



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**



**TENNESSEE HOUSING DEVELOPMENT AGENCY**

**Financial and Compliance Audit Report**

For the Year Ended June 30, 2018

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**Justin P. Wilson, Comptroller**



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JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Deputy Comptroller*

January 23, 2019

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Housing Development Agency for the year ended June 30, 2018. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA, Director  
Division of State Audit

19/007

**Audit Report**  
**Tennessee Housing Development Agency**  
**For the Year Ended June 30, 2018**

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State of Tennessee

# **A u d i t   H i g h l i g h t s**

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

## **Tennessee Housing Development Agency**

For the Year Ended June 30, 2018

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### **Opinion on the Financial Statements**

The opinion on the financial statements is unmodified.

### **Audit Findings**

The audit report contains no findings.



JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Chief of Staff*

## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial



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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA, Director  
Division of State Audit  
December 11, 2018

# TENNESSEE HOUSING DEVELOPMENT AGENCY

## Management's Discussion and Analysis

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This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2018, with comparative information presented for the fiscal year ended June 30, 2017. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

### **Introduction – The Tennessee Housing Development Agency**

The mission statement of THDA is “Leading Tennessee Home by creating safe, sound, affordable housing opportunities.” THDA’s goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2018, THDA has originated over 120,400 single-family mortgage loans in its 45-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 70 of Tennessee’s 95 counties as well as the project-based Contract Administration program for approximately 385 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

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

### **Overview of the Financial Statements**

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

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

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

THDA is also considered to be a discretely presented component unit of the State of Tennessee, and 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/fa/fa-accounting-financial/fa-accfin-cafr.html>.

During fiscal year 2018, THDA implemented accounting standard Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement establishes new accounting and financial reporting procedures for postemployment benefits other than pensions. Implementation of this statement resulted in a revision of THDA's net position as of July 1, 2017, which has been reported as a prior period adjustment.

## **Financial Highlights**

### **Year Ended June 30, 2018**

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

## **Financial Analysis of the Agency**

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

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

#### 2018 to 2017

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

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

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

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

#### 2018 to 2017

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

Total operating expenses increased \$4.7 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate, and an increase in salary and benefits expense.

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

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

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

### Year Ended June 30, 2018

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

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

### Bond Ratings

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

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

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

### Debt Limits

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

### **Grant Programs**

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

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

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

## Current Mortgage Products and Environment

THDA offers a variety of mortgage loan products to address the needs of Tennesseans across the state. The Great Choice loan program offers THDA the opportunity to offer a more competitive interest rate on its 30-year fixed rate mortgage product while still offering down payment assistance with the addition of the Great Choice Plus loan program, which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the Great Choice Plus loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first 9 years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

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

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

- FHA (United States Department of Housing and Urban Development);
- VA (Veterans Administration Guaranty Program);

- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration); and
- private mortgage insurance.

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

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

As of June 30, 2018, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principle Amount Outstanding	Percentage <sup>1</sup>
60 – 89 Days Past Due	24,287	513	\$ 43,223,463	2.11%
90+ Days Past Due	24,287	1,200	95,172,207	4.94%
In Foreclosure	24,287	187	13,686,607	0.77%

## Economic Factors

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

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

<sup>1</sup> Percentage is calculated by dividing the “Number of Loans in Status” by the “Total Number of Loans Serviced.”



## **Direct Loan Servicing**

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

## **Contacting THDA’s Financial Management**

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Statement of Net Position**  
**June 30, 2018**

*(Expressed in Thousands)*

<b>Assets</b>	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 216,191
Investments (Note 2)	83,879
Receivables:	
Accounts	839
Interest	11,155
First mortgage loans	59,768
Due from federal government	34,977
<b>Total current assets</b>	<b>406,809</b>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (Note 2)	66,553
Investments (Note 2)	127,812
Investment interest receivable	790
Investments (Note 2)	48,595
First mortgage loans receivable	2,058,402
Second mortgage loans receivable	38,108
Allowance for uncollectible second mortgages	(14,031)
Unearned service release premiums	1,106
Advance to local government	3,135
Net pension asset (Note 5)	35
Capital assets:	
Furniture and equipment	5,108
Less accumulated depreciation	(2,232)
<b>Total noncurrent assets</b>	<b>2,333,381</b>
<b>Total assets</b>	<b>2,740,190</b>
<b>Deferred Outflows of Resources</b>	
Deferred amount on refundings	441
Deferred outflows related to pensions (Note 5)	3,931
Deferred outflows related to OPEB (Note 9)	237
<b>Total deferred outflows of resources</b>	<b>4,609</b>

*(Continued)*

The notes to the financial statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Statement of Net Position (Continued)**  
**For the Year Ended June 30, 2018**

*(Expressed in Thousands)*

<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 15,875
Accrued payroll and related liabilities	680
Compensated absences	736
Due to primary government	91
Interest payable	32,181
Escrow deposits	2,719
Prepayments on mortgage loans	1,205
Due to federal government	29,517
Bonds payable (Note 3)	87,945
<b>Total current liabilities</b>	<b>170,949</b>
Noncurrent liabilities:	
Bonds payable (Note 3)	2,040,767
Compensated absences	630
Net pension liability (Note 5)	7,659
Net OPEB liability (Note 9)	3,578
Escrow deposits	10,596
Arbitrage rebate payable	365
<b>Total noncurrent liabilities</b>	<b>2,063,595</b>
<b>Total liabilities</b>	<b>2,234,544</b>
<b>Deferred Inflows of Resources</b>	
Deferred inflows related to pensions (Note 5)	228
Deferred inflows related to OPEB (Note 9)	137
<b>Total deferred inflows of resources</b>	<b>365</b>
<b>Net Position</b>	
Net investment in capital assets	2,876
Restricted for single family bond programs (Note 4 and Note 7)	423,248
Restricted for grant programs (Note 4)	12,080
Restricted for Homebuyers Revolving Loan Program (Note 4)	3,153
Restricted for net pension asset (Note 5)	35
Unrestricted (Note 7)	68,498
<b>Total net position</b>	<b>\$509,890</b>

The notes to the financial statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2018**

*(Expressed in Thousands)*

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

The notes to the financial statements are an integral part of this statement.

# TENNESSEE HOUSING DEVELOPMENT AGENCY

## Statement of Cash Flows

For the Year Ended June 30, 2018

*(Expressed in Thousands)*

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

*(Continued)*

The notes to the financial statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Statement of Cash Flows (Continued)**  
**For the Year Ended June 30, 2018**

*(Expressed in Thousands)*

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

The notes to the financial statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Notes to the Financial Statements**  
**June 30, 2018**

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**Note 1. Summary of Significant Accounting Policies**

**Reporting Entity**

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

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

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

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

**Basis of Presentation**

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

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, 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.

## **Notes to the Financial Statements (Continued)**

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### **Basis of Accounting and Measurement Focus**

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

### **Capital Assets**

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

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

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

### **Restricted Assets**

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

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

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

### **Deferred Amount on Refundings and Bond Premiums and Discounts**

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

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



## **Notes to the Financial Statements (Continued)**

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### **Cash and Cash Equivalents**

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

### **Investments**

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

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

### **Accrual of Interest Income**

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

### **Mortgages**

Mortgages are carried at their original amount less collected principal.

### **Loan Servicing**

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

### **Operating Revenues and Expenses**

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

### **Allowance for Forgivable Second Mortgages**

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the

## **Notes to the Financial Statements (Continued)**

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original principal amount is repayable to THDA if the loan is repaid within 10 years of the origination date. Beginning on the 11th anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period. During fiscal year 2018, the agency determined that an amount of second mortgage down payment assistance loans are not expected to be recovered due to forgiveness or foreclosure. This amount was recorded as an allowance.

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

### **Pensions**

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

## **Note 2. Deposits and Investments**

### **Deposits**

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

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

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

## Notes to the Financial Statements (Continued)

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At June 30, 2018, the bank balance was \$32,468,510. This amount includes \$2,840,941, which is held in a taxes and insurance escrow account to pay taxes, insurance, and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2018, were insured, except the Bank of New York Mellon (BNYM) accounts. The U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2018, \$28,695,048 was in the BNYM. Of this amount, \$28,445,048 exceeded the FDIC insurance coverage. The agency also has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*, which is available on the state's website at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

### Investments

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

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within 5 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.

## Notes to the Financial Statements (Continued)

June 30, 2018		
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$167,711,320	2.878
U.S. Treasury Coupon	12,969,783	2.704
U.S. Agency Discount	187,487,134	0.133
Total	\$368,168,237	1.474

Fair Value Measurements – THDA implemented Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. GASBS 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2018 (expressed in thousands):

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

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency’s permitted investments. Credit quality ratings for the agency’s investments as of June 30, 2018, are included in the schedules below. Securities are rated using Standard & Poor’s and/or Moody’s and are presented below using the S&P’s rating scale.

## Notes to the Financial Statements (Continued)

June 30, 2018					
Investment Type	Fair Value	U.S. Treasury <sup>2</sup>	AAA	AA+	Not Rated <sup>3</sup>
U.S. Agency Coupon	\$ 167,711,320	\$ -	\$ 14,412,390	\$ 151,034,949	\$ 2,263,981
U.S. Treasury Coupon	12,969,783	12,969,783	-	-	-
U.S. Agency Discount	187,487,134	-	30,000,000	-	157,487,134
Total	\$ 368,168,237	\$12,969,783	\$ 44,412,390	\$ 151,034,949	\$ 159,751,115

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

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

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

June 30, 2018		
<u>Issuer</u>	<u>Fair Value</u> <i>(Thousands)</i>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$217,505	59.08
Federal Home Loan Mortgage Corp.	\$81,487	22.13
Federal National Mortgage Assoc.	\$53,951	14.65

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

<sup>2</sup> This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

<sup>3</sup> This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by S&P or Moody's.

## Notes to the Financial Statements (Continued)

### Note 3. Liabilities

#### Bonds Issued and Outstanding

<b>Homeownership Program Bonds</b>				Ending Balance 6/30/2018 (Thousands)
Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	
2007-4	1/1/2009 – 7/1/2038	\$150,000	3.75 to 5.50	\$ -
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	-
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	13,255
2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	17,480
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	33,435
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	52,185
2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	59,395
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	45,710
Total Homeownership Program Bonds		\$827,690		\$221,460
Plus: Unamortized Bond Premiums				1,928
Net Homeownership Program Bonds				<u>\$223,388</u>

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

## Notes to the Financial Statements (Continued)

### Residential Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2013-1	1/1/2014 – 7/1/2043	\$ 215,905	0.40 to 4.00	\$ 98,530
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	67,335
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	89,825
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	106,210
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	117,920
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	142,270
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	109,900
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	113,680
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	44,045
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	94,125
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	164,465
2017-3	7/1/2018 – 1/1/2048	99,900	0.80 to 3.65	99,070
2017-4	7/1/2018 – 7/1/2048	99,900	0.95 to 4.00	99,900
2018-1	1/1/2019 – 1/1/2043	99,900	1.40 to 4.00	99,900
2018-2	1/1/2019 – 1/1/2049	160,000	1.75 to 4.00	160,000
Total Residential Finance Program Bonds		\$2,008,905		\$1,607,175
Plus: Unamortized Bond Premiums				35,037
Subtract: Unamortized Bond Discount				(34)
Net Residential Finance Program Bonds				<u>\$1,642,178</u>
Net Total All Bonds				<u>\$2,128,712</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, 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.

## Notes to the Financial Statements (Continued)

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

### Debt Service Requirements

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

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

### Redemption of Bonds and Notes

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

On June 27, 2017, the agency issued \$175,000,000 in Residential Finance Program Bonds, Issue 2017-2. On July 1, 2017, the agency used \$23,110,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$23,110,000 early redemption). The carrying amount of these bonds was \$23,217,325. The refunding increased the agency's debt service by \$7,948,844 over the next 20.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$848,929.

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

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



## Notes to the Financial Statements (Continued)

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

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

### Long-term Liability Activity

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

<b>Long-Term Liability</b>	<b>Beginning Balance July 1, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2018</b>	<b>Amounts Due Within One Year<sup>4</sup></b>
Bonds Payable	\$1,944,050	\$459,700	(\$314,725)	\$2,089,025	\$87,945
Plus:					
Unamortized Bond Premiums	36,406	10,317	(7,002)	39,721	-
Less:					
Unamortized Bond Discounts	-	(35)	1	(34)	-
Compensated Absences	1,314	69	(17)	1,366	736
Net Pension Liability	7,652	1,549	(1,542)	7,659	-
Total OPEB Liability	1,661	3,976	(2,059)	3,578	-
Escrow Deposits	5,391	78,563	(70,639)	13,315	2,719
Arbitrage Rebate Payable	1,110	-	(745)	365	-
<b>Total</b>	<b>\$1,997,584</b>	<b>\$554,139</b>	<b>(\$396,728)</b>	<b>\$2,154,995</b>	<b>\$91,400</b>

### Note 4. Restricted Net Position

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

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

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

<sup>4</sup>Amounts due within one year include management-authorized bond refundings at June 30.

## Notes to the Financial Statements (Continued)

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### Note 5. Pension Plans

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

##### General Information About the Pension Plan

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

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

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

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

A reduced early retirement benefit is available at age 55 and vested. Members are vested with 5 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% 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 July 2 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%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. Members who leave employment may withdraw their employee contributions plus any accumulated interest.

## **Notes to the Financial Statements (Continued)**

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Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2018, to the Closed State and Higher Education Employee Pension Plan were \$1,891,406, which is 18.87% of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

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

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

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

## Notes to the Financial Statements (Continued)

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

Deferred outflows of resources, resulting from THDA's employer contributions of \$1,891,406 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	
2019	\$ 205,395
2020	1,269,075
2021	688,928
2022	(428,854)
Thereafter	-

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

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected

## Notes to the Financial Statements (Continued)

future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

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

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%.

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

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies

## Notes to the Financial Statements (Continued)

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will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at [www.treasury.state.tn.us/tcrs](http://www.treasury.state.tn.us/tcrs).

### **Payable to the Pension Plan**

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

### **State and Higher Education Employee Retirement Plan**

#### **General Information About the Pension Plan**

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

The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the

## **Notes to the Financial Statements (Continued)**

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legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.state.tn.us/tcrs](http://www.treasury.state.tn.us/tcrs).

Benefits provided – *Tennessee Code Annotated*, Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest 5 consecutive year average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% 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 July 2 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%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2018, to the State and Higher Education Employee Retirement Plan were \$56,893, which is 1.29% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

### **Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

Pension asset – At June 30, 2018, THDA reported an asset of \$35,422 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total

## Notes to the Financial Statements (Continued)

pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.170803%. The proportion measured as of June 30, 2016, was 0.391715%.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1	\$1
Net difference between projected and actual earnings on pension plan investments	-	3
Change in proportionate share of net asset or liability	19	-
Changes in assumptions	3	-
Tennessee Housing Development Agency's contributions subsequent to the measurement date of June 30, 2017	57	-
	\$80	\$4
<b>Total</b>	<b>\$80</b>	<b>\$4</b>

Deferred outflows of resources, resulting from THDA's employer contributions of \$56,593 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	\$2,058
2020	2,058
2021	1,989
2022	1,621
2023	2,388
Thereafter	9,677



## Notes to the Financial Statements (Continued)

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

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

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

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

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%.

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

## Notes to the Financial Statements (Continued)

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

### Payable to the Pension Plan

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

## **Notes to the Financial Statements (Continued)**

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### **Total Defined Benefit Pension Expense**

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

### **Note 6. Deferred Compensation Plans**

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code (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 THDA provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

The THDA recognized a pension expense of \$338,108 for employer contributions.

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

### **Note 7. Provisions for Mortgage Loan Losses**

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

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

## Notes to the Financial Statements (Continued)

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### Note 8. Insurance-Related Activities

#### Commercial Insurance

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

#### Risk Management Fund

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

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2018, is presented in the *Tennessee Comprehensive Annual Financial Report (CAFR)*. The CAFR is available on the state's website at [www.tn.gov/finance/fa/fa-accounting-financial/fa-acffin-cafr.html](http://www.tn.gov/finance/fa/fa-accounting-financial/fa-acffin-cafr.html). Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2018, the Risk Management Fund held \$189 million in cash designated for payment of claims.

## **Notes to the Financial Statements (Continued)**

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### **Employee Group Insurance Fund**

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

### **Note 9. Other-Postemployment Benefits**

#### **Closed State Employee Group OPEB Plan**

##### *General Information About the OPEB Plan*

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

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

Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired

## Notes to the Financial Statements (Continued)

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members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates.

### *Total OPEB Liability*

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

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

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	7.5% for 2018, decreasing annually to an ultimate rate of 3.83% for 2050 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

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

## Notes to the Financial Statements (Continued)

Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

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

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

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

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

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

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

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

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

## Notes to the Financial Statements (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ -
Changes of assumptions	-	137
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	-	-
Payments subsequent to the measurement date	<u>237</u>	<u>-</u>
Total	<u><u>\$237</u></u>	<u><u>\$137</u></u>

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

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

<u>For the year ended June 30:</u>	
2019	\$ (20)
2020	(20)
2021	(20)
2022	(20)
2023	(20)
Thereafter	(39)

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

### **Closed Tennessee OPEB Plan**

#### *General Information About the OPEB Plan*

Plan description – Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015, and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer



## **Notes to the Financial Statements (Continued)**

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defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System. This plan also serves eligible post-65 retirees of employers who participate in the state-administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Title 8, Chapter 27, Parts 201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible, and receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25. The Tennessee Housing Development Agency does not provide any subsidies for retirees in the TNP. The primary government paid \$7,976 for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

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

### *Total OPEB Liability and OPEB Expense*

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

## Notes to the Financial Statements (Continued)

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

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

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

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

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

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

## Notes to the Financial Statements (Continued)

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

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

Total OPEB expense – The total OPEB expense for the year ended June 30, 2018, was \$289 thousand, which consisted of OPEB expense of \$274 thousand for the EGOP and \$15 thousand paid by the primary government for the TNP.

### Note 10. On-Behalf Payments

During the year ended June 30, 2018, the State of Tennessee made payments of \$7,976 on behalf of THDA for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at [www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html](http://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html).

### Note 11. Payments to Primary Government

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

## Notes to the Financial Statements (Continued)

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### Note 12. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2018, the Tennessee Housing Development Agency implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. GASBS 75 establishes standards for the measurement, recognition, and display of the OPEB liability and related expenses, deferred inflows, deferred outflows, note disclosures, and required supplementary information. The implementation of GASBS 75 resulted in a cumulative adjustment to the beginning net position of \$(1,780,287). This cumulative adjustment does not include related deferred inflows and deferred outflows of resources.

### Note 13. Subsequent Events

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

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

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

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

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

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

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

## Notes to the Financial Statements (Continued)

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Required Supplementary Information**  
**Schedule of THDA's Proportionate Share of the Net Pension Asset**  
**State and Higher Education Employee Retirement Plan Within TCRS**

*(Expressed in Thousands)*

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.170803%	\$35	\$3,068	1.15%	131.51%
2017	0.391715%	33	1,661	1.99%	130.56%
2016	0.457171%	13	498	2.60%	142.55%

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Required Supplementary Information**  
**Schedule of THDA's Proportionate Share of the Net Pension Liability**  
**Closed State and Higher Education Employee Pension Plan Within TCRS**

*(Expressed in Thousands)*

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.427994%	\$7,659	\$10,268	74.60%	88.88%
2017	0.419391%	7,652	10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Required Supplementary Information**  
**Schedule of THDA's Contributions**  
**State and Higher Education Employee Retirement Plan Within TCRS**

*(Expressed in Thousands)*

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2018	\$57	\$57	\$-	\$4,410	1.29%
2017	35	35	-	3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

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



**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Required Supplementary Information**  
**Schedule of THDA's Contributions**  
**Closed State and Higher Education Employee Pension Plan Within TCRS**

*(Expressed in Thousands)*

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2018	\$1,891	\$1,891	\$-	\$10,024	18.87%
2017	1,542	1,542	-	10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%

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

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*(Expressed in Thousands)*

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

**Notes to Schedule**

There are no assets accumulating in a trust that meet the criteria in GASBS 75 paragraph 4, related to this OPEB plan.

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

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

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

*(Expressed in Thousands)*

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

**Notes to Schedule**

There are no assets accumulating in a trust that meet the criteria in GASBS 75 paragraph 4, related to this OPEB plan.

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Supplementary Schedule of Net Position**  
**June 30, 2018**

(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-Ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 4,148	\$ 13,031	\$ 28,457	\$ 19,785	\$ 150,770	\$ 216,191
Investments	-	735	7,145	8,215	67,784	83,879
Receivables:						
Accounts	-	294	532	-	13	839
Interest	-	19	1,656	1,967	7,513	11,155
First mortgage loans	155	2,185	12,897	6,964	37,567	59,768
Due from federal government	34,977	-	-	-	-	34,977
Due from other funds	-	-	-	-	3,167	3,167
Total current assets	39,280	16,264	50,687	36,931	266,814	409,976
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	31,714	-	33,942	363	534	66,553
Investments	-	-	58,514	20,351	48,947	127,812
Investment interest receivable	-	-	548	69	173	790
Investments	-	1,744	-	-	46,851	48,595
First mortgage loans receivable	534	48,811	243,154	258,555	1,507,348	2,058,402
Second mortgage loans receivable	-	-	38,108	-	-	38,108
Allowance for uncollectible second mortgages	-	-	(14,031)	-	-	(14,031)
Unearned service release premiums	1,106	-	-	-	-	1,106
Advance to local government	3,135	-	-	-	-	3,135
Net pension asset	35	-	-	-	-	35
Capital assets:						
Furniture and equipment	5,108	-	-	-	-	5,108
Less accumulated depreciation	(2,232)	-	-	-	-	(2,232)
Total noncurrent assets	39,400	50,555	360,235	279,338	1,603,853	2,333,381
Total assets	78,680	66,819	410,922	316,269	1,870,667	2,743,357
<b>Deferred Outflows of Resources</b>						
Deferred amount on refundings	-	-	-	-	441	441
Deferred outflows related to pensions	3,931	-	-	-	-	3,931
Deferred outflows related to OPEB	237	-	-	-	-	237
Total deferred outflows of resources	\$ 4,168	\$ -	\$ -	\$ -	\$ 441	\$ 4,609

(Continued)

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Supplementary Schedule of Net Position (Continued)**  
**June 30, 2018**

(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-Ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	\$ 15,757	\$ 13	\$ 6	\$ 30	\$ 69	\$ 15,875
Accrued payroll and related liabilities	680	-	-	-	-	680
Compensated absences	736	-	-	-	-	736
Due to primary government	91	-	-	-	-	91
Interest payable	-	-	4,289	4,433	23,459	32,181
Escrow deposits	2,719	-	-	-	-	2,719
Prepayments on mortgage loans	-	-	147	128	930	1,205
Due to federal government	29,517	-	-	-	-	29,517
Due to other funds	392	-	2,775	-	-	3,167
Bonds payable	-	-	28,545	11,450	47,950	87,945
<b>Total current liabilities</b>	<b>49,892</b>	<b>13</b>	<b>35,762</b>	<b>16,041</b>	<b>72,408</b>	<b>174,116</b>
Noncurrent liabilities:						
Bonds payable	-	-	194,843	251,696	1,594,228	2,040,767
Compensated absences	630	-	-	-	-	630
Net pension liability	7,659	-	-	-	-	7,659
Net OPEB liability	3,578	-	-	-	-	3,578
Escrow deposits	696	192	-	-	9,708	10,596
Arbitrage rebate payable	-	-	365	-	-	365
<b>Total noncurrent liabilities</b>	<b>12,563</b>	<b>192</b>	<b>195,208</b>	<b>251,696</b>	<b>1,603,936</b>	<b>2,063,595</b>
<b>Total liabilities</b>	<b>62,455</b>	<b>205</b>	<b>230,970</b>	<b>267,737</b>	<b>1,676,344</b>	<b>2,237,711</b>
<b>Deferred Inflows of Resources</b>						
Deferred inflows related to pensions	228	-	-	-	-	228
Deferred inflows related to OPEB	137	-	-	-	-	137
<b>Total deferred inflows of resources</b>	<b>365</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>365</b>
<b>Net Position</b>						
Net investment in capital assets	2,876	-	-	-	-	2,876
Restricted for single family bond programs	-	-	179,952	48,532	194,764	423,248
Restricted for grant programs	-	12,080	-	-	-	12,080
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for net pension asset	35	-	-	-	-	35
Unrestricted	13,964	54,534	-	-	-	68,498
<b>Total net position</b>	<b>\$ 20,028</b>	<b>\$ 66,614</b>	<b>\$ 179,952</b>	<b>\$ 48,532</b>	<b>\$ 194,764</b>	<b>\$ 509,890</b>

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Supplementary Schedule of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2018**

*(Expressed in Thousands)*

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

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**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Supplementary Schedule of Cash Flows**  
**For the Year Ended June 30, 2018**

*(Expressed in Thousands)*

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

*(Continued)*



**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Supplementary Schedule of Cash Flows (Continued)**  
**For the Year Ended June 30, 2018**

*(Expressed in Thousands)*

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



JUSTIN P. WILSON  
Comptroller

JASON E. MUMPOWER  
Chief of Staff

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the agency's basic financial statements, and have issued our report thereon dated December 11, 2018. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the agency's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Deborah V. Loveless, CPA, Director  
Division of State Audit  
December 11, 2018