NOTE 4. LIABILITIES

### a. Bonds Issued and Outstanding

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2012 | Ending Balance 6/30/2011 |
|---|---|---|---|---|---|
| **MORTGAGE FINANCE PROGRAM BONDS** | | | | | |
| 2003A | 7/1/2004-7/1/2034 | $191,885 | 1.70 to 5.35 | $61,400 | $75,280 |
| Less: Deferred Amount on Refundings | | | | (2,427) | (2,579) |
| Net Mortgage Finance Program Bonds | | | | $58,973 | $72,701 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2012 | Ending Balance 6/30/2011 |
|---|---|---|---|---|---|
| **HOMEOWNERSHIP PROGRAM BONDS** | | | | | |
| 2001-1 | 7/1/2001-7/1/2032 | 135,390 | 3.41 to 5.65 | $ -0- | $56,585 |
| 2001-2 | 1/1/2003-7/1/2032 | 60,000 | 3.10 to 5.375 | -0- | 17,840 |
| 2001-3 | 1/1/2003-7/1/2032 | 64,580 | 2.85 to 5.45 | -0- | 16,145 |
| 2002-1 | 7/1/2003-7/1/2033 | 85,000 | 1.85 to 5.45 | -0- | 24,950 |
| 2002-2 | 1/1/2004-7/1/2033 | 85,000 | 2.25 to 5.40 | -0- | 28,420 |
| 2003-1 | 7/1/2004-7/1/2033 | 50,000 | 1.20 to 5.10 | 17,550 | 19,965 |
| 2003-2 | 7/1/2004-1/1/2034 | 60,000 | 1.10 to 4.40 | 25,210 | 28,265 |
| 2003-3 | 7/1/2004-7/1/2034 | 75,000 | 1.20 to 5.00 | 28,115 | 32,995 |
| 2004-1 | 1/1/2005-1/1/2035 | 80,000 | 1.30 to 5.00 | 34,125 | 39,750 |
| 2004-2 | 7/1/2005-1/1/2035 | 100,000 | 1.85 to 5.25 | 44,830 | 51,950 |
| 2004-3 | 1/1/2006-7/1/2035 | 100,000 | 2.55 to 5.125 | 47,545 | 55,070 |
| 2005-1 | 7/1/2006-1/1/2036 | 100,000 | 2.75 to 5.00 | 55,550 | 63,655 |
| 2005-2 | 1/1/2007-7/1/2036 | 100,000 | 3.00 to 5.00 | 54,970 | 62,830 |
| 2006-1 | 7/1/2007-1/1/2037 | 100,000 | 3.55 to 5.75 | 55,975 | 66,840 |
| 2006-2 | 7/1/2007-1/1/2037 | 100,000 | 3.90 to 5.75 | 53,450 | 62,950 |
| 2006-3 | 1/1/2008-7/1/2037 | 100,000 | 3.65 to 5.75 | 62,075 | 70,720 |
| 2007-1 | 7/1/2008-1/1/2038 | 100,000 | 3.65 to 5.50 | 64,530 | 75,135 |
| 2007-2 | 7/1/2008-7/1/2038 | 120,000 | 3.75 to 5.25 | 83,880 | 94,160 |
| 2007-3 | 1/1/2009-7/1/2038 | 150,000 | 3.85 to 5.50 | 97,925 | 114,055 |
| 2007-4 | 1/1/2009-7/1/2038 | 150,000 | 3.75 to 5.50 | 102,995 | 118,230 |
| 2008-1 | 7/1/2009-1/1/2039 | 60,000 | 2.45 to 5.70 | 41,610 | 47,050 |
| 2008-2 | 7/1/2009-1/1/2027 | 50,000 | 3.25 to 5.75 | 28,175 | 37,405 |
| 2008-3 | 7/1/2009-7/1/2038 | 90,000 | 2.00 to 5.45 | 58,695 | 68,525 |
| 2008-4 | 1/1/2010-7/1/2028 | 30,000 | 3.125 to 6.125 | 8,105 | 21,185 |
| 2009-1 | 1/1/2010-7/1/2029 | 50,000 | 0.75 to 5.00 | 43,490 | 46,795 |
| 2009-2 | 7/1/2010-7/1/2030 | 75,000 | 0.90 to 5.00 | 65,220 | 70,085 |
| 2010-1 | 1/1/2011-7/1/2025 | 120,700 | 0.35 to 4.50 | 100,050 | 115,295 |
| 2011-1 | 7/1/2012-7/1/2042 | 141,255 | 0.60 to 4.65 | 138,915 | -0- |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2012 | Ending Balance 6/30/2011 |
|---|---|---|---|---|---|
| **HOMEOWNERSHIP PROGRAM BONDS (CONT.)** | | | | | |
| Total Homeownership Program Bonds | | $2,531,925 | | $1,312,985 | $1,506,850 |
| Plus: Unamortized Bond Premiums | | | | 12,119 | 15,315 |
| Less: Deferred Amount on Refundings | | | | (2,867) | (3,387) |
| Net Homeownership Program Bonds | | | | $1,322,237 | $1,518,778 |

**BONDS ISSUED AND OUTSTANDING**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) | Ending Balance 6/30/2012 | Ending Balance 6/30/2011 |
|---|---|---|---|---|---|
| **HOUSING FINANCE PROGRAM BONDS** | | | | | |
| 2009-A | 1/1/2011-1/1/2040 | $100,000 | 0.900 to 4.625 | $91,845 | $97,540 |
| 2009-B | 7/1/2041 | 300,000 | Variable | -0- | 94,710 |
| 2010-A | 1/1/2011-7/1/2041 | 74,710 | 0.600 to 5.0 | 146,225 | 155,435 |
| 2010-B | 7/1/2011–7/1/2041 | 40,000 | 0.45 to 4.50 | 96,795 | 99,625 |
| 2011-A | 7/1/2011-7/1/2041 | 40,000 | 0.45 to 4.50 | 97,475 | 100,000 |
| 2011-B | 7/1/2012-7/1/2041 | 40,000 | 0.25 to 4.50 | 99,575 | -0- |
| 2011-C | 7/1/2012-7/1/2041 | 65,290 | 0.40 to 4.30 | 99,995 | -0- |
| Total Housing Finance Program Bonds | | $660,000 | | $631,910 | $547,310 |
| Plus: Unamortized Bond Premiums | | | | 2,161 | 1,805 |
| Less: Deferred Amount on Refundings | | | | (100) | (108) |
| Net Housing Finance Program Bonds | | | | $633,971 | $549,007 |
| Net Total All Issues | | | | $2,015,181 | $2,140,486 |

The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of $85,290,000. The $85,290,000 was blended with the market rate 2010-A bonds in the amount of $74,710,000 for a total of $160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2010-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-A bonds in the amount of $40,000,000 for a total of $100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of $34,710,000. The $34,710,000 was blended with the market rate 2011-C bonds in the amount of $65,290,000 for a total of $100,000,000.

The interest rate on the 2009-B bonds is tied to the investment rate on proceeds of the bonds. Proceeds are required to be invested in U.S. Treasury securities maturing in 28 days or less.

## b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2012 are as follows (expressed in thousands):

| For the Year(s) Ending June 30 | Principal | Interest | Total Requirements |
|---|---|---|---|
| 2013 | $202,479 | $83,456 | $285,935 |
| 2014 | 53,213 | 76,706 | 129,919 |
| 2015 | 53,718 | 75,200 | 128,918 |
| 2016 | 52,728 | 73,590 | 126,318 |
| 2017 | 54,358 | 71,869 | 126,227 |
| 2018 – 2022 | 220,266 | 332,017 | 552,283 |
| 2023 – 2027 | 309,448 | 279,007 | 588,455 |
| 2028 – 2032 | 236,731 | 213,838 | 450,569 |
| 2033 – 2037 | 264,630 | 160,831 | 425,461 |
| 2038 – 2042 | 570,449 | 65,557 | 636,006 |
| 2043 | 2,555 | 59 | 2,614 |
| Total | $2,020,575 | $1,432,130 | $3,452,705 |

The debt principal in the preceding table is $5,394,000 greater than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

## c. Redemption of Bonds and Notes

During the year ended June 30, 2012, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $11,200,000, in the Homeownership Program in the amount of $316,065,000 and in the Housing Finance Program in the amount of $17,055,000. The respective carrying values of the bonds were $11,157,769, $317,935,960 and $17,099,460. This resulted in an expense to the Mortgage Finance Program of $42,231 and in income to the Homeownership Program of $1,870,960 and to the Housing Finance Program of $44,460.

On December 1, 2011, the agency issued $141,255,000 in Homeownership Program Bonds, Issue 2011-1. On January 1, 2012, the agency used $135,095,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $135,095,000 early redemption). The carrying amount of these bonds was $134,393,628. The refunding resulted in a difference of $701,372 between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by $37,847,406 over the next 18 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $17,103,985.

During the year ended June 30, 2011, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $12,260,000, in the Homeownership Program in the amount of $317,390,000 and in the Housing Finance Program in the amount of $5,780,000. The respective carrying values of the bonds were $12,214,245, $321,059,321 and $5,768,558. This resulted in an expense to the Mortgage Finance Program of $45,755 and to the Housing Finance Program of $11,442 and in income to the Homeownership Program of $3,669,321.

On October 13, 2010, the agency issued $120,700,000 in Homeownership Program Bonds, Issue 2010-1. On November 1, 2010, the agency used $99,835,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $99,835,000 early redemption). The carrying amount of these bonds was $99,371,651. The refunding resulted in a difference of $463,349 between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by $22,227,781 over the next 15 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $10,476,679.

### d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2012.

**Long-term Liabilities**
(Thousands)

| | Beginning Balance July 1, 2011 | Additions | Reductions | Ending Balance June 30, 2012 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Notes Payable | $3,250 | $-0- | ($3,250) | $-0- | $-0- |
| Bonds Payable | 2,129,440 | 246,545 | (369,690) | 2,006,295 | 149,235 |
| Plus: Unamortized Bond Premiums | 17,120 | 1,837 | (4,677) | 14,280 | -0- |
| Less: Deferred Amount on Refundings | (6,074) | (710) | 1,390 | (5,394) | -0- |
| Compensated Absences | 994 | 162 | (-0-) | 1,156 | 555 |
| Escrow Deposits | 4,776 | 1,484 | (2,529) | 3,731 | 433 |
| Arbitrage Rebate Payable | 1,217 | 418 | (1,635) | -0- | -0- |
| Total | $2,150,723 | $249,736 | ($380,391) | $2,020,068 | $150,223 |

The following table is a summary of the long-term liability activity for the year ended June 30, 2011.

**Long-term Liabilities**
(Thousands)

| | Beginning Balance July 1, 2010 | Additions | Reductions | Ending Balance June 30, 2011 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Notes Payable | $3,672 | $-0- | ($422) | $3,250 | $3,250 |
| Bonds Payable | 2,300,260 | 200,700 | (371,520) | 2,129,440 | 83,035 |
| Plus: Unamortized Bond Premiums | 22,419 | 1,156 | (6,455) | 17,120 | -0- |
| Less: Deferred Amount on Refundings | (5,931) | (1,099) | 956 | (6,074) | -0- |
| Compensated Absences | 945 | 66 | (17) | 994 | 477 |
| Escrow Deposits | 4,978 | 903 | (1,105) | 4,776 | 528 |
| Arbitrage Rebate Payable | 4,547 | 2,552 | (5,882) | 1,217 | -0- |
| Total | $2,330,890 | $204,278 | ($384,445) | $2,150,723 | $87,290 |

### e. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provided for the issuance of agency drawdown notes with a maximum aggregate principal amount of $65,000,000. On April 1, 1999, the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be $200,000,000. On December 1, 2002, the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be $450,000,000.

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

In October 2008, the Internal Revenue Service issued Notice 2008-88, amending Notice 2008-41. With an effective date of March 28, 2008, this notice provided temporary relief to issuers by allowing them to purchase their own bonds and commercial paper without causing an extinguishment of the debt for tax purposes. Therefore, on October 9, 2008, due to unstable credit markets, the Tennessee Housing Development Agency purchased at par $83,050,000 of its Single Family Mortgage Notes Trust Indenture from Morgan Keegan. The agency was allowed to hold the outstanding notes through December 31, 2009, after which the notes were to be available to reissue. Due to continuing unstable credit markets, on December 31, 2009, the Internal Revenue Service extended the amount of time the agency was allowed to hold its outstanding notes purchased from Morgan Keegan. The agency was allowed to hold the outstanding notes through December 31, 2010; however, the notes matured on August 12, 2010. In accordance with the Financial Accounting Standards Board Statement 76 (as amended), Paragraph 3, the outstanding notes are not recorded for financial reporting purposes.

Promissory Note. On December 22, 2008, the agency borrowed $3,250,000 for the Preserve Loan Program, which is part of the Housing Trust Fund. Interest was charged quarterly at 3%. The principal matured and was paid off on December 22, 2011. On August 3, 2009, the agency borrowed $500,000 at 3% for the Preserve Loan Program, which is part of the Housing Trust Fund. Principal and interest were paid monthly with the principal maturing on August 4, 2012; however, the note was paid off on June 17, 2011.

The activity of the promissory note is also included in the summary of long-term liability activity in part d. of this note.

## NOTE 5. RESTRICTED NET ASSETS

The amount shown on the Statement of Net Assets as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net assets that are restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of these net assets is restricted under legislation enacted in fiscal year 1986.

## NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at www.treasury.tn.gov/tcrs.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 14.91% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2012, 2011, and 2010, were $1,632,095, $1,585,654, and $1,295,272. Those contributions met the required contributions for each year.

## NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has established a loan loss reserve of $750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional $232,000 was established as a loan loss reserve against potential losses on loans not specifically covered under one of the above programs, and $500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net assets restricted for single family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net assets for this purpose.

## NOTE 8. RISK MANAGEMENT

### a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2012, and June 30, 2011, are presented in the *Tennessee Comprehensive Annual Financial Report*. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

**c. Employee Group Insurance Fund**

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

## NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (*TCA*) Section 8-27-101. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed, and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

<u>Special Funding Situation</u>. The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency. The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

<u>Funding Policy.</u> The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees

with 20 but less than 30 years of service, $37.50; and retirees with 15 but less than 20 years of service, $25.

**THDA Annual OPEB Cost and Net OPEB Obligation**
**State Employee Group Plan**
(Thousands)

| | June 30, 2012 | June 30, 2011 |
|---|---|---|
| Annual Required Contribution (ARC) | $393 | $358 |
| Interest on the Net OPEB Obligation | 41 | 36 |
| Adjustment to the ARC | (44) | (34) |
| Annual OPEB cost | 390 | 360 |
| Amount of contribution | (227) | (160) |
| Increase in Net OPEB Obligation | 163 | 200 |
| Net OPEB obligation-beginning of year | 994 | 794 |
| Net OPEB obligation-end of year | $1,157 | $994 |

| Year End | Plan | Annual OPEB Cost (Thousands) | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation At Year End (Thousands) |
|---|---|---|---|---|
| 6/30/2010 | State Employee Group Plan | $ 352 | 45% | $ 794 |
| 6/30/2011 | State Employee Group Plan | $ 360 | 44% | $ 994 |
| 6/30/2012 | State Employee Group Plan | $ 390 | 58% | $ 1,157 |

Funded Status and Funding Progress. The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2011, was as follows (Thousands):

| | |
|---|---|
| Actuarial valuation date | 7/01/2011 |
| Actuarial accrued liability (AAL) | $ 2,919 |
| Actuarial value of plan assets | -0- |
| Unfunded actuarial accrued liability (UAAL) | $ 2,919 |
| Actuarial value of assets as a % of the AAL | 0% |
| Covered payroll (active plan members) | $ 9,818 |
| UAAL as a percentage of covered payroll | 30% |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2011, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012. The rate decreases to 8.75 percent in fiscal year 2013, and then reduces by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

## NOTE 10. ON-BEHALF PAYMENTS

During the year ended June 30, 2012, the State of Tennessee made payments of $2,980 on behalf of THDA for retirees participating in the Medicare Supplement Plan, and during the year ended June 30, 2011, made payments of $3,525. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

## NOTE 11. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, $15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, $43,000,000 was transferred from the agency to the State General Fund. The $43,000,000 transferred from the agency came from the following resources of the agency: (i) $15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) $5,028,761 from the Housing Program Reserve Fund; and (iii) $22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of $35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

## NOTE 12. NATIONAL MORTGAGE SETTLEMENT FUNDS

The State of Tennessee received $41,207,810 from the United States Attorney General for the National Mortgage Settlement. In June 2012, the agency received $34,500,000 of the $41,207,810. The agency plans to use those funds to expand the Keep My Tennessee Home financial assistance program to include long term medical hardships and to provide foreclosure counseling.

## NOTE 13. SUBSEQUENT EVENTS

**a.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | |
|---|---|---|
| July 1, 2012 | Mortgage Finance Program | $ 4,000,000 |
| | Homeownership Program | 60,030,000 |
| | Housing Finance Program | 11,420,000 |
| | Total | $75,450,000 |

**b.** Homeownership Program Bonds, Issue 2012-2, were authorized by the Board of directors on July 24, 2012, not to exceed $125,000,000.

**c.** Housing Finance Program Bonds, Issue 2012-1, were sold on July 27, 2012. The bond maturities are as follows:

**BONDS ISSUED**
(Thousands)

| Series | Maturity Range | Issued Amount | Interest Rate (Percent) |
|---|---|---|---|
| 2012-1 | 1/1/2013-7/1/2042 | $133,110 | 0.800 to 4.500 |

**d.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | |
|---|---|---|
| September 1, 2012 | Homeownership Program | $43,865,000 |

**e.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

| | | |
|---|---|---|
| October 1, 2012 | Mortgage Finance Program | $ 3,015,000 |
| | Homeownership Program | 56,055,000 |
| | Housing Finance Program | 9,350,000 |
| | Total | $68,420,000 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
UNAUDITED
(Expressed in Thousands)

| Actuarial Valuation Date | Plan | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|---|
| 7/1/2009 | State Employee Group Plan | $ -0- | $ 3,629 | $ 3,629 | 0% | $ 9,238 | 39% |
| 7/1/2010 | State Employee Group Plan | $ -0- | $ 3,316 | $ 3,316 | 0% | $ 8,640 | 38% |
| 7/1/2011 | State Employee Group Plan | $ -0- | $ 2,919 | $ 2,919 | 0% | $ 9,818 | 30% |

Exhibit A

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF NET ASSETS**
**JUNE 30, 2012**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | Totals |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 24,068 | $ 25,278 | $ 133,100 | $ 36,951 | $ 219,397 |
| Investments | - | 578 | - | - | 578 |
| Receivables: | | | | | |
| Accounts | - | 643 | 15,123 | 3,223 | 18,989 |
| Interest | 15 | 798 | 8,888 | 2,910 | 12,611 |
| First mortgage loans | 155 | 4,936 | 35,269 | 11,342 | 51,702 |
| Due from federal government | 10,991 | - | - | - | 10,991 |
| Due from other funds | 6,574 | 1 | - | - | 6,575 |
| Total current assets | 41,803 | 32,234 | 192,380 | 54,426 | 320,843 |
| Noncurrent assets: | | | | | |
| Restricted assets: | | | | | |
| Cash and cash equivalents | 11,557 | 32 | 17,283 | 5,346 | 34,218 |
| Investments | - | 13,684 | 156,866 | 16,012 | 186,562 |
| Investment Interest receivable | - | 118 | 1,481 | 84 | 1,683 |
| Investments | - | 6,419 | 23,148 | 10,563 | 40,130 |
| First mortgage loans receivable | 1,400 | 135,372 | 1,306,636 | 601,498 | 2,044,906 |
| Deferred charges | 1 | 280 | 8,161 | 3,299 | 11,741 |
| Advance to local government | 3,007 | - | - | - | 3,007 |
| Capital assets: | | | | | |
| Furniture and equipment | 556 | - | - | - | 556 |
| Less accumulated depreciation | (443) | - | - | - | (443) |
| Total noncurrent assets | 16,078 | 155,905 | 1,513,575 | 636,802 | 2,322,360 |
| Total assets | 57,881 | 188,139 | 1,705,955 | 691,228 | 2,643,203 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 1,171 | 192 | 55 | 33 | 1,451 |
| Accrued payroll and related liabilities | 515 | - | - | - | 515 |
| Compensated absences | 555 | - | - | - | 555 |
| Due to primary government | 71 | - | - | - | 71 |
| Interest payable | | 1,553 | 30,731 | 11,342 | 43,626 |
| Escrow deposits | - | 433 | - | - | 433 |
| Prepayments on mortgage loans | | 71 | 961 | 382 | 1,414 |
| Deferred revenue - Treasury | 10,408 | - | | | 10,408 |
| Due to other funds | - | - | 6,575 | - | 6,575 |
| Bonds payable | - | 6,070 | 125,125 | 18,040 | 149,235 |
| Total current liabilities | 12,720 | 8,319 | 163,447 | 29,797 | 214,283 |
| Noncurrent liabilities: | | | | | |
| Bonds payable | - | 52,903 | 1,197,112 | 615,931 | 1,865,946 |
| Compensated absences | 601 | - | - | - | 601 |
| Net OPEB obligation | 1,157 | - | - | - | 1,157 |
| Escrow deposits | 312 | 2,986 | - | - | 3,298 |
| Total noncurrent liabilities | 2,070 | 55,889 | 1,197,112 | 615,931 | 1,871,002 |
| Total liabilities | 14,790 | 64,208 | 1,360,559 | 645,728 | 2,085,285 |
| **NET ASSETS** | | | | | |
| Invested in capital assets | 114 | - | - | - | 114 |
| Restricted for single family bond programs | - | 117,791 | 345,396 | 45,500 | 508,687 |
| Restricted for grant programs | - | 6,140 | - | - | 6,140 |
| Restricted for Homebuyers Revolving Loan Program | 3,153 | - | - | - | 3,153 |
| Unrestricted | 39,824 | - | - | - | 39,824 |
| Total net assets | $ 43,091 | $ 123,931 | $ 345,396 | $ 45,500 | $ 557,918 |

Exhibit B

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | Totals |
|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | |
| Mortgage interest income | $ - | $ 6,262 | $ 82,569 | $ 27,184 | $ 116,015 |
| Investment income: | | | | | |
| Interest | 6 | 1,324 | 9,122 | 1,220 | 11,672 |
| Net (decrease) in the fair value of investments | - | (242) | 868 | (306) | 320 |
| Federal grant administration fees | 14,475 | - | - | - | 14,475 |
| Fees and other income | 2,803 | 415 | - | - | 3,218 |
| Total operating revenues | 17,284 | 7,759 | 92,559 | 28,098 | 145,700 |
| **OPERATING EXPENSES** | | | | | |
| Salaries and benefits | 15,671 | - | - | - | 15,671 |
| Contractual services | 3,208 | - | - | - | 3,208 |
| Materials and supplies | 184 | - | - | - | 184 |
| Rentals and insurance | 100 | - | - | - | 100 |
| Other administrative expenses | 482 | - | - | - | 482 |
| Other program expenses | 1,360 | 4,277 | 5,833 | 257 | 11,727 |
| Interest expense | 50 | 3,568 | 63,866 | 20,351 | 87,835 |
| Mortgage service fees | - | 427 | 5,205 | 1,907 | 7,539 |
| Issuance costs | - | 32 | 574 | 136 | 742 |
| Depreciation | 144 | - | - | - | 144 |
| Total operating expenses | 21,199 | 8,304 | 75,478 | 22,651 | 127,632 |
| Operating income (loss) | (3,915) | (545) | 17,081 | 5,447 | 18,068 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | |
| Federal grants revenue | 259,454 | 917 | - | - | 260,371 |
| Payment from primary government | 34,500 | - | - | - | 34,500 |
| Federal grants expenses | (259,504) | (1,083) | - | - | (260,587) |
| Local grants expenses | (66) | (5,979) | (8,345) | - | (14,390) |
| Total nonoperating revenues (expenses) | 34,384 | (6,145) | (8,345) | - | 19,894 |
| Income (loss) before transfers | 30,469 | (6,690) | 8,736 | 5,447 | 37,962 |
| Transfers (to) other funds | - | (457) | (12,268) | - | (12,725) |
| Transfers from other funds | 7,083 | - | - | 5,642 | 12,725 |
| Change in net assets | 37,552 | (7,147) | (3,532) | 11,089 | 37,962 |
| Total net assets, July 1 | 5,539 | 131,078 | 348,928 | 34,411 | 519,956 |
| Total net assets, June 30 | $ 43,091 | $ 123,931 | $ 345,396 | $ 45,500 | $ 557,918 |

Exhibit C

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | Totals |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Receipts from customers | $ 59 | $ 22,685 | $ 298,420 | $ 57,029 | $ 378,193 |
| Receipts from federal government | 15,243 | - | - | - | 15,243 |
| Receipts from other funds | - | - | 5,518 | - | 5,518 |
| Other miscellaneous receipts | 2,803 | 415 | - | - | 3,218 |
| Acquisition of mortgage loans | - | (10,400) | (22,949) | (202,391) | (235,740) |
| Payments to service mortgages | - | (427) | (5,205) | (1,907) | (7,539) |
| Payments to suppliers | (5,342) | (4,050) | (7,757) | (290) | (17,439) |
| Payments to federal government | - | - | (1,216) | - | (1,216) |
| Payments to other funds | (4,865) | (653) | - | - | (5,518) |
| Payments to employees | (15,644) | - | - | - | (15,644) |
| Net cash provided (used) by operating activities | (7,746) | 7,570 | 266,811 | (147,559) | 119,076 |
| Cash flows from non-capital financing activities: | | | | | |
| Operating grants received | 307,481 | 917 | - | - | 308,398 |
| Transfers in (out) | 7,083 | (457) | (12,268) | 5,642 | - |
| Negative cash balance implicitly financed (repaid) | (10,913) | - | - | - | (10,913) |
| Proceeds from sale of bonds | - | - | 142,494 | 105,888 | 248,382 |
| Operating grants paid | (263,073) | (7,062) | (8,345) | - | (278,480) |
| Cost of issuance paid | - | - | (1,098) | (1,145) | (2,243) |
| Principal payments | (3,250) | (13,880) | (335,120) | (20,690) | (372,940) |
| Interest paid | (50) | (3,750) | (69,250) | (16,233) | (89,283) |
| Net cash provided (used) by non-capital financing activities | 37,278 | (24,232) | (283,587) | 73,462 | (197,079) |
| Cash flows from capital and related financing activities: | | | | | |
| Purchases of capital assets | (100) | - | - | - | (100) |
| Net cash (used) by capital and related financing activities | (100) | - | - | - | (100) |
| Cash flows from investing activities: | | | | | |
| Proceeds from sales and maturities of investments | - | 61,681 | 235,303 | 124,840 | 421,824 |
| Purchases of investments | - | (49,729) | (231,015) | (132,254) | (412,998) |
| Investment interest received | 6 | 1,441 | 9,606 | 1,258 | 12,311 |
| Increase in fair value of investments subject to fair value reporting and classified as cash equivalents | - | - | 5 | 3 | 8 |
| Net cash provided (used) by investing activities | 6 | 13,393 | 13,899 | (6,153) | 21,145 |
| Net increase (decrease) in cash and cash equivalents | 29,438 | (3,269) | (2,877) | (80,250) | (56,958) |
| Cash and cash equivalents, July 1 | 6,187 | 28,579 | 153,260 | 122,547 | 310,573 |
| Cash and cash equivalents, June 30 | $ 35,625 | $ 25,310 | $ 150,383 | $ 42,297 | $ 253,615 |

(continued)

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(Expressed in Thousands)**

| | Operating Group | Mortgage Finance Program | Home-ownership Program Bonds | Housing Finance Program Bonds | Totals |
|---|---|---|---|---|---|
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | |
| Operating income (loss) | $ (3,915) | $ (545) | $ 17,081 | $ 5,447 | $ 18,068 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | |
| Depreciation and amortization | 144 | 32 | 574 | 136 | 886 |
| Changes in assets and liabilities: | | | | | |
| (Increase) decrease in accounts receivable | - | 267 | 6,626 | (2,135) | 4,758 |
| (Increase) decrease in mortgage interest receivable | 59 | 127 | 783 | (786) | 183 |
| (Increase) decrease in first mortgage loans receivable | (41) | 6,736 | 185,722 | (169,627) | 22,790 |
| Decrease in due from federal government | 768 | - | - | - | 768 |
| (Increase) decrease in deferred charges | 1 | 42 | (1,912) | (43) | (1,912) |
| Decrease in interfund receivables | - | - | 5,518 | - | 5,518 |
| (Decrease) in interfund payables | (4,865) | (653) | - | - | (5,518) |
| Increase (decrease) in accounts payable | (309) | (922) | (241) | 12 | (1,460) |
| Increase in accrued payroll / compensated absences | 368 | - | - | - | 368 |
| (Decrease) in arbitrage rebate liability | - | - | (1,216) | - | (1,216) |
| Investment income included as operating revenue | (6) | (1,082) | (9,990) | (914) | (11,992) |
| Interest expense included as operating expense | 50 | 3,568 | 63,866 | 20,351 | 87,835 |
| Total adjustments | (3,831) | 8,115 | 249,730 | (153,006) | 101,008 |
| Net cash provided (used) by operating activities | $ (7,746) | $ 7,570 | $ 266,811 | $ (147,559) | $ 119,076 |
| Noncash investing, capital, and financing activities: | | | | | |
| Increase in fair value of investments | $ - | $ 60 | $ 12,450 | $ 93 | $ 12,603 |
| Total noncash investing, capital, and financing activities | $ - | $ 60 | $ 12,450 | $ 93 | $ 12,603 |

**TENNESSEE HOUSING DEVELOPMENT AGENCY**
**SUPPLEMENTARY INFORMATION**
**SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM**
**JUNE 30, 2012**
**(Expressed in Thousands)**

| | Mortgage Finance Bond | General Fund | Mortgage Finance Bond Group Total* | Escrow Fund** | Mortgage Finance Program Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 10,700 | $ 12,778 | $ 23,478 | $ 1,800 | $ 25,278 |
| Investments | - | 578 | 578 | - | 578 |
| Receivables: | | | | | |
| Accounts | 336 | 302 | 638 | 5 | 643 |
| Interest | 694 | 103 | 797 | 1 | 798 |
| First mortgage loans | 4,505 | 431 | 4,936 | - | 4,936 |
| Due from other funds | - | 1 | 1 | - | 1 |
| Total current assets | 16,235 | 14,193 | 30,428 | 1,806 | 32,234 |
| Noncurrent assets: | | | | | |
| Restricted assets: | | | | | |
| Cash and cash equivalents | 32 | - | 32 | - | 32 |
| Investments | 13,684 | - | 13,684 | - | 13,684 |
| Investment interest receivable | 118 | - | 118 | - | 118 |
| Investments | 284 | 5,784 | 6,068 | 351 | 6,419 |
| First mortgage loans receivable | 129,258 | 6,114 | 135,372 | - | 135,372 |
| Deferred charges | 280 | - | 280 | - | 280 |
| Total noncurrent assets | 143,656 | 11,898 | 155,554 | 351 | 155,905 |
| Total assets | 159,891 | 26,091 | 185,982 | 2,157 | 188,139 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 3 | 189 | 192 | - | 192 |
| Interest payable | 1,553 | - | 1,553 | - | 1,553 |
| Escrow deposits | - | - | - | 433 | 433 |
| Prepayments on mortgage loans | 64 | 7 | 71 | - | 71 |
| Bonds payable | 6,070 | - | 6,070 | - | 6,070 |
| Total current liabilities | 7,690 | 196 | 7,886 | 433 | 8,319 |
| Noncurrent liabilities: | | | | | |
| Bonds payable | 52,903 | - | 52,903 | - | 52,903 |
| Escrow deposits | - | 1,407 | 1,407 | 1,579 | 2,986 |
| Total noncurrent liabilities | 52,903 | 1,407 | 54,310 | 1,579 | 55,889 |
| Total liabilities | 60,593 | 1,603 | 62,196 | 2,012 | 64,208 |
| **NET ASSETS** | | | | | |
| Restricted for single family bond programs | 99,298 | 18,348 | 117,646 | 145 | 117,791 |
| Restricted for grant programs | - | 6,140 | 6,140 | - | 6,140 |
| Total net assets | $ 99,298 | $ 24,488 | $ 123,786 | $ 145 | $ 123,931 |

* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.
** The Escrow Funds can only be used for escrow payments.