



*FINANCIAL STATEMENTS*

June 30, 2014



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

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

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the years ended June 30, 2014, and June 30, 2013, and the related notes to the financial statements, which collectively comprise the agency's basic financial statements as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

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

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

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

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

### ***Opinion***

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

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

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

accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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



Deborah V. Loveless, CPA  
Director  
November 3, 2014

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

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

**INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY**

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

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

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

## **FINANCIAL HIGHLIGHTS**

### **Year Ended June 30, 2014**

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

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

**Year Ended June 30, 2013**

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

**FINANCIAL ANALYSIS OF THE AGENCY**

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

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

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

**2014 to 2013**

- THDA's total net position increased by \$0.5 million, or 0.1%, from \$526.5 million at June 30, 2013 to \$526.9 million at June 30, 2014. While various factors accounted for this change, the most significant factors include an increase in investment income, an increase in the net increase/decrease in the fair value of investments, and a decrease in bonds payable.
- Mortgage loans receivable decreased by \$21.0 million or 1.1% from \$1,987.3 million on June 30, 2013 to \$1,966.3 million on June 30, 2014. During FY 2014, single-family mortgage loan originations increased by \$15.1 million or 7.1% from \$212.2 million at June 30, 2013 to \$227.3 million at June 30, 2014. Mortgage loan prepayments and repayments decreased by \$22.1 million or 8.3% from \$267.3 million at June 30, 2013 to \$245.3 million at June 30, 2014.
- Total liabilities decreased \$164.2 million or 7.5% from \$2,203.1 million on June 30, 2013 to \$2,038.9 million on June 30, 2014. The decrease is primarily due to a decrease in the amount of bonds issued during fiscal year 2014 as compared to fiscal year 2013, as well as an increase in the redemption of bonds, due to more frequent bond calls, as compared to fiscal year 2013.

**2013 to 2012**

- THDA's total net position decreased by \$17.0 million, or 3.1%, from \$543.5 million at June 30, 2012, to \$526.5 million at June 30, 2013. While various factors accounted for this change, the most significant factors include a decrease in mortgage interest income, a decrease in the net increase/decrease in the fair value of investments, and an increase in bonds payable.
- Mortgage loans receivable decreased by \$109.3 million, or 5.2%, from \$2,096.6 million on June 30, 2012, to \$1,987.3 million on June 30, 2013. During FY 2013, single-family mortgage loan originations decreased by \$23.6 million, or 10.0%, from \$235.7 million at June 30, 2012, to \$212.2 million at June 30, 2013. Conversely, mortgage loan prepayments and repayments increased by \$58.3 million, or 28.0% from \$209.0 million at June 30, 2012, to \$267.3 million on June 30, 2013.
- Total liabilities increased \$119.3 million, or 5.7%, from \$2,083.8 million at June 30, 2012, to \$2,203.1 million at June 30, 2013. The increase is primarily due to an increase in the amount of bonds issued during fiscal year 2013 as compared to fiscal year 2012, as well as a small decrease in the redemption of bonds as compared to fiscal year 2012.



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

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

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

**2014 to 2013**

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

- Investment income increased \$10.7 million or 247.0% from a net loss of \$4.3 million in 2013 to \$6.3 million in 2014, due to the net increase in the fair value of investments by \$10.7 million.
- Mortgage interest income decreased \$7.1 million, or 6.4%, from \$109.2 million in 2013 to \$102.1 million in 2014. This is due to mortgage loan prepayments exceeding the amount of mortgage loan originations. Likewise, new mortgage loan originations typically have lower interest rates than those associated with mortgage loan repayments.
- Total operating expenses decreased \$7.3 million, or 6.0%, from \$120.6 million in fiscal year 2013 to \$113.3 million in fiscal year 2014. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

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

**2013 to 2012**

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

- Investment income decreased \$16.3 million, or 136.2%, from \$12.0 million in 2012 to a net loss of \$4.3 million in 2013. While interest income from investments decreased marginally, THDA experienced a net decrease in the fair value of investments of \$15.2 million in fiscal year 2013, as compared to a net increase in the fair value of investments of \$0.3 million in fiscal year 2012.
- Mortgage interest income decreased \$6.9 million, or 5.9%, from \$116.0 million in 2012 to \$109.1 million in 2013. This is due to mortgage loan prepayments exceeding the amount of mortgage loan originations. Likewise, new mortgage loan originations typically have lower interest rates than those associated with mortgage loan repayments.
- Total operating expenses decreased \$6.7 million, or 5.3%, from \$127.3 million in fiscal year 2012 to \$120.6 million in fiscal year 2013. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

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

**DEBT ACTIVITY**

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Bonds payable	\$ 1,984,298	\$ 2,136,806	\$ 2,020,302

**Year Ended June 30, 2014**

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

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

**Year Ended June 30, 2013**

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

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

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

**New Issue Bond Program (NIBP)**

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

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

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

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

**Bond Ratings**

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

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

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

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

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

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

**Debt Limits**

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

**GRANT PROGRAMS**

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

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

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

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

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

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

**CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT**

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

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

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

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

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

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

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

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

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

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

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

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

**ECONOMIC FACTORS**

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

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

**CONTACTING THDA's FINANCIAL MANAGEMENT**

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

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

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

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

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

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

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



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

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

(continued)

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

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

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

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

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

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

**b. Basis of Presentation**

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

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

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

**d. Capital Assets**

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

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

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

**e. Restricted Assets**

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.
2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

**g. Cash and Cash Equivalents**

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

**h. Investments**

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

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

**i. Accrual of Interest Income**

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

**j. Mortgages**

Mortgages are carried at their original amount less collected principal.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

**k. Operating Revenues and Expenses**

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

**NOTE 2. DEPOSITS AND INVESTMENTS**

**a. Deposits**

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

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

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

**b. Investments**

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

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

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

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

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

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

Variable Rate Bonds

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

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

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



**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

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

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

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

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

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

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014, AND JUNE 30, 2013**

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

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

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

<sup>1</sup>This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014, AND JUNE 30, 2013**

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

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

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

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

**NOTE 3. ACCOUNTING CHANGE**

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

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

<sup>1</sup>This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

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

**NOTE 4. LIABILITIES**

**a. Bonds Issued and Outstanding**

<b>BONDS ISSUED AND OUTSTANDING</b>					
(Thousands)					
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2014</u>	<u>Ending Balance 6/30/2013</u>
<b>MORTGAGE FINANCE PROGRAM BONDS</b>					
2003A	7/1/2004-7/1/2034	\$191,885	1.70 to 5.35	\$ -0-	\$48,965

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

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

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

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

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

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

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

**b. Debt Service Requirements**

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

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

**c. Redemption of Bonds and Notes**

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

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

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

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

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



**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

**d. Long-term Liability Activity**

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

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

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

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

**NOTE 5. RESTRICTED NET POSITION**

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

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

**NOTE 6. DEFINED BENEFIT PENSION PLAN**

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

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

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

**NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES**

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

**NOTE 8. INSURANCE-RELATED ACTIVITIES**

**a. Commercial Insurance**

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

**b. Risk Management Fund**

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

**c. Employee Group Insurance Fund**

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

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS**

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

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

<b>THDA Annual OPEB Cost and Net OPEB Obligation</b> <b>State Employee Group Plan</b> (Thousands)
---

June 30, 2014      June 30, 2013

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

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

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

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

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

**NOTE 10. ON-BEHALF PAYMENTS**

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

**NOTE 11. PAYMENTS TO PRIMARY GOVERNMENT**

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

**NOTE 12. NATIONAL MORTGAGE SETTLEMENT FUNDS**

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

**NOTE 13. FINAL REDEMPTION / TRANSFER OF ASSETS**

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

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

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

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

**TENNESSEE HOUSING DEVELOPMENT AGENCY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014, AND JUNE 30, 2013**

---

**NOTE 14. SUBSEQUENT EVENTS**

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

July 1, 2014	Homeownership Program	\$56,290,000
	Housing Finance Program	9,715,000
	Residential Finance Program	<u>5,415,000</u>
	Total	<u>\$71,420,000</u>

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

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

August 1, 2014	Homeownership Program	\$13,360,000
	Housing Finance Program	4,610,000
	Residential Finance Program	<u>1,645,000</u>
	Total	<u>\$19,615,000</u>

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

September 1, 2014	Homeownership Program	\$11,275,000
	Housing Finance Program	4,950,000
	Residential Finance Program	<u>1,685,000</u>
	Total	<u>\$17,910,000</u>

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

October 1, 2014	Homeownership Program	\$14,965,000
	Housing Finance Program	6,130,000
	Residential Finance Program	<u>3,175,000</u>
	Total	<u>\$24,270,000</u>



**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014, AND JUNE 30, 2013**

---

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

November 1, 2014	Homeownership Program	\$12,455,000
	Housing Finance Program	5,015,000
	Residential Finance Program	<u>2,040,000</u>
	Total	<u>\$19,510,000</u>

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

---

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

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

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

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

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

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

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

(continued)

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

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

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

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

\* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.

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