Tennessee Housing Development Agency

FINANCIAL STATEMENTS

June 30, 2019

TENNESSEE
COMPTROLLER
OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

Independent Auditor's Report

The Honorable Bill Lee, 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, 2019, 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, 2019, 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 liability for the Closed State and Higher Education Pension Plan, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed State Employee Group OPEB Plan, and the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed Tennessee OPEB 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 6, 2019, 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
Division of State Audit
December 6, 2019

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2019

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, 2019, with comparative information presented for the fiscal year ended June 30, 2018. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of 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 2019, THDA has originated over 125,000 single-family mortgage loans in its 46-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 70 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 372 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.

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,* Section 13-23-105). This board meets regularly on a bimonthly basis; however, some committees may meet more often as situations dictate.

Overview of the Financial Statements

The basic financial statements include statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows, as well as notes to the financial statements. The statement of net position provides financial information on the overall financial position of THDA at each year end. The statement of revenues, expenses, and changes in net position summarizes the results of operations over the course of each fiscal year. The statement of cash flows provides 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 https://www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

During fiscal year 2019, THDA implemented accounting standard Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* This Statement improves the information disclosed in the financial statements related to debt, particularly related to direct borrowings and direct placements.

Financial Highlights

Year Ended June 30, 2019

- Total assets increased by $557.7 million, or 20.4%.
- Total liabilities increased by $540.9 million, or 24.2%.
- Net position was $526.1 million. This is an increase of $16.2 million, or 3.2%, from fiscal year 2018 net position.
- Cash and cash equivalents increased by $160.3 million, or 56.7%.
- Total investments decreased by $57.9 million, or 22.2%.
- Bonds payable increased by $499.6 million, or 23.5%.
- THDA originated $667.9 million in new loans, which is an increase of $204.5 million, or 44.1%, 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):

	2019	2018
Current assets	$ 550,787	$ 406,809
Capital assets	3,890	2,876
Other noncurrent assets	2,743,254	2,330,505
Total assets	3,297,931	2,740,190
Deferred outflows of resources	4,314	4,609
Current liabilities	220,924	170,949
Noncurrent liabilities	2,554,495	2,063,595
Total liabilities	2,775,419	2,234,544
Deferred inflows of resources	746	365
Invested in capital assets	3,890	2,876
Restricted net position	453,704	438,516
Unrestricted net position	68,486	68,498
Total net position	$ 526,080	$ 509,890

2019 to 2018

First and second mortgage loans receivable (net of allowance for forgivable second mortgages) increased by $418.8 million. During fiscal year 2019, single-family mortgage loan originations increased by $204.5 million, whereas mortgage loan payoffs decreased by $33.1 million and mortgage loan repayments increased $3.6 million. In addition, THDA recognized an allowance for future uncollectable forgivable second mortgages of $19.3 million for fiscal year 2019. All of these changes are primarily attributable to a rise in mortgage loan production.

Total liabilities increased $540.9 million. The increase is primarily due to a $499.6 million increase of bonds payable at June 30, 2019, as compared to June 30, 2018.

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

	2019	2018
Operating revenues		
Mortgage interest income	$ 106,949	$ 90,105
Investment income	14,370	2,738
Other	20,376	20,482
Total operating revenues	141,695	113,325
Operating expenses		
Interest expense	69,520	58,239
Other	50,385	45,368
Total operating expenses	119,905	103,607
Operating income	21,790	9,718
Nonoperating revenues (expenses)		
Grant revenues	342,404	317,326
Payments from primary govt	665	0
Grant expenses	(348,669)	(325,340)
Total nonoperating revenues (expenses)	(5,600)	(8,014)
Change in net position	$ 16,190	$ 1,704

2019 to 2018

Total operating revenues increased $28.4 million, primarily due to an increase in mortgage interest income of $16.8 million. In addition, fair value of investments increased by $6.2 million in fiscal year 2019, having decreased $4.2 million in fiscal year 2018.

Total operating expenses increased $16.3 million. This is primarily due to an increase in bond interest expense. Bond interest expense increased due to an increase in bonds payable which is primarily attributable to a rise in mortgage loan production.

Nonoperating grant revenues increased $25.7 million and nonoperating grant expenses increased $23.3 million, primarily due to an increase in spending in the LIHEAP, Project Based Contract Administration, and down payment assistance programs.

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

	2019	2018
Bonds payable	$2,628,317	$2,128,712

Year Ended June 30, 2019

Total bonds payable increased $499.6 million, which is deemed primarily attributable to an increase in mortgage loan production. During the fiscal year, THDA issued debt totaling $749.9 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded $28.9 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 and Poor's Rating Group (S&P), a division of 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+.

Debt Limits

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

THDA is working with the legislature to increase the debt ceiling to $5,000,000,000 in early 2020.

Grant Programs

During fiscal year 2007 through fiscal year 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 THDA 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:

	2019	2018	2017 and Prior	Total
Funding Sources:				
THDA	$8,500,000	$7,500,000	$74,800,000	$90,800,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	$8,500,000	$7,500,000	$79,150,000	$95,150,000
Approved Uses:				
Rural repair program (USDA)	$ -	$ -	$ 6,300,000	$ 6,300,000
Ramp Programs & Hsg Modification	300,000	300,000	1,650,000	2,250,000
Emergency Repairs	2,700,000	2,700,000	21,200,000	26,600,000
Competitive Grants	3,500,000	3,500,000	41,100,000	48,100,000
Rebuild & Recover	500,000	500,000	3,800,000	4,800,000
Challenge Grant Program	1,000,000	-	-	1,000,000
Other Grants	500,000	500,000	5,100,000	6,100,000
Totals	$8,500,000	$7,500,000	$79,150,000	$95,150,000

Current Mortgage Products and Environment

THDA offers a variety of mortgage loan products to address the needs of Tennesseans across the State. 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. 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. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a new 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the entire 30 years of closing. The loan is fully forgiven at the end of year 30.

A special interest rate reduction on the 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 first mortgage 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, interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgages), 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 S&P. 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 LTV 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, 2019, 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 Outstanding	Percentage[1]
60 – 89 Days Past Due	26,720	576	$ 48,470,159	2.16%
90+ Days Past Due	26,720	1,244	107,977,371	4.66%
In Foreclosure	26,720	77	6,629,809	0.29%

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 benchmark, THDA uses the one-, three- and five-year Constant Maturity Treasury rates as established by the United States Treasury.

[1] Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

The continuation of relatively low interest rates from a historic perspective increases 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.

Direct Loan Servicing

During FY 2017, THDA commenced the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of $91.5 million was transferred to VMLS from an existing THDA mortgage servicer. In FY 2018, THDA began directly servicing the flow-business of new mortgage loans. On August 1, 2018, THDA began servicing loans previously serviced by US Bank. As of May 1, 2019 all loans are being serviced by THDA.

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, 2019
(Expressed in Thousands)

ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$	374,906
Investments (Note 2)		44,078
Receivables:		
Accounts		8,806
Interest		14,693
First mortgage loans		69,097
Due from federal government		39,207
Total current assets		550,787
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		68,090
Investments (Note 2)		124,900
Investment interest receivable		764
Investments (Note 2)		33,417
First mortgage loans receivable		2,459,103
Second mortgage loans receivable		52,199
Allowance for uncollectable second mortgages		(19,349)
Other recevables (Note 1)		20,910
Advance to local government		3,143
Net pension asset (Note 5)		77
Capital assets:		
Furniture and equipment		6,916
Less accumulated depreciation		(3,026)
Total noncurrent assets		2,747,144
Total assets		3,297,931
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refundings		323
Deferred outflows related to pensions (Note 5)		3,635
Deferred outflows related to OPEB (Note 9)		356
Total deferred outflows of resources		4,314
LIABILITIES		
Current liabilities:		
Accounts payable		33,509
Accrued payroll and related liabilities		753
Compensated absences		741
Total OPEB liability (Note 9)		208
Due to primary government		98
Interest payable		39,478
Escrow deposits		23,223
Prepayments on mortgage loans		1,177
Due to federal government		20,672
Bonds payable (Note 3)		101,065
Total current liabilities		220,924
Noncurrent liabilities:		
Bonds payable (Note 3)		2,527,252
Compensated absences		759
Net pension liability (Note 5)		6,997
Total OPEB liability (Note 9)		3,143
Escrow deposits		15,965
Arbitrage rebate payable		379
Total noncurrent liabilities		2,554,495
Total liabilities		2,775,419
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 5)		239
Deferred inflows related to OPEB (Note 9)		507
Total deferred inflows of resources		746
NET POSITION		
Investment in capital assets		3,890
Restricted for single family bond programs (Note 4 and Note 7)		434,893
Restricted for grant programs (Note 4)		15,581
Restricted for Homebuyers Revolving Loan Program (Note 4)		3,153
Restricted for net pension asset (Note 5)		77
Unrestricted (Note 7)		68,486
Total net position	$	526,080

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, 2019
(Expressed in Thousands)

OPERATING REVENUES		
Mortgage interest income	$	106,949
Investment income:		
Interest		8,158
Net increase in the fair value of investments		6,212
Federal grant administration fees		15,262
Fees and other income		5,114
Total operating revenues		141,695
OPERATING EXPENSES		
Salaries and benefits		22,517
Contractual services		7,642
Materials and supplies		1,277
Rentals and insurance		15
Other administrative expenses		885
Other program expenses		10,949
Interest expense		69,520
Mortgage service fees		723
Issuance costs		5,583
Depreciation		794
Total operating expenses		119,905
Operating income		21,790
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue		342,404
Payment from primary government (Note 10)		665
Federal grants expenses		(341,638)
Local grants expenses		(7,031)
Total nonoperating revenues (expenses)		(5,600)
Change in net position		16,190
Total net position, July 1		509,890
Total net position, June 30	$	526,080

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, 2019
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	$ 373,025
Receipts from federal government	15,052
Other miscellaneous receipts	5,114
Acquisition of mortgage loans	(667,910)
Payments of service release premiums	(21,498)
Payments to service mortgages	(723)
Payments to suppliers	(2,800)
Payments to or for employees	(23,163)
Net cash used by operating activities	(322,903)
Cash flows from non-capital financing activities:	
Operating grants received	330,231
Proceeds from sale of bonds	770,641
Operating grants paid	(349,434)
Cost of issuance paid	(5,583)
Principal payments	(263,200)
Interest paid	(69,939)
Net cash provided by non-capital financing activities	412,716
Cash flows from capital and related financing activities:	
Purchases of capital assets	(1,809)
Net cash used by capital and related financing activities	(1,809)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	138,277
Purchases of investments	(75,815)
Investment interest received	8,144
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	1,642
Net cash provided by investing activities	72,248
Net increase in cash and cash equivalents	160,252
Cash and cash equivalents, July 1	282,744
Cash and cash equivalents, June 30	$ 442,996

(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, 2019
(Expressed in Thousands)

Reconciliation of operating income to net cash used by operating activities:	
Operating income	$ 21,790
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	794
Changes in assets and liabilities:	
(Increase) in accounts receivable	(7,967)
(Increase) in mortgage interest receivable	(3,501)
(Increase) in other receivables	(19,804)
(Increase) in pension asset	(42)
Decrease in deferred pension outflows	296
(Increase) in deferred OPEB outflows	(119)
(Increase) in mortgage loans receivable	(418,811)
(Increase) in due from federal government	(237)
Increase in accounts payable	44,245
Increase in accrued payroll / compensated absences	207
Increase in due to primary government	7
Increase in arbitrage rebate liability	14
(Decrease) in pension liability	(662)
(Decrease) in OPEB liability	(227)
Increase in deferred pension inflows	11
Increase in deferred OPEB inflows	370
Investment income included as operating revenue	(14,370)
Interest expense included as operating expense	69,520
Issuance cost included as operating expense	5,583
Total adjustments	(344,693)
Net cash used by operating activities	$ (322,903)
Noncash investing, capital, and financing activities:	
Increase in fair value of investments	$ 534
Total noncash investing, capital, and financing activities	$ 534

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) 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 Title 24, *Code of Federal Regulations*, 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.

THDA 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*.

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.

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 cash flows. 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.

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

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Funds on deposit for, or on behalf of, borrower's related to Loan Servicing, Hardest Hit Fund cash, and Net Pension Assets (see note 4).

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.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

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

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.

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.

Other Receivables

Amounts reported as Other Receivables are for amounts related to acquiring servicing rights from THDA's partners. Beginning in FY 2018, THDA began direct servicing of first and second mortgage loans in which THDA purchased from an approved THDA Originating Agent. In association with the purchase of these loans, and in association with typical industry practices, THDA paid one percent (1%) of the loan purchase amount to the Originating Agent that was intended to function as a "service release premium." In FY 2019, THDA reacquired servicing rights from approved THDA mortgage loan servicers, which in certain situations resulted in the payment of a Servicing Reclamation Price to the existing servicer. Such amounts are reported as Other Receivables, and are amortized based on the interest method over the life of the respective loans.

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 federal government, public housing bonds secured by contracts with the U.S federal government, 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.

Accrual of Interest Income

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

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents. On August 1, 2018, THDA began servicing loans previously serviced by U.S. Bank and as of May 1, 2019, all loans are being serviced by THDA.

On July 27, 2018, THDA requested to withdraw approximately $23,376,000 of excess funds from the Homeownership Program Bond Resolution to fund the acquisition of servicing rights from U.S. Bank. On July 30, 2018, THDA wired $15,585,487 to U.S. Bank as a one-time servicing release and transfer fee payment. On August 6, 2018, THDA transferred $7,902,932 to Volunteer Mortgage Loan Servicing (VMLS) to fund the VMLS Escrow Account for escrow advances.

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.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, THDA introduced an interest-free 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 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home.

Because of the likelihood that some amount of the original amount will be forgiven in the course of time, or not recovered due to foreclosure, an allowance account has been established for those loans that may enter the forgivable period or for loss due to foreclosure. During the fiscal year 2019, the agency determined that an amount of second mortgage down payment assistance loans are not expected to be recovered due to forgiveness or foreclosure. This amount was recorded as an allowance.

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

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, 2019, the bank balance was $53,411,774. This amount includes $25,840,857.82; which is held in a taxes and insurance escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2019, 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, 2019, $19,312,407 was in the BNYM. Of this amount, $19,062,407 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.

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 daily fair market value of THDA total investments must mature within five years. No more than 50% of the daily fair market 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, 2019	
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$164,703,453	1.276
U.S. Treasury Coupon	12,692,509	1.923
U.S. Agency Discount	199,843,435	0.034
Total	$377,239,397	0.641

Fair Value Measurements – THDA implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB No. 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, 2019, (expressed in thousands):

Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	June 30, 2019			
Debt securities				
U.S. Agency Coupon	$164,703	$ -	$164,703	$ -
U.S. Treasury Coupon	12,693	12,693	-	-
U.S. Agency Discount	199,843	-	199,843	-
Total debt securities	$377,239	$12,693	364,546	$ -

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 the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2019, 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.

Investment Type	Fair Value	U.S. Treasury[1]	AAA	AA+	Not Rated[2]
	June 30, 2019				
U.S. Agency Coupon	$164,703,453	$ -	$14,980,480	$147,577,873	$ 2,145,100
U.S. Treasury Coupon	12,692,509	12,692,509	-	-	-
U.S. Agency Discount	199,843,435	-	-	-	199,843,435
Total	$377,239,397	$12,692,509	$14,980,480	$147,577,873	$201,988,535

In addition to these investments, the agency has $197,270,129 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poor's rating of AAA.

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:

[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, 2019	
Issuer	**Fair Value** *(Thousands)*	**% of Portfolio**
Federal Home Loan Bank	$297,524	78.87
Federal Home Loan Mortgage Corp.	$42,331	11.22
Federal National Mortgage Assoc.	$22,547	05.98

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA participate in the State Pooled Investment Fund (SPIF). SPIF values financial instruments at amortized cost.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2019 *(Thousands)*
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	-
2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	-
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	25,850
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	40,095
2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	50,025
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	39,480
Total Homeownership Program Bonds		$617,690		$ 155,450
Plus: Unamortized Bond Premiums				1,259
Net Homeownership Program Bonds				$156,709

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2019 *(Thousands)*
2009-A	1/1/2011 – 1/1/2040	$100,000	0.90 to 4.625	$ 1,410
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	7,705
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	34,130
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	10,290
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	39,960
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	35,620
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	86,360
Total Housing Finance Program Bonds		$810,000		$215,475
Plus: Unamortized Bond Premiums				2,124
Net Housing Finance Program Bonds				$217,599

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2019 *(Thousands)*
2013-1	1/1/2014 – 7/1/2043	$ 215,905	0.40 to 4.00	$ 80,320
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	56,710
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	76,335
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	93,640
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	101,185
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	123,915
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	100,320
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	104,315
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	36,925
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	86,330
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	155,140
2017-3	7/1/2018 – 1/1/2048	99,900	0.80 to 3.65	95,550
2017-4	7/1/2018 – 7/1/2048	99,900	0.95 to 4.00	95,340
2018-1	1/1/2019 – 1/1/2043	99,900	1.40 to 4.00	97,045
2018-2	1/1/2019 – 1/1/2049	160,000	1.75 to 4.00	156,300
2018-3	7/1/2019 – 7/1/2049	149,900	1.50 to 4.25	148,555
2018-4	7/1/2019 – 7/1/2049	225,000	1.875 to 4.50	221,875
2019-1	1/1/2020 – 1/1/2050	175,000	1.60 to 4.25	175,000
2019-2	1/1/2020 – 1/1/2048	200,000	1.40 to 4.00	200,000

Total Residential Finance Program Bonds	$2,758,805	$2,204,800
Plus: Unamortized Bond Premiums		49,239
Subtract: Unamortized Bond Discount		(30)
Net Residential Finance Program Bonds		$2,254,009
Net Total All Bonds		$2,628,317

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, 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.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2019, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2020	$ 68,485	$ 83,640	$ 152,125
2021	90,130	86,175	176,305
2022	87,560	83,921	171,481
2023	86,115	81,684	167,799
2024	89,300	79,384	168,684
2025 – 2029	443,255	356,871	800,126
2030 – 2034	470,480	281,740	752,220
2035 – 2039	502,215	195,332	697,547
2040 – 2044	440,795	103,911	544,706
2045 – 2049	288,565	30,787	319,352
2050	8,825	209	9,034
Total	$2,575,725	$1,383,654	$3,959,379

The agency's bond resolutions govern the outstanding bonds payable for all bond programs in the amount of $2,575,725 (expressed in thousands). The bond resolutions contain a provision that in an event of default, the trustee can declare all bonds due and payable and can sell program loans and investment securities for payments to bondholders.

The outstanding bonds payable of $2,575,725 (expressed in thousands) are secured by a pledge of all assets in each of the respective bond resolutions.

The agency does not have any unused lines of credit.

Redemption of Bonds and Notes

During the year ended June 30, 2019, bonds were retired at par before maturity in the Homeownership Program in the amount of $32,135,000, in the Housing Finance Program in the amount of $42,875,000, and in the Residential Finance Program in the amount of $127,325,000. The respective carrying values of the bonds were $32,697,175, $43,399,278 and $132,265,183.

This resulted in revenue to the Homeownership Program of $562,175, to the Housing Finance Program of $524,278, and to the Residential Finance Program of $4,940,183.

On June 12, 2018, the agency issued $160,000,000 in Residential Finance Program Bonds, Issue 2018-2. On July 1, 2018, the agency used $13,075,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $13,075,000 early redemption). The carrying amount of these bonds was $13,075,000. The refunding reduced the agency's debt service by $3,199,665 over the next 11 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $1,636,564.

On September 6, 2018, the agency issued $149,900,000 in Residential Finance Program Bonds, Issue 2018-3.

On November 15, 2018, the agency issued $225,000,000 in Residential Finance Program Bonds, Issue 2018-4. On December 1, 2018, the agency used $15,780,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $15,780,000 early redemption). The carrying amount of these bonds was $15,780,000. The refunding reduced the agency's debt service by $1,812,556 over the next 8.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $650,335.

On March 21, 2019, the agency issued $175,000,000 in Residential Finance Program Bonds, Issue 2019-1.

On June 27, 2019, the agency issued $200,000,000 in Residential Finance Program Bonds, Issue 2019-2.

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2019 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2018	Additions	Reductions	Ending Balance June 30, 2019	Amounts Due Within One Year[3]
Bonds Payable	$2,089,025	$749,900	($263,200)	$2,575,725	$101,065
Plus: Unamortized Bond Premiums	39,721	20,741	(7,840)	52,622	-
Less: Unamortized Bond Discounts	(34)	-	4	(30)	-
Compensated Absences	1,366	1,291	(1,157)	1,500	741
Net Pension Liability	7,659	1,229	(1,891)	6,997	-
Total OPEB Liability	3,578	459	(686)	3,351	208
Escrow Deposits	13,315	56,823	(30,950)	39,188	23,223
Arbitrage Rebate Payable	365	14	-	379	-
Total	$2,154,995	$830,457	($305,720)	$2,679,732	$125,237

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

Note 4. 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 5. Pension Plans

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 publicly available financial report that can be obtained at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

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. Members who leave 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. THDA 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 THDA for the year ended June 30, 2019, to the Closed State and Higher Education Employee Pension Plan were $1,930,643, which is 19.23 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, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2019, THDA reported a liability of $6,997,119 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, THDA's proportion was 0.433148 percent. The proportion measured as of June 30, 2017, was 0.427994 percent.

Pension expense – For the year ended June 30, 2019, THDA recognized a pension expense of $1,606,955. Allocated pension expense was $1,594,088 before being increased by $12,868 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 632	$ 33
Net difference between projected and actual earnings on pension plan investments	-	201
Change in proportionate share of net asset or liability	78	-
Changes in assumptions	880	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2018	1,931	-
Total	$3,521	$234

Deferred outflows of resources, resulting from THDA's employer contributions of $1,931 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2020. 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:	
2020	1,263,955
2021	676,404
2022	(454,482)
2023	(129,135)
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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. 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, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%.

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 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 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 to changes in the discount rate – The following presents THDA's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what THDA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	$15,378,312	$6,997,119	$(56,461)

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, 2019, THDA reported a payable of $80,205 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

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.

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 publicly available financial report that can be obtained at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

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 years of 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 years of 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. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, 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 their salary. The THDA makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2019, to the State and Higher Education Employee Retirement Plan were $97,838, which is 1.66 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 Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2019, THDA reported an asset of $76,565 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, THDA's proportion was 0.198493 percent. The proportion measured as of June 30, 2017, was 0.170803 percent.

Pension expense – For the year ended June 30, 2019, THDA recognized a pension expense of $24,045. Allocated pension expense was $22,543 before being increased by $1,502 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2	$1
Net difference between projected and actual earnings on pension plan investments	-	4
Changes in proportion of share of net asset or liability	12	-
Changes in assumptions	2	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2018	98	-
Total	$114	$5

Deferred outflows of resources, resulting from THDA's employer contributions of $97,838 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2020. 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:	
2020	1,002
2021	922
2022	495
2023	1,387
2024	1,876
Thereafter	5,815

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

<u>Actuarial assumptions</u> – The total pension liability as of the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. 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, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for reach major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 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 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 asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what THDA's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	$(12,700)	$(76,565)	$(124.354)

Payable to the Pension Plan

At June 30, 2019, THDA reported a payable of $4,579 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2019, for both defined benefit pension plans was $1,631,000.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (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 THDA 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 THDA recognized a pension expense of $420,618 for employer contributions.

The THDA recognized a pension payable of $19,337 for employer contributions.

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, 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 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

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.

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; 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, 2019, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html. 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, 2019, the Risk Management Fund held $186 million in cash designated for payment of claims.

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

Closed State Employee Group OPEB Plan

General information about the OPEB plan

Plan description - Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015, and choose coverage, are provided with pre-65 retiree health insurance benefits through the Closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System.

Benefits provided - The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65 are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, standard preferred provider organization (PPO) plan or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits, as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. During the current measurement period, this plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75. However, during the current fiscal year, the plan was transitioned to a prefunding arrangement where assets will be accumulating in a qualifying trust.

Contributions - Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*, establishes the minimum required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates. While the plan operated on a pay-as-you-go basis, employers made the minimum required payments for retiree costs. However, once the plan transitioned to the prefunding arrangement through the qualifying trust, employers began making contributions to the trust based on an actuarially determined contribution rate (ADC). Employer contributions for the year ended June 30, 2019, to the EGOP were $208,862, which is 2.3% of covered employee payroll.

Total OPEB Liability

Proportionate share - The Tennessee Housing Development Agency's proportion and proportionate share of the collective total OPEB liability, related to the EGOP, is 0.241928% and $3.4 million, respectively. The proportion existing at the prior measurement date was 0.266480%. This resulted in a change in proportion of 0.024552% between the current and prior measurements dates. Tennessee Housing Development Agency's proportion of the collective total OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018, and measurement date of June 30, 2018.

Actuarial assumptions - The collective total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	6.75% for 2019, decreasing annually to an ultimate rate of 3.91% for 2050 and later years.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 3.62%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA as shown on the Fidelity 20-Year Municipal General Obligation (GO) AA index.

Changes in assumptions - The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability. Additionally, the near-term health trend rates was changed from 5.4%, 5.3%, and 5.2% for plan years 2019 to 2021, respectively, to 6.75%, 6.25%, and 5.75% respectively. Further, the assumed initial per capita costs and premium amounts were revised to reflect rates adopted for the 2019 plan year. These two changes in assumptions increased the total OPEB liability.

Significant changes subsequent to measurement date – During fiscal year 2019, the EGOP was transitioned from a pay-as-you-go funding arrangement to a prefunded arrangement where assets would be deposited and accumulated in a qualifying trust and benefits would be paid directly from the trust assets. In the first year of this arrangement, participating employers made estimated total contributions to the trust of $297.2 million. The trust had an estimated net position of $213.3 million at June 30, 2019. These plan assets will significantly reduce the net OPEB liability recorded by employers in the fiscal year 2020 financial statements.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate - The following presents Tennessee Housing Development Agency's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62%) or 1-percentage-point higher (4.62%) than the current discount rate (expressed in thousands).

	1% Decrease (2.62%)	Discount Rate (3.62%)	1% Increase (4.62%)
Proportionate share of the collective total OPEB liability	$ 3,575	$ 3,351	$ 3,140

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate - The following presents Tennessee Housing Development Agency's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.75% decreasing to 2.91%) or 1-percentage-point higher (7.75% decreasing to 4.91%) than the current healthcare cost trend rate (expressed in thousands).

	1% Decrease (5.75% decreasing to 2.91%)		Healthcare Cost Trend Rates (6.75% decreasing to 3.91%)		1% Increase (7.75% decreasing to 4.91%)
Proportionate share of the collective total OPEB liability	$	3,027	$	3,351	$ 3,731

<u>OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB</u>

<u>OPEB Expense</u> – For the fiscal year ended June 30, 2019, the Tennessee Housing Development Agency recognized OPEP expense of $219 thousand.

<u>Deferred outflows of resources and deferred inflows of resources</u> - For the fiscal year ended June, 30, 2019, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ 120
Changes of assumptions	148	107
Changes in proportion and differences between benefits paid and proportionate share of benefits paid.	-	280
Payments subsequent to the measurement date	208	
Total	$ 356	$ 507

The amounts shown above for “contributions subsequent to the measurement date” will be recognized as a reduction to the collective total OPEB liability in the following measurement period.

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

For the year ended June 30:

2020	$ (55)
2021	(55)
2022	(55)
2023	(55)
2024	(55)
Thereafter	(84)

In the tables above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

Closed Tennessee OPEB Plan

General information about the OPEB plan

Plan description – Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government) as well as the Tennessee Student Assistance Corporations, the Tennessee Housing Development Agency, the University of Tennessee, and the other institutions that make up the State University, and Community College System also participates in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Title 8, Chapter 27, Parts 201, 301, and 701, *Tennessee Code Annotated.* Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost, however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, 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. Tennessee Housing Development Agency does not provide any subsidies for retirees in the TNP. The primary government paid $8,188 for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

In accordance with Title 8, Chapter 27, Parts 209, *Tennessee Code Annotated*, the state insurance committees established by Title 8, Chapter 27, Parts 201, 301, and 701 determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants. Employers contribute toward employee costs based on their own developed policies.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the Closed TN OPEB Plan liability associated with the Tennessee Housing Development Agency's employees. The primary government's proportion and proportionate share of the total OPEB liability associated with the Tennessee Housing Development Agency retirees participating in the TNP is 100% and $311 thousand, respectively. The Tennessee Housing Development Agency's proportion of the collective total OPEB was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. There has been no change in the Tennessee Housing Development Agency's proportion since the prior measurement date. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018, and a measurement date of June 30, 2018.

Actuarial assumptions – The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July

1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2 percent load for males and a -3 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.62 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA as shown on the Fidelity 20-Year Municipal GO (General Obligation) AA index.

Changes in assumptions – The discount rate was changed from 3.56 percent as of the beginning of the measurement period to 3.62 percent as of June 30, 2018. This change in assumption decreased the total OPEB liability.

Sensitivity of proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary governments proportionate share of the Tennessee Housing Development Agency's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62%) or 1-percentage-point higher (4.62%) than the current discount rate. The Tennessee Housing Development Agency does not report a proportionate share of the OPEB liability for the employees in the TNP.

	1% Decrease (2.62%)	Discount Rate (3.62%)	1% Increase (4.62%)
Primary government's share of the collective total OPEB liability	$ 351	$ 311	$ 277

OPEB expense – For the fiscal year ended June 30, 2019, the primary government recognized OPEB expense of $9 thousand for employees of the Tennessee Housing Development Agency participating in the TNP.

Total OPEB Expense – The total OPEB expense for the year ended June 30, 2019 was $228 thousand, which consisted of OPEB expense of $219 thousand for the EGOP and $9 thousand paid by the primary government for the TNP.

Note 10. On-Behalf Payments

During the year ended June 30, 2019, the State of Tennessee made payments of $8,188 on behalf of THDA for retirees participating in the Closed Tennessee OPEB Plan and payments of $656,901 on behalf of THDA for retirees participating in the Closed State Employee Group OPEB Plan. The Closed Tennessee OPEB 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*.

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. Subsequent Events

On July 1, 2019, the agency used $7,520,000 of Residential Finance Program Bonds, Issue 2019-2, to refund bonds previously issued in the Homeownership Program (this amount consists of $7,520,000 early redemption). The carrying amount of these bonds was $7,520,000. The refunding reduced the agency's debt service by $801,953 over the next 5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $543,000.

Residential Finance Program Bonds, Issue 2019-3, were authorized by the board of directors on July 23, 2019, not to exceed $150,000,000. The sale of the bonds will occur no later than December 31, 2019.

Residential Finance Program Bonds, Issue 2019-4, were authorized by the board of directors on September 24, 2019, not to exceed $200,000,000. The sale of the bonds will occur no later than December 31, 2019.

Residential Finance Program Bonds, Issue 2019-3, were sold on September 30, 2019. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate *(Percent)*
2019-3	7/1/2020 – 1/1/2050	$150,000,000	1.100 to 3.750

Residential Finance Program Bonds, Issue 2020-1, were authorized by the board of directors on November 19, 2019, not to exceed $200,000,000. The sale of the bonds will occur no later than April 30, 2020.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of THDA's Contribution
Closed 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 Liability
2019	0.433148%	$ 6,997	$ 10,024	69.80%	90.26%
2018	0.427994%	7,659	10,268	74.60%	88.88%
2017	0.419.91%	7,652	10,240	74.73%	87.96%
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 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 THDA's Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement 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 Liability
2019	0.198493%	$ 77	$ 4,410	-1.74%	132.39%
2018	0.170803%	35	3,068	1.15%	131.51%
2017	0.391715%	33	1,661	1.99%	130.56%
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 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 THDA's Contribution
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
2019	$ 1,931	$ 1,931	$ -	$ 10,040	19.23%
2018	1,891	1,891	-	10,024	18.87%
2017	1,542	1,542	-	10,268	15.02%
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%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of THDA's Contributions
State and Higher Education Employee Retirement Plan With 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
2019	$ 98	$ 98	$ -	$ 5,893	1.66%
2018	57	57	-	4,410	1.29%
2017	35	35	-	3,068	1.14%
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 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 THDA's Proportionate Share of the Collective Total OPEB Liability
Closed State Employee Group OPEB Plan

(Expressed in Thousands)

	2018	2019
Employer proportion of the collective total OPEB liability	0.266480%	0.241928%
Employer proportionate share of the collective total OPEB liability	$ 3,578	$ 3,351
Covered-employee payroll	$ 9,720	$ 8,999
Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	36.81%	37.24%

Notes to the Schedule

As of the measurement date, there were no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of THDA's Proportionate Share of Collective Total OPEB Liability
Closed Tennessee OPEB Plan

(Expressed in Thousands)

	2018	2019
Employer proportion of the collective total OPEB liability	0.00%	0.00%
Employer proportionate share of the collective total OPEB liability	$ -	$ -
Primary government proportionate share of the collective total OPEB liability	$ 339	$ 311
Collective total OPEB liability	$ 339	$ 311
Covered-employee payroll	$ 10,005	$ 9,529
Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	0.00%	0.00%

Notes to the Schedule

There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2019
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	$ 23,217	$ 16,289	$ 19,818	$ 19,692	$ 295,890	$ 374,906
Investments	-	-	-	4,329	39,749	44,078
Receivables:						
Accounts	6,925	78	491	81	1,231	8,806
Interest	-	1	1,230	1,878	11,584	14,693
First mortgage loans	242	2,264	11,757	6,149	48,685	69,097
Due from federal government	39,207	-	-	-	-	39,207
Due from other funds	-	-	-	-	30,161	30,161
Total current assets	69,591	18,632	33,296	32,129	427,300	580,948
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	45,450	-	13,148	1,452	8,040	68,090
Investments	-	-	47,832	11,789	65,279	124,900
Investment Interest receivable	-	-	490	32	242	764
Investments	-	1,788	299	20	31,310	33,417
First mortgage loans receivable	439	47,753	189,468	206,065	2,015,378	2,459,103
Second mortgage loans receivable	-	-	52,199	-	-	52,199
Allowance for uncollectable second mortgages	-	-	(19,349)	-	-	(19,349)
Other receivables	20,910	-	-	-	-	20,910
Advance to local government	3,143	-	-	-	-	3,143
Net pension asset	77	-	-	-	-	77
Capital assets:						
Furniture and equipment	6,916	-	-	-	-	6,916
Less accumulated depreciation	(3,026)	-	-	-	-	(3,026)
Total noncurrent assets	73,909	49,541	284,087	219,358	2,120,249	2,747,144
Total assets	143,500	68,173	317,383	251,487	2,547,549	3,328,092
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	323	323
Deferred outflows related to pensions	3,635	-	-	-	-	3,635
Deferred outflows related to OPEB	356	-	-	-	-	356
Total deferred outflows of resources	3,991	-	-	-	323	4,314
LIABILITIES						
Current liabilities:						
Accounts payable	33,218	12	11	10	258	33,509
Accrued payroll and related liabilities	753	-	-	-	-	753
Compensated absences	741	-	-	-	-	741
Total OPEB liability	208	-	-	-	-	208
Due to primary government	98	-	-	-	-	98
Interest payable	-	-	2,928	3,602	32,948	39,478
Escrow deposits	23,223	-	-	-	-	23,223
Prepayments on mortgage loans	-	-	84	87	1,006	1,177
Due to federal government	20,672	-	-	-	-	20,672
Due to other funds	29,030	-	1,131	-	-	30,161
Bonds payable	-	-	14,720	16,620	69,725	101,065
Total current liabilities	107,943	12	18,874	20,319	103,937	251,085
Noncurrent liabilities:						
Bonds payable	-	-	141,989	200,979	2,184,284	2,527,252
Compensated absences	759	-	-	-	-	759
Net pension liability	6,997	-	-	-	-	6,997
Total OPEB liability	3,143	-	-	-	-	3,143
Escrow deposits	4,654	223	-	-	11,088	15,965
Arbitrage rebate payable	-	-	379	-	-	379
Total noncurrent liabilities	15,553	223	142,368	200,979	2,195,372	2,554,495
Total liabilities	123,496	235	161,242	221,298	2,299,309	2,805,580
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	239	-	-	-	-	239
Deferred inflows related to OPEB	507	-	-	-	-	507
Total deferred inflows of resources	746	-	-	-	-	746
NET POSITION						
Investment in capital assets	3,890	-	-	-	-	3,890
Restricted for single family bond programs	-	-	156,141	30,189	248,563	434,893
Restricted for grant programs	-	15,581	-	-	-	15,581
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for net pension asset	77	-	-	-	-	77
Unrestricted	16,129	52,357	-	-	-	68,486
Total net position	$ 23,249	$ 67,938	$ 156,141	$ 30,189	$ 248,563	$ 526,080

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	$ -	$ 15	$ 10,559	$ 11,362	$ 85,013	$ 106,949
Investment income:						
Interest	490	246	2,176	741	4,505	8,158
Net increase in the fair value of investments	-	103	903	720	4,486	6,212
Federal grant administration fees	15,262	-	-	-	-	15,262
Fees and other income	4,943	3	-	-	168	5,114
Total operating revenues	20,695	367	13,638	12,823	94,172	141,695
OPERATING EXPENSES						
Salaries and benefits	22,517	-	-	-	-	22,517
Contractual services	7,641	-	-	-	1	7,642
Materials and supplies	1,277	-	-	-	-	1,277
Rentals and insurance	15	-	-	-	-	15
Other administrative expenses	885	-	-	-	-	885
Other program expenses	2,673	388	6,017	218	1,653	10,949
Interest expense	-	-	6,179	7,284	56,057	69,520
Mortgage service fees	-	117	105	78	423	723
Issuance costs	-	-	-	-	5,583	5,583
Depreciation	794	-	-	-	-	794
Total operating expenses	35,802	505	12,301	7,580	63,717	119,905
Operating income (loss)	(15,107)	(138)	1,337	5,243	30,455	21,790
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	342,404	-	-	-	-	342,404
Payment from primary government	665	-	-	-	-	665
Federal grants expenses	(341,638)	-	-	-	-	(341,638)
Local grants expenses	(7,031)	-	-	-	-	(7,031)
Total nonoperating revenues (expenses)	(5,600)	-	-	-	-	(5,600)
Income (loss) before transfers	(20,707)	(138)	1,337	5,243	30,455	16,190
Transfers (to) other funds	-	-	(25,148)	(23,586)	-	(48,734)
Transfers from other funds	23,928	1,462	-	-	23,344	48,734
Change in net position	3,221	1,324	(23,811)	(18,343)	53,799	16,190
Total net position, July 1	20,028	66,614	179,952	48,532	194,764	509,890
Total net position, June 30	$ 23,249	$ 67,938	$ 156,141	$ 30,189	$ 248,563	$ 526,080

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	$ 25,454	$ 4,590	$ 51,318	$ 48,042	$ 243,621	$ 373,025
Receipts from federal government	15,025	-	27	-	-	15,052
Receipts from other funds	28,638	-	-	-	-	28,638
Other miscellaneous receipts	4,943	3	-	-	168	5,114
Acquisition of mortgage loans	-	(3,332)	(18,001)	-	(646,577)	(667,910)
Payments of service release premiums	(21,498)	-	-	-	-	(21,498)
Payments to service mortgages	-	(117)	(105)	(78)	(423)	(723)
Payments to suppliers	-	(389)	(708)	(238)	(1,465)	(2,800)
Payments to other funds	-	-	(1,644)	-	(26,994)	(28,638)
Payments to or for employees	(23,163)	-	-	-	-	(23,163)
Net cash provided (used) by operating activities	29,399	755	30,887	47,726	(431,670)	(322,903)
Cash flows from non-capital financing activities:						
Operating grants received	330,231	-	-	-	-	330,231
Transfers in (out)	23,928	1,462	(6,773)	(6,993)	(11,624)	-
Proceeds from sale of bonds	-	-	-	-	770,641	770,641
Operating grants paid	(349,434)	-	-	-	-	(349,434)
Cost of issuance paid	-	-	-	-	(5,583)	(5,583)
Principal payments	-	-	(66,010)	(44,915)	(152,275)	(263,200)
Interest paid	-	-	(8,201)	(8,747)	(52,991)	(69,939)
Net cash provided (used) by non-capital financing activities	4,725	1,462	(80,984)	(60,655)	548,168	412,716
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,809)	-	-	-	-	(1,809)
Net cash used by capital and related financing activities	(1,809)	-	-	-	-	(1,809)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	735	24,025	29,539	83,978	138,277
Purchases of investments	-	-	(5,770)	(16,520)	(53,525)	(75,815)
Investment interest received	490	246	2,233	777	4,398	8,144
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	60	176	129	1,277	1,642
Net cash provided by investing activities	490	1,041	20,664	13,925	36,128	72,248
Net increase (decrease) in cash and cash equivalents	32,805	3,258	(29,433)	996	152,626	160,252
Cash and cash equivalents, July 1	35,862	13,031	62,399	20,148	151,304	282,744
Cash and cash equivalents, June 30	$ 68,667	$ 16,289	$ 32,966	$ 21,144	$ 303,930	$ 442,996

(continued)

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2019
(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)	$ (15,107)	$ (138)	$ 1,337	$ 5,243	$ 30,455	$ 21,790
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	794	-	-	-	-	794
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(6,925)	216	41	(81)	(1,218)	(7,967)
(Increase) decrease in mortgage interest receivable	-	17	426	90	(4,034)	(3,501)
(Increase) in other receivables	(19,804)	-	-	-	-	(19,804)
(Increase) in pension asset	(42)	-	-	-	-	(42)
Decrease in deferred pension outflows	296	-	-	-	-	296
(Increase) in deferred OPEB outflows	(119)	-	-	-	-	(119)
(Increase) decrease in mortgage loans receivable	-	979	27,671	36,712	(484,173)	(418,811)
(Increase) in due from federal government	(237)	-	-	-	-	(237)
Decrease in interfund receivables	28,638	-	-	-	-	28,638
(Decrease) in interfund payables	-	-	(1,644)	-	(26,994)	(28,638)
Increase (decrease) in accounts payable	42,689	30	(58)	(61)	1,645	44,245
Increase in accrued payroll / compensated absences	207	-	-	-	-	207
Increase in due to primary government	7	-	-	-	-	7
Increase in arbitrage rebate liability	-	-	14	-	-	14
(Decrease) in pension liability	(662)	-	-	-	-	(662)
(Decrease) in OPEB liability	(227)	-	-	-	-	(227)
Increase in deferred pension inflows	11	-	-	-	-	11
Increase in deferred OPEB inflows	370	-	-	-	-	370
Investment income included as operating revenue	(490)	(349)	(3,079)	(1,461)	(8,991)	(14,370)
Interest expense included as operating expense	-	-	6,179	7,284	56,057	69,520
Issuance cost included as operating expense	-	-	-	-	5,583	5,583
Total adjustments	44,506	893	29,550	42,483	(462,125)	(344,693)
Net cash provided (used) by operating activities	$ 29,399	$ 755	$ 30,887	$ 47,726	$ (431,670)	$ (322,903)
Noncash investing, capital, and financing activities:						
Increase in fair value of investments	$ -	$ -	$ 17	$ 138	$ 379	$ 534
Total noncash investing, capital, and financing activities	$ -	$ -	$ 17	$ 138	$ 379	$ 534

Tennessee Housing Development Agency

FINANCIAL STATEMENTS

June 30, 2018

TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

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, 2018, 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, 2018, 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, the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed State Employee Group OPEB Plan, and the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed Tennessee OPEB 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 11, 2018, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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
Division of State Audit
December 11, 2018

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2018

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, 2018, with comparative information presented for the fiscal year ended June 30, 2017. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of 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 2018, THDA has originated over 120,400 single-family mortgage loans in its 45-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 70 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 385 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.

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*, Section 13-23-105). This board meets regularly on a bimonthly basis; however, some committees may meet more often as situations dictate.

Overview of the Financial Statements

The basic financial statements include statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows, as well as notes to the financial statements. The statement of net position provides financial information on the overall financial position of THDA at each year end. The statement of revenues, expenses, and changes in net position summarizes the results of operations over the course of each fiscal year. The statement of cash flows provides 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 https://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html.

During fiscal year 2018, THDA implemented accounting standard GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement establishes new accounting and financial reporting procedures for postemployment benefits other than pensions. Implementation of this Statement resulted in a revision of THDA's Net Position as of July 1, 2017, which has been reported as a Prior Period Adjustment.

Financial Highlights

Year Ended June 30, 2018

- Total assets increased by $164.7 million, or 6.4%.
- Total liabilities increased by $164.8 million, or 8.0%.
- Net position was $509.9 million. This is an increase of $1.7 million, or 0.34%, from fiscal year 2017 net position (as adjusted).
- Cash and cash equivalents decreased by $86.2 million, or 23.4%.
- Total investments increased by $54.1 million, or 26.2%.
- Bonds payable increased by $148.3 million, or 7.5%.
- THDA originated $463.4 million in new loans, which is an increase of $137.6 million, or 42.2%, 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):

	2018	2017
Current assets	$ 406,809	$ 427,265
Capital assets	2,876	1,809
Other noncurrent assets	2,330,505	2,146,413
Total assets	2,740,190	2,575,487
Deferred outflows of resources	4,609	4,726
Current liabilities	170,949	185,772
Noncurrent liabilities	2,063,595	1,883,961
Total liabilities	2,234,544	2,069,733
Deferred inflows of resources	365	514
Invested in capital assets	2,876	1,809
Restricted net position	438,516	430,633
Unrestricted net position	68,498	77,524
Total net position	$ 509,890	$ 509,966

2018 to 2017

First and second mortgage loans receivable (net of allowance for forgivable second mortgages) increased by $188.5 million. During fiscal year 2018, single-family mortgage loan originations increased by $137.6 million, whereas mortgage loan payoffs increased by $20.6 million and mortgage loan repayments increased $3.6 million. In addition, THDA recognized an allowance for future uncollectable forgivable second mortgages of $14.0 million for fiscal year 2018.

Total liabilities increased $164.8 million. The increase is primarily due to a $148.3 million increase of bonds payable at June 30, 2018, as compared to June 30, 2017.

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

	2018	2017
Operating revenues		
Mortgage interest income	$ 90,105	$ 87,963
Investment income	2,738	1,743
Other	20,482	18,546
Total operating revenues	113,325	108,252
Operating expenses		
Interest expense	58,239	56,892
Other	45,368	41,980
Total operating expenses	103,607	98,872
Operating income	9,718	9,380
Nonoperating revenues (expenses)		
Grant revenues	317,326	277,877
Grant expenses	(325,340)	(288,223)
Total nonoperating revenues (expenses)	(8,014)	(10,346)
Change in net position	$ 1,704	$ (966)

2018 to 2017

Total operating revenues increased $5.1 million, primarily due to an increase in mortgage interest income of $2.1 million and federal grant administration fees of $1.5 million. During fiscal year 2018, certain long-term investments with high interest yields matured, which were re-invested into other investments having contemporary investment yields. In addition, fair value of investments decreased by $4.2 million in fiscal year 2018.

Total operating expenses increased $4.7 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, and an increase in salary and benefits expense.

Nonoperating grant revenues increased $39.5 million and nonoperating grant expenses increased $37.1 million. The increases are due to the first full year of implementation of the down payment assistance program during fiscal year 2018.

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

	2018	2017
Bonds payable	$2,128,712	$1,980,456

Year Ended June 30, 2018

Total bonds payable increased $148.3 million, which is deemed an insignificant year-over-year variance primarily attributable to an increase in mortgage loan production. During the fiscal year, THDA issued debt totaling $459.7 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded $34.6 million of outstanding bonds into new bond originations with lower interest rates. In addition to the nominal tax-exempt mortgage revenue bonds issued, THDA also issued one taxable bond issue in fiscal year 2017 primarily for economic refunding opportunities.

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 and Poor's (S&P), a division of 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+.

Debt Limits

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

Grant Programs

During fiscal year 2007 through fiscal year 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 THDA 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:

	2018	2017	2016 and Prior	Total
Funding Sources:				
THDA	$7,500,000	$7,500,000	$67,300,000	$82,300,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	$7,500,000	$7,500,000	$71,650,000	$86,650,000
Approved Uses:				
Rural repair program (USDA)	$ -	$ -	$ 6,300,000	$ 6,300,000
Ramp Programs & Hsg Modification	300,000	300,000	1,350,000	1,950,000
Emergency Repairs	2,700,000	2,700,000	18,500,000	23,900,000
Competitive Grants	3,500,000	3,500,000	37,600,000	44,600,000
Rebuild & Recover	500,000	500,000	3,300,000	4,300,000
Other Grants	500,000	500,000	4,600,000	5,600,000
Totals	$7,500,000	$7,500,000	$71,650,000	$86,650,000

Current Mortgage Products and Environment

THDA offers a variety of mortgage loan products to address the needs of Tennesseans across the State. 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. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

A special interest rate reduction on the 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 first mortgage 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, interest-only mortgages, “buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), 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 S&P. 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 LTV 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, 2018, 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 Outstanding	Percentage[1]
60 – 89 Days Past Due	24,287	513	$ 43,223,463	2.11%
90+ Days Past Due	24,287	1,200	95,172,207	4.94%
In Foreclosure	24,287	187	13,686,607	0.77%

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 benchmark, THDA uses the one-, three- and five-year Constant Maturity Treasury rates as established by the United States Treasury.

[1] Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

The continuation of relatively low interest rates from a historic perspective increases 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.

Direct Loan Servicing

During FY 2017, THDA commenced the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of $91.5 million was transferred to VMLS from an existing THDA mortgage servicer. In FY 2018, THDA began directly servicing the flow-business of new mortgage loans.

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, 2018
(Expressed in Thousands)

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 216,191
Investments (Note 2)	83,879
Receivables:	
Accounts	839
Interest	11,155
First mortgage loans	59,768
Due from federal government	34,977
Total current assets	406,809
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (Note 2)	66,553
Investments (Note 2)	127,812
Investment interest receivable	790
Investments (Note 2)	48,595
First mortgage loans receivable	2,058,402
Second mortgage loans receivable	38,108
Allowance for uncollectable second mortgages	(14,031)
Unearned service release premiums	1,106
Advance to local government	3,135
Net pension asset (Note 5)	35
Capital assets:	
Furniture and equipment	5,108
Less accumulated depreciation	(2,232)
Total noncurrent assets	2,333,381
Total assets	2,740,190
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refundings	441
Deferred outflows related to pensions (Note 5)	3,931
Deferred outflows related to OPEB (Note 9)	237
Total deferred outflows of resources	4,609
LIABILITIES	
Current liabilities:	
Accounts payable	15,875
Accrued payroll and related liabilities	680
Compensated absences	736
Due to primary government	91
Interest payable	32,181
Escrow deposits	2,719
Prepayments on mortgage loans	1,205
Due to federal government	29,517
Bonds payable (Note 3)	87,945
Total current liabilities	170,949
Noncurrent liabilities:	
Bonds payable (Note 3)	2,040,767
Compensated absences	630
Net pension liability (Note 5)	7,659
Net OPEB liability (Note 9)	3,578
Escrow deposits	10,596
Arbitrage rebate payable	365
Total noncurrent liabilities	2,063,595
Total liabilities	2,234,544
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions (Note 5)	228
Deferred inflows related to OPEB (Note 9)	137
Total deferred inflows of resources	365
NET POSITION	
Net investment in capital assets	2,876
Restricted for single family bond programs (Note 4 and Note 7)	423,248
Restricted for grant programs (Note 4)	12,080
Restricted for Homebuyers Revolving Loan Program (Note 4)	3,153
Restricted for net pension asset (Note 5)	35
Unrestricted (Note 7)	68,498
Total net position	$ 509,890

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, 2018
(Expressed in Thousands)

OPERATING REVENUES		
Mortgage interest income	$	90,105
Investment income:		
Interest		7,025
Net (decrease) in the fair value of investments		(4,287)
Federal grant administration fees		15,279
Fees and other income		5,203
Total operating revenues		113,325
OPERATING EXPENSES		
Salaries and benefits		20,177
Contractual services		6,214
Materials and supplies		1,436
Rentals and insurance		12
Other administrative expenses		836
Other program expenses		5,572
Interest expense		58,239
Mortgage service fees		6,833
Issuance costs		3,812
Depreciation		476
Total operating expenses		103,607
Operating income		9,718
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue		317,323
Other grants revenue		3
Federal grants expenses		(317,388)
Local grants expenses		(7,952)
Total nonoperating revenues (expenses)		(8,014)
Change in net position		1,704
Total net position, July 1		509,966
Cumulative effect of a change in accounting principle (Note 12)		(1,780)
Total net position, July 1, as restated		508,186
Total net position, June 30	$	509,890

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, 2018
(Expressed in Thousands)

Cash flows from operating activities:		
Receipts from customers	$	373,400
Receipts from federal government		15,030
Receipts from other funds		2,740
Other miscellaneous receipts		5,203
Acquisition of mortgage loans		(463,417)
Payments to service mortgages		(7,939)
Payments to suppliers		(16,471)
Payments to federal government		(1,490)
Payments to other funds		(2,740)
Payments to or for employees		(20,844)
Net cash used by operating activities		(116,528)
Cash flows from non-capital financing activities:		
Operating grants received		314,000
Proceeds from sale of bonds		469,989
Operating grants paid		(319,857)
Call premium paid		(14)
Cost of issuance paid		(3,812)
Principal payments		(314,725)
Interest paid		(62,486)
Net cash provided by non-capital financing activities		83,095
Cash flows from capital and related financing activities:		
Purchases of capital assets		(1,542)
Net cash used by capital and related financing activities		(1,542)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		203,470
Purchases of investments		(262,517)
Investment interest received		7,151
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents		693
Net cash used by investing activities		(51,203)
Net decrease in cash and cash equivalents		(86,178)
Cash and cash equivalents, July 1		368,922
Cash and cash equivalents, June 30	$	282,744

(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, 2018
(Expressed in Thousands)

Reconciliation of operating income to	
net cash used by operating activities:	
Operating income	$ 9,718
Adjustments to reconcile operating income to	
net cash used by operating activities:	
Depreciation	476
Changes in assets and liabilities:	
Decrease in accounts receivable	154
Decrease in mortgage interest receivable	341
(Increase) in pension asset	(2)
(Increase) in deferred pension outflows	(67)
Decrease in deferred OPEB outflows	4
(Increase) in mortgage loans receivable	(188,470)
(Increase) in due from federal government	(249)
Increase in accounts payable	4,883
(Decrease) in unearned service release premiums	(1,106)
Increase in accrued payroll / compensated absences	100
(Decrease) in due to primary government	(632)
(Decrease) in arbitrage rebate liability	(745)
Increase in pension liability	7
(Decrease) in OPEB liability	(104)
(Decrease) in deferred pension inflows	(286)
Increase in deferred OPEB inflows	137
Investment income included as operating revenue	(2,738)
Interest expense included as operating expense	58,239
Issuance cost included as operating expense	3,812
Total adjustments	(126,246)
Net cash used by operating activities	$ (116,528)
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	$ (4,821)
Total noncash investing, capital, and financing activities	$ (4,821)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) 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 Title 24, *Code of Federal Regulations*, 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.

THDA 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*.

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.

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 cash flows. 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.

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

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Funds on deposit for, or on behalf of, borrower's related to Loan Servicing, Hardest Hit Fund cash, and Net Pension Assets (see note 4).

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.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

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

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.

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.

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.

Accrual of Interest Income

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

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA’s Originating Agents.

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.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance 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 15th 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. During fiscal year 2018, the agency determined that an amount of second mortgage down payment assistance loans are not expected to be recovered due to forgiveness or foreclosure. This amount was recorded as an allowance.

Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home. Because of the likelihood that the majority of second mortgage loans will be repaid in the course of the 30-year term, the allowance account established for the second mortgage loans beginning October 2014 will not be used for any second mortgages made after March 2017.

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

Deposits

<u>Custodial Credit Risk</u> – 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, 2018, the bank balance was $ 32,468,510. This amount includes $2,840,941; which is held in a T&I Escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2018, 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, 2018, $28,695,048 was in the BNYM. Of this amount, $28,445,048 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.state.tn.us.

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, 2018	
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$167,711,320	2.878
U.S. Treasury Coupon	12,969,783	2.704
U.S. Agency Discount	187,487,134	0.133
Total	$368,168,237	1.474

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, 2018, (expressed in thousands):

	June 30, 2018			
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	$167,711	$ -	$167,711	$ -
U.S. Treasury Coupon	12,970	12,970	-	-
U.S. Agency Discount	187,487	-	187,487	-
Total debt securities	$368,168	$12,970	355,198	$ -

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 the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2018, 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, 2018				
Investment Type	**Fair Value**	**U.S. Treasury**[1]	**AAA**	**AA+**	**Not Rated**[2]
U.S. Agency Coupon	$167,711,320	$ -	$14,412,390	$151,034,949	$ 2,263,981
U.S. Treasury Coupon	12,969,783	12,969,783	-	-	-
U.S. Agency Discount	187,487,134	-	30,000,000	-	157,487,134
Total	$368,168,237	$12,969,783	$44,412,390	$151,034,949	$159,751,115

In addition to these investments, the agency has $136,991,170 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poor's rating of AAA.

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, 2018	
Issuer	**Fair Value *(Thousands)***	**% of Portfolio**
Federal Home Loan Bank	$217,505	59.08
Federal Home Loan Mortgage Corp.	$81,487	22.13
Federal National Mortgage Assoc.	$53,951	14.65

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2018 *(Thousands)*
2007-4	1/1/2009 – 7/1/2038	$ 150,000	3.75 to 5.50	$ -
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	-
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	13,255
2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	17,480
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	33,435
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	52,185

[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.

2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	59,395
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	45,710
Total Homeownership Program Bonds		$827,690		$ 221,460
Plus: Unamortized Bond Premiums				1,928
Net Homeownership Program Bonds				$223,388

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2018 *(Thousands)*
2009-A	1/1/2011 – 1/1/2040	$100,000	0.90 to 4.625	$ 8,445
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	11,965
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	40,580
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	12,275
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	46,020
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	42,015
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	99,090
Total Housing Finance Program Bonds		$810,000		$260,390
Plus: Unamortized Bond Premiums				2,756
Net Housing Finance Program Bonds				$263,146

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2018 *(Thousands)*
2013-1	1/1/2014 – 7/1/2043	$ 215,905	0.40 to 4.00	$ 98,530
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	67,335
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	89,825
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	106,210
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	117,920
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	142,270
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	109,900
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	113,680
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	44,045
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	94,125
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	164,465
2017-3	7/1/2018 – 1/1/2048	99,900	0.80 to 3.65	99,070
2017-4	7/1/2018 – 7/1/2048	99,900	0.95 to 4.00	99,900
2018-1	1/1/2019 – 1/1/2043	99,900	1.40 to 4.00	99,900
2018-2	1/1/2019 – 1/1/2049	160,000	1.75 to 4.00	160,000
Total Residential Finance Program Bonds		$2,008,905		$1,607,175
Plus: Unamortized Bond Premiums				35,037
Subtract: Unamortized Bond Discount				(34)
Net Residential Finance Program Bonds				$1,642,178

Net Total All Bonds	$2,128,712

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, 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.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2018, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2019	$ 45,460	$ 67,559	$ 113,019
2020	78,775	69,483	148,258
2021	85,160	67,472	152,632
2022	81,740	65,162	146,902
2023	78,190	62,888	141,078
2024 – 2028	390,215	277,914	668,129
2029 – 2033	393,280	212,378	605,658
2034 – 2038	410,000	140,523	550,523
2039 – 2043	359,090	66,736	425,826
2044 - 2048	157,285	15,398	172,683
2049	9,830	273	10,103
Total	$2,089,025	$1,045,786	$3,134,811

Redemption of Bonds and Notes

During the year ended June 30, 2018, bonds were retired at par before maturity in the Homeownership Program in the amount of $62,025,000, in the Housing Finance Program in the amount of $55,915,000, and in the Residential Finance Program in the amount of $144,045,000. The respective carrying values of the bonds were $62,672,676, $56,543,851 and $148,217,359. This resulted in revenue to the Homeownership Program of $647,676, to the Housing Finance Program of $628,851, and to the Residential Finance Program of $4,172,359.

On June 27, 2017, the agency issued $175,000,000 in Residential Finance Program Bonds, Issue 2017-2. On July 1, 2017, the agency used $23,110,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $23,110,000 early redemption). The carrying amount of these bonds was $23,217,325. The refunding increased the agency's debt service by $7,948,844 over the next 20.50 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $848,929.

On September 28, 2017, the agency issued $99,900,000 in Residential Finance Program Bonds, Issue 2017-3

On December 19, 2017, the agency issued $99,900,000 in Residential Finance Program Bonds, Issue 2017-4. On January 1, 2018, the agency used $11,460,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $11,460,000 early redemption). The carrying amount of these bonds was $11,460,000. The refunding reduced the agency's debt service by $4,972,339 over the next 16 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,364,905.

On March 29, 2018, the agency issued $99,900,000 in Residential Finance Program Bonds, Issue 2018-1.

On June 12, 2018, the agency issued $160,000,000 in Residential Finance Program Bonds, Issue 2018-2.

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2018 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Amounts Due Within One Year[3]
Bonds Payable	$1,944,050	$459,700	($314,725)	$2,089,025	$87,945,
Plus: Unamortized Bond Premiums	36,406	10,317	(7,002)	39,721	-
Less: Unamortized Bond Discounts	-	(35)	1	(34)	-
Compensated Absences	1,314	69	(17)	1,366	736
Net Pension Liability	7,652	1,549	(1,542)	7,659	-
Total OPEB Liability	1,661	3,976	(2,059)	3,578	-
Escrow Deposits	5,391	78,563	(70,639)	13,315	2,719
Arbitrage Rebate Payable	1,110	-	(745)	365	-
Total	$1,997,584	$554,139	($396,728)	$2,154,995	$91,400

Note 4. 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 5. Pension Plans

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

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

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 publicly available financial report that can be obtained at www.treasury.state.tn.us/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. Members who leave 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. THDA 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 THDA for the year ended June 30, 2018, to the Closed State and Higher Education Employee Pension Plan were $1,891,406, which is 18.87 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, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2018, THDA reported a liability of $7,659,371 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.427994 percent. The proportion measured as of June 30, 2016, was 0.419391 percent.

Pension expense – For the year ended June 30, 2018, THDA recognized a pension expense of $1,584,150. Allocated pension expense was $1,589,179 before being reduced by $5,029 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 607	$224
Net difference between projected and actual earnings on pension plan investments	28	-
Change in proportionate share of net asset or liability	20	-
Changes in assumptions	1,305	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2017	1,891	-
Total	$3,851	$224

Deferred outflows of resources, resulting from THDA's employer contributions of $1,891,406 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2019. 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:	
2019	205,395
2020	1,269,075
2021	688,928
2022	(428,854)
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, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.5 percent decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

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, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%.

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 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 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 to changes in the discount rate – The following presents THDA's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what THDA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension liability	$15,780,009	$7,659,371	$831,851

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, 2018, THDA reported a payable of $78,546 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2018.

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.

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 publicly available financial report that can be obtained at www.treasury.state.tn.us/tcrs.

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. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher

Education Employee Retirement Plan, benefit terms and conditions, including COLAs, 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 their 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, 2018, to the State and Higher Education Employee Retirement Plan were $56,893, which is 1.29 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 Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2018, THDA reported an asset of $35,422 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.170803 percent. The proportion measured as of June 30, 2016, was 0.391715 percent.

Pension expense – For the year ended June 30, 2018, THDA recognized a pension expense of $16,527. Allocated pension expense was $14,375 before being increased by $2,152 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1	$1
Net difference between projected and actual earnings on pension plan investments	-	3
Changes in proportion of share of net asset or liability	19	-

Changes in assumptions	3	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2017	57	-
Total	$80	$4

Deferred outflows of resources, resulting from THDA's employer contributions of $56,593 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2019. 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:	
2019	2,058
2020	2,058
2021	1,989
2022	1,621
2023	2,388
Thereafter	9,677

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, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.75% to 3.45% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.5 percent to 2.25 percent; and decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

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, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for reach major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 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 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 asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what THDA's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	$(4,430)	$(35,422)	$(58,537)

Payable to the Pension Plan

At June 30, 2018, THDA reported a payable of $2,632 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2018 for both defined benefit pension plans was $1,600,678.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (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 THDA 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 THDA recognized a pension expense of $338,108 for employer contributions.

The THDA recognized a pension payable of $15,339 for employer contributions

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, 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 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

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.

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; 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, 2018, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). 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, 2018, the Risk Management Fund held $189 million in cash designated for payment of claims.

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

Closed State Employee Group OPEB Plan

General information about the OPEB plan

Plan description - Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with pre-65 retiree health insurance benefits through the closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan includes the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee and the institutions that make up the State University and Community College System.

Benefits provided - The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65 are enrolled in this plan. All members have the option of choosing between the partnership promise, no partnership promise, standard preferred provider organization (PPO) plan or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits, as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. No subsidy is provided to retirees in the health savings CDHP plan. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates.

Total OPEB Liability

Proportionate share - The Tennessee Housing Development Agency's proportionate share of the collective total OPEB liability, related to the EGOP, was $3.6 million. At the June 30, 2017, measurement date, the Tennessee Housing Development Agency's proportion of the collective total OPEB liability was 0.2664798%, representing the first-time presentation of the proportion. Tennessee Housing Development Agency's proportion of the collective total OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017 and measurement date of June 30, 2017.

Actuarial assumptions - The collective total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%

Healthcare cost trend rates	7.5% for 2018, decreasing annually to an ultimate rate of 3.83% for 2050 and later years.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal General Obligation (GO) AA index.

Changes in assumptions - The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate - The following presents Tennessee Housing Development Agency proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current discount rate (expressed in thousands).

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Proportionate share of the collective total OPEB liability	$ 3,826	$ 3,578	$ 3,345

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate - The following presents Tennessee Housing Development Agency proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (6.50% decreasing to 2.83%) or 1-percentage-point higher (8.50% decreasing to 4.83%) than the current healthcare cost trend rate.

	1% Decrease (6.50% decreasing to 2.83%)	Healthcare Cost Trend Rates (7.50% decreasing to 3.83%)	1% Increase (8.50% decreasing to 4.83%)
Proportionate share of the collective total OPEB liability	$ 3,221	$ 3,578	$ 3,996

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

OPEB expense - For the fiscal year ended June, 30, 2018, the Tennessee Housing Development Agency recognized OPEB expense of $274 thousand.

Deferred outflows of resources and deferred inflows of resources - For the fiscal year ended June, 30, 2018, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources (expressed in thousands):

	Deferred Outflows of resources	Deferred Inflows of resources
Differences between actual and expected experience	$ -	$ -
Changes of assumptions	-	137
Changes in proportion and differences between benefits paid and proportionate share of benefits paid.	-	-
Payments subsequent to the measurement date	237	
Total	$ 237	$ 137

Deferred outflows of resources, resulting from the Tennessee Housing Development Agency's employer payments of $237 thousand subsequent to the measurement date, will be recognized as a decrease in total OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

For the year ended June 30:

	2019	$ (20)
	2020	(20)
	2021	(20)
	2022	(20)
	2023	(20)
	Thereafter	(39)

In the tables above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

Closed Tennessee OPEB Plan

General information about the OPEB plan

Plan description – Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government) as well as the Tennessee Student Assistance Corporations, the Tennessee Housing Development Agency, the University of Tennessee and the other institutions that make up the State University and Community College System also participates in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Title 8, Chapter 27, Parts 201, 301, and 701. *Tennessee Code Annotated.* Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost, however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, 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. Tennessee Housing Development Agency does not provide any subsidies for retirees in the TNP. The primary government paid $7,976 thousand for OPEB as the benefits came due during

the reporting period. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.
In accordance with Title 8, Chapter 27, Parts 209, *Tennessee Code Annotated*, the state insurance committees established by Title 8, Chapter 27, Parts 201, 301, and 701 determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

<u>Proportionate share</u> – The primary government is entirely responsible for the TN OPEB liability associated with the Tennessee Housing Development Agency's employees. The primary government's proportionate share of the total OPEB liability associated with the Tennessee Housing Development Agency was $339 thousand. At the June 30, 2017, measurement date, the proportion of the collective total OPEB liability associated with the Tennessee Housing Development Agency was 0.1909649%, representing the first-time presentation of this proportion. The proportion of the collective total OPEB associated with the Tennessee Development Housing Agency was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017 and a measurement date of June 30, 2017.

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

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2 percent load for males and a -3 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20 Year Municipal GO (General Obligation) AA index.

Changes in assumptions – The discount rate was changed from 2.92 percent as of the beginning of the measurement period to 3.56 percent as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary governments proportionate share of the Tennessee Housing Development Agency's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate. The Tennessee Housing Development Agency does not report a proportionate share of the OPEB liability for the employees in the TNP.

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Primary government's share of the collective total OPEB liability	$ 383	$ 339	$ 300

OPEB expense – For the fiscal year ended June 30, 2018, the primary government recognized OPEB expense of $15 thousand for employees of the Tennessee Housing Development Agency participating in the TNP.

Total OPEB Expense – The total OPEB expense for the year ended June 30, 2018 was $289 thousand, which consisted of OPEB expense of $274 thousand for the EGOP and $15 thousand paid by the Tennessee Housing Development Agency for the TNP.

Note 10. On-Behalf Payments

During the year ended June 30, 2018, the State of Tennessee made payments of $7,976 on behalf of THDA for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee

OPEB 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. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2018, Tennessee Housing Development Agency implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* GASB Statement 75 establishes standards for the measurement, recognition, and display of the OPEB liability and related expenses, deferred inflows, deferred outflows, note disclosure and required supplementary information. The implementation of GASB 75 resulted in a cumulative adjustment to the beginning net position of $(1,780,287). This cumulative adjustment does not include related deferred inflows and deferred outflows of resources.

Note 13. Subsequent Events

On July 1, 2018, the agency used $13,075,000 of Residential Finance Program Bonds, Issue 2018-2, to refund bonds previously issued in the Homeownership Program (this amount consists of $13,075,000 early redemption). The carrying amount of these bonds was $13,075,000. The refunding reduced the agency's debt service by $3,199,665 over the next 11 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $1,636,564.

On July 27, 2018, THDA requested to withdraw approximately $23,376,000 of excess funds from the Homeownership Program Bond Resolution to fund the acquisition of servicing rights from U.S. Bank. On July 30, 2018, THDA wired $15,585,487 to U.S. Bank as a one-time servicing release and transfer fee payment. On August 6, 2018, THDA transferred $7,902,932 to Volunteer Mortgage Loan Servicing (VMLS) to fund the VMLS Escrow Account for escrow advances.

Residential Finance Program Bonds, Issue 2018-3, were sold on September 6, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate *(Percent)*
2018-3	7/1/2019 – 7/1/2049	$149,900,000	1.500 to 4.250

Residential Finance Program Bonds, Issue 2018-4, were authorized by the board of directors on September 25, 2018, not to exceed $225,000,000. The sale of the bonds will occur no later than December 31, 2018.

Residential Finance Program Bonds, Issue 2019-1, were authorized by the board of directors on November 13, 2018, not to exceed $175,000,000. The sale of the bonds will occur no later than June 30, 2019.

Residential Finance Program Bonds, Issue 2018-4, were sold on November 15, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate *(Percent)*
2018-4	7/1/2019 – 7/1/2049	$225,000,000	1.875 to 4.500

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement 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 Liability
2018	0.170803%	$35	$3,068	1.15%	131.51%
2017	0.391715%	$33	$1,661	1.99%	130.56%
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 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 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
2018	0.427994%	$7,659	$10,268	74.60%	88.88%
2017	0.419391%	7,652	10,240	74.73%	87.96%
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 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 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
2018	$57	$57	$-	$4,410	1.29%
2017	35	35		3,068	1.14%
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 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
Closed State and Higher Education Employee Pension Plan With 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
2018	$1,891	$1,891	$-	$ 10,024	18.87%
2017	1,542	1,542	-	10,268	15.02%
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%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of Collective Total OPEB Liability
Closed State Employee Group OPEB Plan

(Expressed in Thousands)

EGOP

		2018
Employer proportion of the collective total OPEB liability		0.2664798%
Employer proportionate share of the collective total OPEB liability	$	3,578
Covered-employee payroll	$	9,720
Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll		36.81%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of Collective Total OPEB Liability
Closed Tennessee OPEB Plan

(Expressed in Thousands)

TNP

	2018
Employer proportion of the collective total OPEB liability	0.00%
Employer proportionate share of the collective total OPEB liability	$ -
Primary government proportionate share of the collective total OPEB liability	$ 339
Collective total OPEB liability	$ 339
Covered-employee payroll	$ 10,005
Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	0.00%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	$ 4,148	$ 13,031	$ 28,457	$ 19,785	$ 150,770	$ 216,191
Investments	-	735	7,145	8,215	67,784	83,879
Receivables:						
Accounts	-	294	532	-	13	839
Interest	-	19	1,656	1,967	7,513	11,155
First mortgage loans	155	2,185	12,897	6,964	37,567	59,768
Due from federal government	34,977	-	-	-	-	34,977
Due from other funds	-	-	-	-	3,167	3,167
Total current assets	39,280	16,264	50,687	36,931	266,814	409,976
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	31,714	-	33,942	363	534	66,553
Investments	-	-	58,514	20,351	48,947	127,812
Investment Interest receivable	-	-	548	69	173	790
Investments	-	1,744	-	-	46,851	48,595
First mortgage loans receivable	534	48,811	243,154	258,555	1,507,348	2,058,402
Second mortgage loans receivable	-	-	38,108	-	-	38,108
Allowance for uncollectable second mortgages	-	-	(14,031)	-	-	(14,031)
Unearned service release premiums	1,106					1,106
Advance to local government	3,135	-	-	-	-	3,135
Net pension asset	35	-	-	-	-	35
Capital assets:						
Furniture and equipment	5,108	-	-	-	-	5,108
Less accumulated depreciation	(2,232)	-	-	-	-	(2,232)
Total noncurrent assets	39,400	50,555	360,235	279,338	1,603,853	2,333,381
Total assets	78,680	66,819	410,922	316,269	1,870,667	2,743,357
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	441	441
Deferred outflows related to pensions	3,931	-	-	-	-	3,931
Deferred outflows related to OPEB	237	-	-	-	-	237
Total deferred outflows of resources	4,168	-	-	-	441	4,609
LIABILITIES						
Current liabilities:						
Accounts payable	15,757	13	6	30	69	15,875
Accrued payroll and related liabilities	680	-	-	-	-	680
Compensated absences	736	-	-	-	-	736
Due to primary government	91	-	-	-	-	91
Interest payable	-	-	4,289	4,433	23,459	32,181
Escrow deposits	2,719	-	-	-	-	2,719
Prepayments on mortgage loans	-	-	147	128	930	1,205
Due to federal government	29,517	-	-	-	-	29,517
Due to other funds	392	-	2,775	-	-	3,167
Bonds payable	-	-	28,545	11,450	47,950	87,945
Total current liabilities	49,892	13	35,762	16,041	72,408	174,116
Noncurrent liabilities:						
Bonds payable	-	-	194,843	251,696	1,594,228	2,040,767
Compensated absences	630	-	-	-	-	630
Net pension liability	7,659	-	-	-	-	7,659
Net OPEB liability	3,578	-	-	-	-	3,578
Escrow deposits	696	192	-	-	9,708	10,596
Arbitrage rebate payable	-	-	365	-	-	365
Total noncurrent liabilities	12,563	192	195,208	251,696	1,603,936	2,063,595
Total liabilities	62,455	205	230,970	267,737	1,676,344	2,237,711
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	228	-	-	-	-	228
Deferred inflows related to OPEB	137	-	-	-	-	137
Total deferred inflows of resources	365	-	-	-	-	365
NET POSITION						
Net investment in capital assets	2,876	-	-	-	-	2,876
Restricted for single family bond programs	-	-	179,952	48,532	194,764	423,248
Restricted for grant programs	-	12,080	-	-	-	12,080
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for net pension asset	35	-	-	-	-	35
Unrestricted	13,964	54,534	-	-	-	68,498
Total net position	$ 20,028	$ 66,614	$ 179,952	$ 48,532	$ 194,764	$ 509,890

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	$ 10	$ -	$ 14,521	$ 13,277	$ 62,297	$ 90,105
Investment income:						
Interest	220	157	2,711	785	3,152	7,025
Net increase (decrease) in the fair value of investments	-	6	(2,096)	(461)	(1,736)	(4,287)
Federal grant administration fees	15,279	-	-	-	-	15,279
Fees and other income	4,478	1	-	-	724	5,203
Total operating revenues	19,987	164	15,136	13,601	64,437	113,325
OPERATING EXPENSES						
Salaries and benefits	20,177	-	-	-	-	20,177
Contractual services	6,079	-	-	-	135	6,214
Materials and supplies	1,436	-	-	-	-	1,436
Rentals and insurance	12	-	-	-	-	12
Other administrative expenses	836	-	-	-	-	836
Other program expenses	598	7	3,594	254	1,119	5,572
Interest expense	-	19	9,127	8,951	40,142	58,239
Mortgage service fees	-	137	948	1,000	4,748	6,833
Issuance costs	-	-	-	-	3,812	3,812
Depreciation	476	-	-	-	-	476
Total operating expenses	29,614	163	13,669	10,205	49,956	103,607
Operating income (loss)	(9,627)	1	1,467	3,396	14,481	9,718
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	317,323	-	-	-	-	317,323
Other grant revenue	-	3	-	-	-	3
Federal grants expenses	(317,388)	-	-	-	-	(317,388)
Local grants expenses	(7,952)	-	-	-	-	(7,952)
Total nonoperating revenues (expenses)	(8,017)	3	-	-	-	(8,014)
Income (loss) before transfers	(17,644)	4	1,467	3,396	14,481	1,704
Transfers (to) other funds	-	(6,531)	(10,576)	(7,910)	-	(25,017)
Transfers from other funds	20,764	-	-	-	4,253	25,017
Change in net position	3,120	(6,527)	(9,109)	(4,514)	18,734	1,704
Total net position, July 1	18,688	73,141	189,061	53,046	176,030	509,966
Cumulative effect of a change in accounting principle	(1,780)	-	-	-	-	(1,780)
Total net position, July 1, as restated	16,908	73,141	189,061	53,046	176,030	508,186
Total net position, June 30	$ 20,028	$ 66,614	$ 179,952	$ 48,532	$ 194,764	$ 509,890

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	$ 1,270	$ 3,912	$ 90,115	$ 68,270	$ 209,833	$ 373,400
Receipts from federal government	15,030	-	-	-	-	15,030
Receipts from other funds	2,255	-	485	-	-	2,740
Other miscellaneous receipts	4,478	1	-	-	724	5,203
Acquisition of mortgage loans	-	(4,859)	(10,254)	-	(448,304)	(463,417)
Payments to service mortgages	(1,106)	(137)	(948)	(1,000)	(4,748)	(7,939)
Payments to suppliers	(10,169)	-	(4,064)	(1,003)	(1,235)	(16,471)
Payments to federal government	-	-	(1,490)	-	-	(1,490)
Payments to other funds	-	-	-	-	(2,740)	(2,740)
Payments to or for employees	(20,844)	-	-	-	-	(20,844)
Net cash provided (used) by operating activities	(9,086)	(1,083)	73,844	66,267	(246,470)	(116,528)
Cash flows from non-capital financing activities:						
Operating grants received	313,997	3	-	-	-	314,000
Transfers in (out)	20,764	(6,531)	10,761	(7,910)	(17,084)	-
Proceeds from sale of bonds	-	-	-	-	469,989	469,989
Operating grants paid	(319,857)	-	-	-	-	(319,857)
Call premium paid	-	-	(14)	-	-	(14)
Cost of issuance paid	-	-	-	-	(3,812)	(3,812)
Principal payments	-	-	(101,875)	(57,825)	(155,025)	(314,725)
Interest paid	-	(19)	(11,955)	(10,696)	(39,816)	(62,486)
Net cash provided (used) by non-capital financing activities	14,904	(6,547)	(103,083)	(76,431)	254,252	83,095
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,542)	-	-	-	-	(1,542)
Net cash used by capital and related financing activities	(1,542)	-	-	-	-	(1,542)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	15,587	49,231	21,430	117,222	203,470
Purchases of investments	-	(15,709)	(50,725)	(32,262)	(163,821)	(262,517)
Investment interest received	220	157	2,933	765	3,076	7,151
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	34	143	79	437	693
Net cash provided (used) by investing activities	220	69	1,582	(9,988)	(43,086)	(51,203)
Net increase (decrease) in cash and cash equivalents	4,496	(7,561)	(27,657)	(20,152)	(35,304)	(86,178)
Cash and cash equivalents, July 1	31,366	20,592	90,056	40,300	186,608	368,922
Cash and cash equivalents, June 30	$ 35,862	$ 13,031	$ 62,399	$ 20,148	$ 151,304	$ 282,744

(continued)

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2018
(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)	$ (9,627)	$ 1	$ 1,467	$ 3,396	$ 14,481	$ 9,718
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	476	-	-	-	-	476
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	(83)	(532)	-	769	154
(Increase) decrease in mortgage interest receivable	-	-	905	591	(1,155)	341
(Increase) in pension asset	(2)	-	-	-	-	(2)
(Increase) in deferred pension outflows	(67)	-	-	-	-	(67)
Decrease in deferred OPEB outflows	4	-	-	-	-	4
(Increase) decrease in mortgage loans receivable	-	(940)	65,055	54,449	(307,034)	(188,470)
(Increase) in due from federal government	(249)	-	-	-	-	(249)
Decrease in interfund receivables	2,255	-	485	-	-	2,740
(Decrease) in interfund payables	-	-	-	-	(2,740)	(2,740)
Increase (decrease) in accounts payable	228	83	(1,303)	(796)	6,671	4,883
(Decrease) in unearned service release premiums	(1,106)					(1,106)
Increase in accrued payroll / compensated absences	100	-	-	-	-	100
(Decrease) in due to primary government	(632)	-	-	-	-	(632)
(Decrease) in arbitrage rebate liability	-	-	(745)	-	-	(745)
Increase in pension liability	7	-	-	-	-	7
(Decrease) in OPEB liability	(104)					(104)
(Decrease) in deferred pension inflows	(286)	-	-	-	-	(286)
Increase in deferred OPEB inflows	137	-	-	-	-	137
Investment income included as operating revenue	(220)	(163)	(615)	(324)	(1,416)	(2,738)
Interest expense included as operating expense	-	19	9,127	8,951	40,142	58,239
Issuance cost included as operating expense	-	-	-	-	3,812	3,812
Total adjustments	541	(1,084)	72,377	62,871	(260,951)	(126,246)
Net cash provided (used) by operating activities	$ (9,086)	$ (1,083)	$ 73,844	$ 66,267	$ (246,470)	$ (116,528)
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	$ -	$ (43)	$ (1,633)	$ (560)	$ (2,585)	$ (4,821)
Total noncash investing, capital, and financing activities	$ -	$ (43)	$ (1,633)	$ (560)	$ (2,585)	$ (4,821)

Tennessee Housing
Development Agency

FINANCIAL STATEMENTS

June 30, 2017

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 year ended June 30, 2017, 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, 2017, 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 11, 2017, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 11, 2017

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2017

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, 2017, with comparative information presented for the fiscal year ended June 30, 2016. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of 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 2017, THDA has originated over 116,000 single-family mortgage loans in its 44-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.

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,* Section 13-23-105). This board meets regularly on a bimonthly 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, 2017

- Total assets increased by $99.1 million, or 4.0%.
- Total liabilities increased by $102.4 million, or 5.2%.
- Net position was $510.0 million. This is a decrease of $1.0 million, or 0.2%, from fiscal year 2016.
- Cash and cash equivalents increased by $137.3 million, or 59.2%.
- Total investments decreased by $68.5 million, or 24.9%.
- Bonds payable increased by $74.0 million, or 3.9%.
- THDA originated $325.9 million in new loans, which is an increase of $32.4 million, or 11.0%, 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):

	2017	2016
Current assets	$ 427,265	$ 393,675
Capital assets	1,809	1,175
Other noncurrent assets	2,146,413	2,081,560
Total assets	2,575,487	2,476,410
Deferred outflows of resources	4,726	3,142
Current liabilities	185,772	149,798
Noncurrent liabilities	1,883,961	1,817,534
Total liabilities	2,069,733	1,967,332
Deferred inflows of resources	514	1,288
Invested in capital assets	1,809	1,175
Restricted net position	430,633	430,114
Unrestricted net position	77,524	79,643
Total net position	$ 509,966	$ 510,932

2017 to 2016

THDA's total net position decreased by $1.0 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 increased by $31.7 million. During fiscal year 2017, single-family mortgage loan originations increased by $32.4 million, whereas mortgage loan payoffs decreased by $23.1 million and mortgage loan repayments decreased $2.4 million. In addition, THDA recognized an allowance for future forgiveness of forgivable second mortgages of $10.0 million for fiscal year 2017.

Total liabilities increased $102.4 million. The increase is primarily due to a $74.0 million increase of bonds payable at June 30, 2017, as compared to June 30, 2016.

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

	2017	2016
Operating revenues		
Mortgage interest income	$ 87,963	$ 90,235
Investment income	1,743	5,872
Other	18,546	17,052
Total operating revenues	108,252	113,159
Operating expenses		
Interest expense	56,892	62,045
Other	41,980	41,916
Total operating expenses	98,872	103,961
Operating income	9,380	9,198
Nonoperating revenues (expenses)		
Grant revenues	277,877	269,226
Grant expenses	(288,223)	(281,899)
Total nonoperating revenues (expenses)	(10,346)	(12,673)
Change in net position	$ (966)	$ (3,475)

2017 to 2016

Total operating revenues decreased $4.9 million, primarily due to a decrease in investment income of $4.1 million. During fiscal year 2017, certain long-term investments with high interest yields matured, which were re-invested into other investments having contemporary investment yields. In addition, fair value of investments decreased by $3.8 million in fiscal year 2016 and decreased by $5.6 million in fiscal year 2017.

Total operating expenses decreased $5.1 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):

	2017	2016
Bonds payable	$1,980,456	$1,906,494

Year Ended June 30, 2017

Total bonds payable increased $74.0 million, which is deemed an insignificant year-over-year variance. During the fiscal year, THDA issued debt totaling $462.0 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded $47.7 million of outstanding bonds into new bond originations with lower interest rates. In addition to the nominal tax-exempt mortgage revenue bonds issued, THDA also issued one taxable bond issue primarily for economic refunding opportunities.

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 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 fiscal year 2017 or fiscal year 2016.

Debt Limits

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

Grant Programs

During fiscal year 2007 through fiscal year 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 THDA 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:

	2017	2016	2015 and Prior	Total
Funding Sources:				
THDA	$7,500,000	$7,500,000	$59,800,000	$74,800,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	$7,500,000	$7,500,000	$64,150,000	$79,150,000
Approved Uses:				
Rural repair program (USDA)	$ -	$ -	$ 6,300,000	$ 6,300,000
Ramp Programs & Hsg Modification	300,000	-	1,350,000	1,650,000
Emergency Repairs	2,700,000	2,700,000	15,800,000	21,200,000
Competitive Grants	3,500,000	2,800,000	34,800,000	41,100,000
Rebuild & Recover	500,000	500,000	2,800,000	3,800,000
Other Grants	500,000	1,500,000	3,100,000	5,100,000

Totals	$7,500,000	$7,500,000	$64,150,000	$79,150,000

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. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

A special interest rate reduction on the 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 first mortgage 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, interest-only mortgages, “buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), 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 LTV 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, 2017, 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	Principle Amount Outstanding	Percentage[1]
60 – 89 Days Past Due	23,187	413	$ 33,195,660	1.78%
90+ Days Past Due	23,187	1,388	108,494,506	5.99%
In Foreclosure	23,187	163	15,139,374	0.69%

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 benchmark, THDA uses the one-, three-, and five-year Constant Maturity Treasury rates as established by the United States Treasury.

The continuation of relatively low interest rates from a historic perspective increases 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.

Direct Loan Servicing

During FY 2017, THDA began the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of $91.5 million was transferred to VMLS from an existing THDA mortgage servicer.

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.

[1] Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

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, 2017
(Expressed in Thousands)

ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$	262,872
Investments (Note 2)		61,346
Receivables:		
Accounts		993
Interest		11,531
First mortgage loans		62,336
Due from federal government		28,186
Prepaid expenses		1
Total current assets		427,265
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		106,050
Investments (Note 2)		95,738
Investment interest receivable		881
Investments (Note 2)		49,135
First mortgage loans receivable		1,870,877
Second mortgage loans receivable		30,559
Allowance for forgivable second mortgages		(9,984)
Advance to local government		3,124
Net pension asset (Note 5)		33
Capital assets:		
Furniture and equipment		3,565
Less accumulated depreciation		(1,756)
Total noncurrent assets		2,148,222
Total assets		2,575,487
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refundings		862
Deferred outflows related to pensions (Note 5)		3,864
Total deferred outflows of resources		4,726
LIABILITIES		
Current liabilities:		
Accounts payable		13,359
Accrued payroll and related liabilities		632
Compensated absences		667
Due to primary government		723
Interest payable		29,855
Escrow deposits		1,536
Prepayments on mortgage loans		1,279
Due to federal government		26,301
Bonds payable (Note 3)		111,420
Total current liabilities		185,772
Noncurrent liabilities:		
Bonds payable (Note 3)		1,869,036
Compensated absences		647
Net pension liability (Note 5)		7,652
Net OPEB obligation (Note 9)		1,661
Escrow deposits		3,855
Arbitrage rebate payable		1,110
Total noncurrent liabilities		1,883,961
Total liabilities		2,069,733
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 5)		514
Total deferred inflows of resources		514
NET POSITION		
Net investment in capital assets		1,809
Restricted for single family bond programs (Note 4 and Note 7)		418,137
Restricted for grant programs (Note 4)		9,310
Restricted for Homebuyers Revolving Loan Program (Note 4)		3,153
Restricted for net pension asset (Note 5)		33
Unrestricted (Note 7)		77,524
Total net position	$	509,966

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, 2017
(Expressed in Thousands)

OPERATING REVENUES		
Mortgage interest income	$	87,963
Investment income:		
Interest		7,319
Net (decrease) in the fair value of investments		(5,576)
Federal grant administration fees		13,784
Fees and other income		4,762
Total operating revenues		108,252
OPERATING EXPENSES		
Salaries and benefits		18,404
Contractual services		5,665
Materials and supplies		1,576
Rentals and insurance		25
Other administrative expenses		694
Other program expenses		5,273
Interest expense		56,892
Mortgage service fees		6,391
Issuance costs		3,602
Depreciation		350
Total operating expenses		98,872
Operating income		9,380
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue		277,873
Other grants revenue		4
Federal grants expenses		(277,717)
Local grants expenses		(10,506)
Total nonoperating revenues (expenses)		(10,346)
Change in net position		(966)
Total net position, July 1		510,932
Total net position, June 30	$	509,966

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, 2017
(Expressed in Thousands)

Cash flows from operating activities:		
Receipts from customers	$	386,565
Receipts from federal government		13,867
Receipts from other funds		551
Other miscellaneous receipts		4,762
Acquisition of mortgage loans		(325,857)
Payments to service mortgages		(6,391)
Payments to suppliers		(9,197)
Payments to federal government		(3,684)
Payments to other funds		(551)
Payments to or for employees		(18,852)
Net cash provided by operating activities		41,213
Cash flows from non-capital financing activities:		
Operating grants received		300,591
Proceeds from sale of bonds		473,792
Operating grants paid		(285,422)
Call premium paid		(36)
Cost of issuance paid		(3,602)
Principal payments		(393,570)
Interest paid		(65,442)
Net cash provided by non-capital financing activities		26,311
Cash flows from capital and related financing activities:		
Purchases of capital assets		(983)
Net cash used by capital and related financing activities		(983)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		389,882
Purchases of investments		(327,170)
Investment interest received		7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents		219
Net cash provided by investing activities		70,711
Net increase in cash and cash equivalents		137,252
Cash and cash equivalents, July 1		231,670
Cash and cash equivalents, June 30	$	368,922

(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, 2017
(Expressed in Thousands)

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	9,380
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		350
Changes in assets and liabilities:		
Decrease in accounts receivable		3,067
Decrease in mortgage interest receivable		398
(Increase) in pension asset		(20)
(Increase) in deferred pension outflows		(1,703)
(Increase) in mortgage loans receivable		(31,780)
Decrease in due from federal government		83
Increase in accounts payable		3,395
Increase in accrued payroll / compensated absences		176
Increase in due to primary government		651
(Decrease) in arbitrage rebate liability		(2,984)
Increase in pension liability		2,223
(Decrease) in deferred pension inflows		(774)
Investment income included as operating revenue		(1,743)
Interest expense included as operating expense		56,892
Issuance cost included as operating expense		3,602
Total adjustments		31,833
Net cash provided by operating activities	$	41,213
Noncash investing, capital, and financing activities:		
(Decrease) in fair value of investments	$	(3,111)
Total noncash investing, capital, and financing activities	$	(3,111)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) 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 Title 24, *Code of Federal Regulations*, 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.

THDA 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*.

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.

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 cash flows. 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.

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

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Payment Clearing and Disbursement accounts, and Net Pension Assets (see note 4).

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.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

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

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.

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.

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.

Accrual of Interest Income

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

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents.

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.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance 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 15th 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.

Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home. Because of the likelihood that the majority of second mortgage loans will be repaid in the course of the 30-year term, the allowance account established for the second mortgage loans beginning October 2014 will not be used for any second mortgages made after March 2017.

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

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, 2017, the bank balance was $32,272,907. This amount includes $1,744,933; which is held in a T&I Escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2017, 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, 2017, $28,690,966 was in the BNYM. Of this amount, $28,440,966 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.

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, 2017	
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$124,172,337	1.728
U.S. Treasury Coupon	27,114,235	2.056
U.S. Agency Discount	162,862,870	0.084
Total	$314,149,442	0.905

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, 2017, (expressed in thousands):

	June 30, 2017			
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	$124,172	$ -	$124,172	$ -
U.S. Treasury Coupon	27,114	27,114	-	-
U.S. Agency Discount	162,863	-	162,863	-
Total debt securities	$314,149	$27,114	287,035	$ -

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 the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2017, 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.

Investment Type	Fair Value	U.S. Treasury[1]	AAA	AA+	Not Rated[2]
	June 30, 2017				
U.S. Agency Coupon	$124,172,337	$ -	$ -	$121,738,787	$ 2,433,550
U.S. Treasury Coupon	27,114,235	27,114,235	-	-	-
U.S. Agency Discount	162,862,870	-	-	-	162,862,870
Total	$314,149,442	$27,114,235	$-	$121,738,787	$165,296,420

In addition to these investments, the agency has $229,226,502 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poors rating of AAA.

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:

Issuer	Fair Value (Thousands)	% of Portfolio
	June 30, 2017	
Federal Home Loan Bank	$178,179	56.72
Federal Home Loan Mortgage Corp.	$31,734	10.10
Federal National Mortgage Assoc.	$74,688	23.77

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA 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.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2017 *(Thousands)*
2007-4	1/1/2009 – 7/1/2038	150,000	3.75 to 5.50	23,110
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	12,920
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	17,060

[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.

2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	22,125
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	43,110
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	77,430
2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	71,785
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	55,795
Total Homeownership Program Bonds		$827,690		$ 323,335
Plus: Unamortized Bond Premiums				2,817
Net Homeownership Program Bonds				$326,152

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2017 *(Thousands)*
2009-A	1/1/2011 – 1/1/2040	$100,000	0.90 to 4.625	$ 11,265
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	16,840
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	49,435
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	14,900
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	54,985
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	52,385
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	118,405
Total Housing Finance Program Bonds		$810,000		$318,215
Plus: Unamortized Bond Premiums				3,521
Net Housing Finance Program Bonds				$321,736

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2017 *(Thousands)*
2013-1	1/1/2014 – 7/1/2043	$ 215,905	0.40 to 4.00	$ 122,355
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	79,315
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	110,980
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	122,025
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	135,000
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	157,285
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	117,765
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	120,775
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	62,000
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	100,000
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	175,000
Total Residential Finance Program Bonds		$1,549,205		$1,302,500
Plus: Unamortized Bond Premiums				30,079
Net Residential Finance Program Bonds				$1,332,579
Net Total All Bonds				$1,980,467

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, 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.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2017, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2018	$ 40,650	$ 62,967	$ 103,617
2019	70,865	65,092	135,957
2020	73,235	63,386	136,621
2021	77,710	61,470	139,180
2022	76,730	59,291	136,021
2023 – 2027	387,255	259,290	646,545
2028 – 2032	379,994	193,992	573,986
2033 – 2037	374,226	123,720	497,946
2038 – 2042	331,540	57,686	389,226
2043 - 2047	131,845	10,269	142,114
Total	$1,944,050	$957,163	$2,901,213

Redemption of Bonds and Notes

During the year ended June 30, 2017, bonds were retired at par before maturity in the Homeownership Program in the amount of $97,236,000, in the Housing Finance Program in the amount of $70,510,000, and in the Residential Finance Program in the amount of $111,550,000.

The respective carrying values of the bonds were $98,407,537, $71,242,629 and $114,475,759. This resulted in revenue to the Homeownership Program of $1,171,537, to the Housing Finance Program of $732,629, and to the Residential Finance Program of $2,925,759.

On May 18, 2016, the agency issued $125,000,000 in Residential Finance Program Bonds, Issue 2016-1. On July 1, 2016, the agency used $24,060,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $24,060,000 early redemption). The carrying amount of these bonds was $24,060,000. The refunding increased the agency's debt service by $5,737,592 over the next 20.00 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $3,034,466.

On October 18, 2016, the agency issued $125,000,000 in Residential Finance Program Bonds, Issue 2016-2. On January 1, 2017, the agency used $24,205,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $24,205,000 early redemption). The carrying amount of these bonds was $24,205,000. The refunding reduced the agency's debt service by $292,971 over the next 20.00 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $3,273,731.

On November 16, 2016, the agency issued $62,000,000 in Residential Finance Program Bonds, Issue 2016-3. On January 1, 2017, the agency used $62,000,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $62,000,000 early redemption). The carrying amount of these bonds was $63,848,048. The refunding reduced the agency's debt service by $29,424,149 over the next 20.125 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $16,645,830.

On March 30, 2017, the agency issued $100,000,000 in Residential Finance Program Bonds, Issue 2017-1.

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2017 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2016	Additions	Reductions	Ending Balance June 30, 2017	Amounts Due Within One Year[3]
Bonds Payable	$1,875,620	$462,000	($393,570)	$1,944,050	$111,420,
Plus: Unamortized Bond Premiums	30,916	11,995	(6,505)	36,406	-
Less: Unamortized Bond Discounts	(42)	-	42	-	-
Compensated Absences	1,244	70	-	1,314	667
Net Pension Liability	5,429	3,784	(1,561)	7,652	-
Escrow Deposits	3,437	4,798	(2,844)	5,391	1,536

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

Arbitrage Rebate Payable	4,094	700	(3,684)	1,110	-
Total	$1,920,698	$483,347	($408,122)	$1,995,923	$113,623

Note 4. 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 5. Pension Plans

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 publicly 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. Members who leave 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. THDA 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 THDA for the year ended June 30, 2017, to the Closed State and Higher Education Employee Pension Plan were $1,542,218, which is 15.02 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, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2017, THDA reported a liability of $7,652,061 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, THDA's proportion was 0.419391 percent. The proportion measured as of June 30, 2015, was 0.421046.

Pension expense – For the year ended June 30, 2017, THDA recognized a pension expense of $1,285,004. Allocated pension expense was $1,319,667 before being reduced by $34,663 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, THDA 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	$ 429,122	$ 406,599
Net difference between projected and actual earnings on pension plan investments	1,850,632	-
Changes in proportion	-	103,989
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2016	1,542,218	-
Total	$3,821,972	$510,588

Deferred outflows of resources, resulting from THDA's employer contributions of $1,542,218 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2018. 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:	
2018	$63,089
2019	63,089
2020	1,105,389
2021	537,600
2022	-
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, 2016, 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, 2016, 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 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 to changes in the discount rate – The following presents THDA's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what THDA's proportionate share of the net pension liability 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	$15,037,844	$7,652,061	1,424,149

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, 2017, THDA reported a payable of $61,261 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

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. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, 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 their 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, 2017, to the State and Higher Education Employee Retirement Plan were $34,927, which is 1.14 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 Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2017, THDA reported an asset of $33,000 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, THDA's proportion was 0.391715 percent. The proportion measured as of June 30, 2015, was 0.457171.

Pension expense – For the year ended June 30, 2017, THDA recognized a pension expense of $18,614. Allocated pension expense was $18,475 before being increased by $139 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, 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	$ 2,401	$3,546
Net difference between projected and actual earnings on pension plan investments	3,848	-
Changes in proportion	1,110	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2016	34,927	-
Total	$42,286	$3,546

Deferred outflows of resources, resulting from THDA's employer contributions of $34,927 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2018. 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:	
2018	$ 934
2019	934
2020	934
2021	776
2022	(68)
Thereafter	303

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

Actuarial assumptions – The total pension asset as of the June 30, 2016, 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, 2016, 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 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 asset.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.5 percent, as well as what THDA's proportionate share of the net pension 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 asset	$3,946	$33,000	$54,766

Payable to the Pension Plan

At June 30, 2017, THDA reported a payable of $1,820 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2017 for both defined benefit pension plans was $1,303,618.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (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 THDA 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 THDA recognized a pension expense of $262,539 for employer contributions.

The THDA recognized a pension payable of $13,001 for employer contributions

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, 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 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

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.

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; 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, 2017, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). 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, 2017, the Risk Management Fund held $167 million in cash designated for payment of claims.

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 8-27-201. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization 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 THDA (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 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, 2017
Annual Required Contribution (ARC)	$353
Interest on the Net OPEB Obligation	60
Adjustment to the ARC	(60)
Annual OPEB cost	353
Amount of contribution	(294)
Increase in Net OPEB Obligation	59
Net OPEB Obligation-beginning of year	1,602
Net OPEB Obligation-end of year	$1,661

Year End	Plan	Annual OPEB Cost *(Thousands)*	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End *(Thousands)*
6/30/2017	State Employee Group Plan	$353	83%	$1,661
6/30/2016	State Employee Group Plan	$341	74%	$1,602
6/30/2015	State Employee Group Plan	$357	71%	$1,516

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 (expressed in thousands):

Actuarial valuation date	7/01/2015
Actuarial accrued liability (AAL)	$ 2,923
Actuarial value of plan assets	$ -
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 10. On-Behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of $7,163 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 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. Subsequent Events

Residential Finance Program Bonds, Issue 2017-3, were sold on September 28, 2017. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate *(Percent)*
2017-3	7/1/2018 – 1/1/2048	$99,900,000	0.800 to 3.650

Residential Finance Program Bonds, Issue 2017-4, were authorized by the board of directors on September 22, 2017, not to exceed $100,000,000. The sale of the bonds will occur no later than February 28, 2018.

In order to preserve Tax-Exempt Private Activity Bond volume capacity, Residential Finance Program Convertible Option Bonds, Issue 2017-5, were authorized by the board of directors on November 14, 2017, not to exceed $900,000,000. The sale of the bonds will occur no later than December 31, 2017.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement 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
2017	0.391715%	$33	$1,661	1.99%	130.56%
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 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 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
2017	0.419391%	$7,652	$10,240	74.73%	87.96%
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 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)

	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
2017	$35	$35	$-	$3,068	1.14%
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 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
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
2017	$1,542	$1,542	$-	$10,268	15.02%
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%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Other Postemployment 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)
7/1/2015	State Employee Group Plan	$-	$2,923	$2,923	0%	$10,046	29%
7/1/2013	State Employee Group Plan	$-	$2,964	$2,964	0%	$ 9,841	30%
7/1/2011	State Employee Group Plan	$-	$2,919	$2,919	0%	$ 9,818	30%

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Homeownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	$ 942	$ 20,592	$ 42,719	$ 32,791	$ 165,828	$ 262,872
Investments	-	598	9,620	4,577	46,551	61,346
Receivables:						
Accounts	-	211	-	-	782	993
Interest	-	19	2,561	2,560	6,391	11,531
First mortgage loans	156	2,087	17,772	9,326	32,995	62,336
Due from federal government	28,186	-	-	-	-	28,186
Due from other funds	1,863	-	-	-	427	2,290
Prepaid expenses	1	-	-	-	-	1
Total current assets	31,148	23,507	72,672	49,254	252,974	429,555
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	30,424	-	47,337	7,509	20,780	106,050
Investments	-	-	56,784	13,697	25,257	95,738
Investment Interest receivable	-	-	769	48	64	881
Investments	-	1,787	-	-	47,348	49,135
First mortgage loans receivable	544	47,969	328,173	310,642	1,183,549	1,870,877
Second mortgage loans receival	-	-	30,559	-	-	30,559
Allowance for forgivable second	-	-	(9,984)	-	-	(9,984)
Advance to local government	3,124	-	-	-	-	3,124
Net pension asset	33	-	-	-	-	33
Capital assets:						
Furniture and equipment	3,565	-	-	-	-	3,565
Less accumulated depreciatior	(1,756)	-	-	-	-	(1,756)
Total noncurrent assets	35,934	49,756	453,638	331,896	1,276,998	2,148,222
Total assets	67,082	73,263	526,310	381,150	1,529,972	2,577,777
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	640	862
Deferred outflows related to pensi	3,864	-	-	-	-	3,864
Total deferred outflows of resources	3,864	-	222	-	640	4,726
LIABILITIES						
Current liabilities:						
Accounts payable	11,307	2	1,221	779	50	13,359
Accrued payroll and related liabil	632	-	-	-	-	632
Compensated absences	667	-	-	-	-	667
Due to primary government	723	-	-	-	-	723
Interest payable	-	-	6,463	5,414	17,978	29,855
Escrow deposits	1,536	-	-	-	-	1,536
Prepayments on mortgage loans	10	-	235	175	859	1,279
Due to federal government	26,301	-	-	-	-	26,301
Due to other funds	-	-	2,290	-	-	2,290
Bonds payable	-	-	52,990	13,485	44,945	111,420
Total current liabilities	41,176	2	63,199	19,853	63,832	188,062
Noncurrent liabilities:						
Bonds payable	-	-	273,162	308,251	1,287,623	1,869,036
Compensated absences	647	-	-	-	-	647
Net pension liability	7,652	-	-	-	-	7,652
Net OPEB obligation	1,661	-	-	-	-	1,661
Escrow deposits	608	120	-	-	3,127	3,855
Arbitrage rebate payable	-	-	1,110	-	-	1,110
Total noncurrent liabilities	10,568	120	274,272	308,251	1,290,750	1,883,961
Total liabilities	51,744	122	337,471	328,104	1,354,582	2,072,023
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensior	514	-	-	-	-	514
Total deferred inflows of resources	514	-	-	-	-	514
NET POSITION						
Net investment in capital assets	1,809	-	-	-	-	1,809
Restricted for single family bond pı	-	-	189,061	53,046	176,030	418,137
Restricted for grant programs	-	9,310	-	-	-	9,310
Restricted for Homebuyers Revolv	3,153	-	-	-	-	3,153
Restricted for net pension asset	33	-	-	-	-	33
Unrestricted	13,693	63,831	-	-	-	77,524
Total net position	$ 18,688	$ 73,141	$ 189,061	$ 53,046	$ 176,030	$ 509,966

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	$ -	$ 44	$ 22,459	$ 16,162	$ 49,298	$ 87,963
Investment income:						
Interest	71	110	4,863	658	1,617	7,319
Net (decrease) in the fair value of investments	-	(6)	(4,464)	(314)	(792)	(5,576)
Federal grant administration fees	13,784	-	-	-	-	13,784
Fees and other income	3,909	-	-	-	853	4,762
Total operating revenues	17,764	148	22,858	16,506	50,976	108,252
OPERATING EXPENSES						
Salaries and benefits	18,404	-	-	-	-	18,404
Contractual services	5,664	-	-	-	1	5,665
Materials and supplies	1,576	-	-	-	-	1,576
Rentals and insurance	25	-	-	-	-	25
Other administrative expenses	694	-	-	-	-	694
Other program expenses	602	2	3,440	260	969	5,273
Interest expense	10	-	15,401	10,939	30,542	56,892
Mortgage service fees	-	106	1,232	1,196	3,857	6,391
Issuance costs	-	-	-	-	3,602	3,602
Depreciation	350	-	-	-	-	350
Total operating expenses	27,325	108	20,073	12,395	38,971	98,872
Operating income (loss)	(9,561)	40	2,785	4,111	12,005	9,380
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	277,873	-	-	-	-	277,873
Other grant revenue	-	4	-	-	-	4
Federal grants expenses	(277,717)	-	-	-	-	(277,717)
Local grants expenses	(10,506)	-	-	-	-	(10,506)
Total nonoperating revenues (expenses)	(10,350)	4	-	-	-	(10,346)
Income (loss) before transfers	(19,911)	44	2,785	4,111	12,005	(966)
Transfers (to) other funds	-	-	(64,508)	(1,276)	-	(65,784)
Transfers from other funds	17,899	155	-	-	47,730	65,784
Change in net position	(2,012)	199	(61,723)	2,835	59,735	(966)
Total net position, July 1	20,700	72,942	250,784	50,211	116,295	510,932
Total net position, June 30	$ 18,688	$ 73,141	$ 189,061	$ 53,046	$ 176,030	$ 509,966

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	$ 2,050	$ 2,725	$ 125,063	$ 80,599	$ 176,128	$ 386,565
Receipts from federal government	13,867	-	-	-	-	13,867
Receipts from other funds	326	-	225	-	-	551
Other miscellaneous receipts	3,909	-	-	-	853	4,762
Acquisition of mortgage loans	-	(5,052)	(20,848)	-	(299,957)	(325,857)
Payments to service mortgages	-	(106)	(1,232)	(1,196)	(3,857)	(6,391)
Payments to suppliers	(8,271)	(2)	-	-	(924)	(9,197)
Payments to federal government	-	-	(3,684)	-	-	(3,684)
Payments to other funds	-	-	-	-	(551)	(551)
Payments to or for employees	(18,852)	-	-	-	-	(18,852)
Net cash provided (used) by operating activities	(6,971)	(2,435)	99,524	79,403	(128,308)	41,213
Cash flows from non-capital financing activities:						
Operating grants received	300,587	4	-	-	-	300,591
Transfers in (out)	17,898	155	88,447	(1,276)	(105,224)	-
Proceeds from sale of bonds	-	-	-	-	473,792	473,792
Operating grants paid	(285,422)	-	-	-	-	(285,422)
Call premium paid	-	-	-	-	(36)	(36)
Cost of issuance paid	-	-	-	-	(3,602)	(3,602)
Principal payments	-	-	(210,180)	(70,790)	(112,600)	(393,570)
Interest paid	(10)	-	(21,529)	(13,009)	(30,894)	(65,442)
Net cash provided (used) by non-capital financing activities	33,053	159	(143,262)	(85,075)	221,436	26,311
Cash flows from capital and related financing activities:						
Purchases of capital assets	(983)	-	-	-	-	(983)
Net cash used by capital and related financing activities	(983)	-	-	-	-	(983)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	34,940	161,404	37,423	156,115	389,882
Purchases of investments	-	(23,270)	(115,803)	(26,865)	(161,232)	(327,170)
Investment interest received	71	120	5,285	648	1,656	7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	7	54	39	119	219
Net cash provided (used) by investing activities	71	11,797	50,940	11,245	(3,342)	70,711
Net increase in cash and cash equivalents	25,170	9,521	7,202	5,573	89,786	137,252
Cash and cash equivalents, July 1	6,196	11,071	82,854	34,727	96,822	231,670
Cash and cash equivalents, June 30	$ 31,366	$ 20,592	$ 90,056	$ 40,300	$ 186,608	$ 368,922

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2017
(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)	$ (9,561)	$ 40	$ 2,785	$ 4,111	$ 12,005	$ 9,380
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	350	-	-	-	-	350
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	232	148	2,235	537	(85)	3,067
(Increase) decrease in mortgage interest receivable	-	-	1,956	456	(2,014)	398
(Increase) in pension asset	(20)	-	-	-	-	(20)
(Increase) in deferred pension outflows	(1,703)	-	-	-	-	(1,703)
(Increase) decrease in mortgage loans receivable	-	(2,041)	79,260	62,946	(171,945)	(31,780)
Decrease in due from federal government	83	-	-	-	-	83
Decrease in interfund receivables	326	-	225	-	-	551
(Decrease) in interfund payables	-	-	-	-	(551)	(551)
Increase (decrease) in accounts payable	1,107	(478)	1,045	758	963	3,395
Increase in accrued payroll / compensated absences	176	-	-	-	-	176
Increase in due to primary government	651	-	-	-	-	651
(Decrease) in arbitrage rebate liability	-	-	(2,984)	-	-	(2,984)
Increase in pension liability	2,223	-	-	-	-	2,223
(Decrease) in deferred pension inflows	(774)	-	-	-	-	(774)
Investment income included as operating revenue	(71)	(104)	(399)	(344)	(825)	(1,743)
Interest expense included as operating expense	10	-	15,401	10,939	30,542	56,892
Issuance cost included as operating expense	-	-	-	-	3,602	3,602
Total adjustments	2,590	(2,475)	96,739	75,292	(140,313)	31,833
Net cash provided (used) by operating activities	$ (6,971)	$ (2,435)	$ 99,524	$ 79,403	$ (128,308)	$ 41,213
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	$ -	$ (3)	$ (834)	$ (181)	$ (2,093)	$ (3,111)
Total noncash investing, capital, and financing activities	$ -	$ (3)	$ (834)	$ (181)	$ (2,093)	$ (3,111)

FINANCIAL STATEMENTS

June 30, 2016

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 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.

Actuarial assumptions 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

Exhibit C

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