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FINANCIAL STATEMENTS

June 30, 2015



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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

SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the other postemployment benefits schedule of funding progress, schedule of contributions to the Closed State and Higher Education Employee Pension Plan, schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and schedule of contributions to the State and Higher Education Employee Retirement Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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



Deborah V. Loveless, CPA
Director
December 23, 2015

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

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

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

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

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

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

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

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2015

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

FINANCIAL ANALYSIS OF THE AGENCY

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

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

2015 to 2014

- THDA's total net position decreased by \$12.5 million, or 2.4%, from \$526.9 million at June 30, 2014 to \$514.4 million at June 30, 2015. This change resulted from a decrease in net position of \$6.8 million for the cumulative effect of a change in accounting principle caused by the implementation of GASB 68, operating income of \$9.7 million, and non-operating expenses of \$15.4 million.
- First and Second mortgage loans receivable decreased by \$33.5 million or 1.7% from \$1,966.3 million on June 30, 2014 to \$1,932.8 million on June 30, 2015. During FY 2015, single-family mortgage loan originations increased by \$23.5 million or 10.3% from \$227.3 million at June 30, 2014 to \$250.8 million at June 30, 2015. Mortgage loan payoffs increased by \$38.4 million or 26.0% from \$147.6 million at June 30, 2014 to \$186.0 million at June 30, 2015. Mortgage loan repayments increased \$2.3 million, or 4.5%, from \$51.2 million at June 30, 2014 to \$53.5 million at June 30, 2015. In addition, THDA recognized an allowance for forgivable second mortgages of \$2.9 million, whereas no such allowance was recorded at June 30, 2014.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

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

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

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

2015 to 2014

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

- Mortgage interest income decreased \$5.1 million, or 5.0%, from \$102.1 million in 2014 to \$97.0 million in 2015. This is due to new mortgage loan originations having lower interest rates than those associated with mortgage loan repayments.
- Total operating expenses decreased \$3.0 million, or 2.7%, from \$113.3 million in fiscal year 2014 to \$110.3 million in fiscal year 2015. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

DEBT ACTIVITY

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

	<u>2015</u>	<u>2014</u>
Bonds payable	\$ 1,979,170	\$ 1,984,298

Year Ended June 30, 2015

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

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

Bond Ratings

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

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

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

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

Debt Limits

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

GRANT PROGRAMS

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

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

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

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

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

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
 JUNE 30, 2015

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

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

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

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

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

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

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

ECONOMIC FACTORS

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

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

CONTACTING THDA's FINANCIAL MANAGEMENT

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

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

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

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

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

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

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

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

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

(continued)

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

k. Operating Revenues and Expenses

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

l. Allowance for Forgivable Second Mortgages

THDA has offered Down Payment Assistance (DPA) product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 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.

m. Pensions

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

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

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

b. Investments

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

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

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.

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

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

Variable Rate Bonds

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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

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

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

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

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

The agency purchased \$2,400,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.65 of par on December 21, 2012 and mature on December 21, 2027. The fair value of these securities on June 30, 2015 is \$2,243,767, included in U.S. Agency Coupon in the tables above. This investment has a stated

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

coupon rate of 2.0% with a step-up option to 2.25% on December 21, 2017; to 2.5% on December 21, 2020; to 3.0% on December 21, 2022; to 4.0% on December 21, 2023; to 5.0% on December 21, 2024; to 6.0% on December 21, 2025; to 8.0% on June 21, 2026; to 10.0% on December 21, 2026; and to 12.0% on June 21, 2027. This investment is callable quarterly beginning June 21, 2013, and ending December 21, 2018.

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

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

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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

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

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

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

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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:

<u>Issuer</u>	June 30, 2015	
	<u>Fair Value</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$215,105,442	57.17
Federal National Mortgage Assoc.	\$53,208,579	14.14

NOTE 3. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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

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.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

b. Debt Service Requirements

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

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

c. Redemption of Bonds and Notes

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

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

On November 20, 2014, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2014-2. On January 1, 2015, the agency used \$32,955,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

of \$32,955,000 early redemption). The carrying amount of these bonds was \$32,970,071. The refunding increased the agency's debt service by \$2,804,783 over the next 20.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$628,626.

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

d. Long-term Liability Activity

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

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

NOTE 5. RESTRICTED NET POSITION

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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.

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

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

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

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

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$1,652,466 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

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

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

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

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

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

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

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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

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

share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

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

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

Payable to the Pension Plan

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

b. State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

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

Pension liabilities Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the State and Higher Education Employee Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Pension expense Since the measurement date is June 30, 2014, Tennessee Housing Development Agency (THDA) did not recognize a pension expense at June 30, 2015.

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

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

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

Payable to the Pension Plan

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

NOTE 7. DEFERRED COMPENSATION PLANS

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457 and the other pursuant to IRC, Section 401(k). The plans are outsourced to third party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a \$50 monthly employer match for

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014 voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013*, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

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

NOTE 8. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

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

NOTE 9. INSURANCE-RELATED ACTIVITIES

a. Commercial Insurance

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

b. Risk Management Fund

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

c. Employee Group Insurance Fund

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

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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

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

June 30, 2015

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

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

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

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

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

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

NOTE 11. ON-BEHALF PAYMENTS

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

NOTE 12. PAYMENTS TO PRIMARY GOVERNMENT

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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

NOTE 13. SUBSEQUENT EVENTS

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

July 1, 2015	Homeownership Program	\$40,865,000
	Housing Finance Program	10,490,000
	Residential Finance Program	<u>10,825,000</u>
	Total	<u>\$62,180,000</u>

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

August 1, 2015	Homeownership Program	\$12,535,000
	Housing Finance Program	4,855,000
	Residential Finance Program	<u>7,010,000</u>
	Total	<u>\$24,400,000</u>

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

September 1, 2015	Homeownership Program	\$13,760,000
	Housing Finance Program	4,880,000
	Residential Finance Program	<u>5,845,000</u>
	Total	<u>\$24,485,000</u>

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

October 1, 2015	Homeownership Program	\$13,155,000
	Housing Finance Program	4,595,000
	Residential Finance Program	<u>5,480,000</u>
	Total	<u>\$23,230,000</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

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

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

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

November 1, 2015	Homeownership Program	\$11,975,000
	Housing Finance Program	6,410,000
	Residential Finance Program	<u>4,835,000</u>
	Total	<u>\$23,220,000</u>

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

December 1, 2015	Homeownership Program	\$15,680,000
	Housing Finance Program	6,365,000
	Residential Finance Program	<u>5,045,000</u>
	Total	<u>\$27,090,000</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(continued)

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

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

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

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

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