

# Utah Housing Corporation

Financial Statements, Required  
Supplemental Information, and  
Combining Supplemental Schedules as of and  
for the Year Ended June 30, 2016, and  
Independent Auditors' Report

# UTAH HOUSING CORPORATION

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## **INDEPENDENT AUDITORS' REPORT**

To the Audit Committee  
Utah Housing Corporation  
West Valley City, Utah

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

We have audited the accompanying financial statements of Utah Housing Corporation (the "Corporation"), which comprise the balance sheet as of June 30, 2016, and the related statements of revenue, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Utah Housing Corporation as of June 30, 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

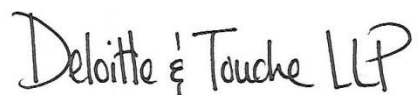
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules of proportionate share of the net pension liability and contributions listed in the foregoing table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 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.

Our audit was conducted for the purpose of forming an opinion on the Corporation's financial statements. The combining supplemental schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such combining supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such combining supplemental information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining supplemental schedules are fairly stated, in all material respects, in relation to the 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 September 23, 2016, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, 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 Corporation's internal control over financial reporting and compliance.

The image shows a handwritten signature in dark ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

September 23, 2016

**UTAH HOUSING CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

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This section of the Utah Housing Corporation's (the "Corporation") annual financial report presents the Corporation management's discussion and analysis of the Corporation's financial performance during the fiscal year ended June 30, 2016. It is intended to be read in conjunction with the Corporation's financial statements and the accompanying notes.

**FINANCIAL HIGHLIGHTS**

The financial highlights of the Corporation as of June 30, 2016, compared with prior-year balances are as follows:

- Cash and cash equivalents decreased \$3.3 million (-3.0%)
- Total investments decreased \$52.4 million (-6.5%)
- Total mortgage loans receivable increased \$22.6 million (2.6%)
- Total assets and deferred outflows decreased \$54.4 million (-2.9%)
- Line-of-credit payable increased \$40.9 million (139.4%)
- Current maturities of bonds and notes payable increased \$17.6 million (10.3%)
- Total bonds payable decreased \$65.5 million (-4.9%)
- Notes payable decreased \$16.2 million (-10.3%)
- Notional amount of swaps outstanding decreased \$257 million (-48.0%)
- Interest on cash and investments increased \$6.8 million (49.0%)
- Gain on sale of loans increased \$4.6 million (14.2%)
- Total net position increased \$23.8 million (9.1%)

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual financial report consists of four parts: Management's discussion and analysis; the financial statements, including notes to financial statements; required supplemental information; and combining supplemental schedules. The accounting and reporting policies of the Corporation conform with accounting principles generally accepted in the United States of America and follow the accrual basis of accounting as prescribed by Governmental Accounting Standards Board (GASB). The Corporation is an independent public corporation, is self-supporting, and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Corporation. These statements are presented in a manner similar to a private business, such as mortgage banking, mortgage servicing, real estate development, commercial lending, construction management, and private consulting. Summary information is presented for separate mortgage revenue bond (MRB) programs in the combining supplemental schedules. More detailed information is not presented in this report; however, separate accounts are maintained for each activity to control and manage those designated financial transactions.

**UTAH HOUSING CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL ANALYSIS OF THE CORPORATION**

The following table summarizes the changes in net position between June 30, 2016 and 2015 (in thousands):

	<b>Unaudited</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>	<b>% Change</b>
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 108,052	\$ 111,380	\$ (3,328)	(3.0)%
Investments	133,258	349,734	(216,476)	(61.9)%
Current maturities of loans receivable	19,519	20,437	(918)	(4)%
Interest receivable	5,621	5,107	514	10.1 %
Other current assets	1,346	1,527	(181)	(11.9)%
<b>Total current assets</b>	<b>267,796</b>	<b>488,185</b>	<b>(220,389)</b>	<b>(45.1)%</b>
<b>NONCURRENT ASSETS:</b>				
Investments	616,188	452,140	164,048	36 %
Loans receivable	878,122	854,555	23,567	2.8 %
Net pension asset		6	(6)	
Capital assets—net	6,469	5,811	658	11.3 %
Other assets	19,557	14,018	5,539	39.5 %
<b>Total noncurrent assets</b>	<b>1,520,336</b>	<b>1,326,530</b>	<b>193,806</b>	<b>15 %</b>
<b>DEFERRED OUTFLOWS:</b>				
Accumulated decrease in fair value of hedging derivatives	5,035	4,721	314	6.7 %
Pension	2,649	647	2,002	
Deferred loss on refunding	34,888	65,021	(30,133)	(46.3)%
<b>Total deferred outflows</b>	<b>42,572</b>	<b>70,389</b>	<b>(27,817)</b>	<b>(39.5)%</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 1,830,704</b>	<b>\$ 1,885,104</b>	<b>\$ (54,400)</b>	<b>(2.9)%</b>

(Continued)

**UTAH HOUSING CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Unaudited			
	2016	2015	\$ Change	% Change
CURRENT LIABILITIES:				
Interest payable	\$ 15,474	\$ 21,858	\$ (6,384)	(29.2)%
Line-of-credit payable	70,248	29,339	40,909	139.4 %
Current maturities of bonds payable	150,532	143,494	7,038	4.9 %
Current maturities of notes payable	39,074	28,477	10,597	37 %
Other current liabilities	5,937	5,925	12	0.2 %
Total current liabilities	281,265	229,093	52,172	22.8 %
NONCURRENT LIABILITIES:				
Bonds payable	1,115,054	1,187,637	(72,583)	(6.1)%
Notes payable	101,161	127,928	(26,767)	(20.9)%
Unearned revenue	1,550	4,655	(3,105)	(66.7)%
Net pension liability	5,809	3,770	2,039	54.1 %
Derivative instruments	38,437	57,318	(18,881)	(32.9)%
Other liabilities	136	443	(307)	(69.3)%
Total noncurrent liabilities	1,262,147	1,381,751	(119,604)	(8.7)%
Total liabilities	1,543,412	1,610,844	(67,432)	(4.2)%
DEFERRED INFLOWS:				
Pension	486	348	138	39.7 %
Accumulated increase in fair value of hedging derivatives	1,486	12,423	(10,937)	(88.0)%
Total deferred inflows	1,972	12,771	(10,799)	(84.6)%
NET POSITION:				
Invested in capital assets — net of related debt	6,469	5,811	658	11.3 %
Restricted — expendable	176,153	173,687	2,466	1.4 %
Unrestricted	102,698	81,991	20,707	25 %
Total net position	285,320	261,489	23,831	9 %
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	\$ 1,830,704	\$ 1,885,104	\$ (54,400)	(2.9)%

(Concluded)

**UTAH HOUSING CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

The following table summarizes the changes in operating income before fair value adjustments and changes in net position between the years ended June 30, 2016 and 2015 (in thousands):

	<b>Unaudited</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>	<b>% Change</b>
OPERATING REVENUES:				
Interest on loans receivable	\$ 42,080	\$ 45,175	\$ (3,095)	(6.9)%
Interest on cash and investments	20,797	13,956	6,841	49.0 %
Servicing revenues	9,450	8,352	1,098	13 %
Gain on sale of loans	37,478	32,830	4,648	14.2 %
Other revenues	3,083	1,879	1,204	64.1 %
Total operating revenues	<u>112,888</u>	<u>102,192</u>	<u>10,696</u>	<u>10.5 %</u>
OPERATING EXPENSES:				
Interest	44,924	52,904	(7,980)	(15.1)%
Swap termination expense	22,988		22,988	
Salaries and benefits	9,655	8,283	1,372	16.6 %
General operating expense	4,410	4,328	82	1.9 %
Loan servicing fees	2,854	3,071	(217)	(7.1)%
Amortization of other assets	5,893	4,257	1,636	38.4 %
Bond issuance expenses	3,513	1,750	1,763	100.7 %
Net (recovery) provision for loan losses	(1,412)	1,014	(2,426)	(239)%
Depreciation of capital assets	354	305	49	16 %
Total operating expenses	<u>93,179</u>	<u>75,912</u>	<u>17,267</u>	<u>22.7 %</u>
OPERATING INCOME BEFORE FAIR VALUE ADJUSTMENTS	19,709	26,280	(6,571)	(25.0)%
Net increase (decrease) in fair value of investments	<u>4,122</u>	<u>(5,580)</u>	<u>9,702</u>	<u>(173.9)%</u>
CHANGE IN NET POSITION	23,831	20,700	3,131	15.1 %
NET POSITION — Beginning of year	261,489	244,487		
Prior-period adjustment—Implementation of GASB 68 and GASB 65	<u>-</u>	<u>(3,698)</u>		
NET POSITION — End of year	<u>\$ 285,320</u>	<u>\$ 261,489</u>	<u>\$ 23,831</u>	<u>9 %</u>

**OTHER FINANCIAL ANALYSIS**

The Corporation has been successful at reinventing its business model from a traditional Housing Finance Agency to a proactive Housing Finance Agency with less dependency on its traditional tax-exempt bonding as a sole source of capital to fund its programs. The Corporation has evolved to also issue mortgage-backed securities (MBS) as part of its capital sources



**UTAH HOUSING CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

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needed to fund affordable housing programs. In addition, the Corporation working with its business partners has developed other innovative capital sources, including a tax-exempt MBS structure.

The current-year operations reflect the Corporation's successful shift away from tax-exempt MRBs as the only source of capital for the affordable housing programs. The Corporation produced a record \$868 million of new single-family loans during the fiscal year. These loans were funded by new and innovative capital sources. The Corporation sold \$619.9 million of loans as Ginnie Mae MBS and \$109.8 million of loans as Fannie Mae MBS to investors, of which \$214 million was placed into a new tax-exempt MBS pass-through bond structure. During the year ended June 30, 2016, the Corporation also initiated a major restructuring of the outstanding debt under the 2000 and 2007 variable-rate demand obligation bond indentures. As part of this restructuring, the Corporation refunded existing Class II and Class III fixed-rate bonds to Class III bonds and issued \$60 million of new Class III fixed-rate bonds. Additionally, the Corporation called all remaining debt under the 2007 indenture and terminated \$175 million notional of swaps with a termination payment. The Corporation also novated swaps from a counterparty whose rating fell below requirements and exercised a no par termination option on additional \$35 million notional of swaps. During the fiscal year, \$49.3 million of new taxable MRBs were also issued.

The Corporation produced a substantial amount of operating income before fair value adjustment for the fourth year in a row. Operating income for the fiscal year ended June 30, 2016, was 6.6 million lower, as compared to the previous year. This decrease was due to termination of \$175 million of notional swaps during the year, which generated a one-time expense of \$23.0 million, which will be offset by decreased losses generated by restructuring.

The Corporation also continues to reevaluate the allowance for loan loss reserves as it relates to its uninsured second mortgage and repurchased loan portfolio. Due to the reduced write-offs and delinquencies over the past few years, the allowance was reduced from 3.5% to 1.0% as of June 30, 2016.

The financial strength of the Corporation is represented by its quality loan portfolio of federally insured mortgage loans and large cash and investment balances. The following two key ratios used by rating agencies to evaluate the industry, reaffirms that the Corporation remains financially strong.

The Corporation's adjusted debt-to-equity ratio (defined as total liabilities divided by the total net position) is 5.41. This ratio is interpreted as having \$5.41 of debt for every dollar of equity. The Corporation's ratio is lower than last year's ratio of \$6.16 as the Corporation increased equity and the existing single-family indentures and reduced overall debt by \$81.7 million during the year. The Corporation's ratio has trended downwards from a high of 18.3 at the beginning of fiscal year 1993 as the Corporation's net position has grown and stabilized and as the Corporation has issued more MBS as compared to bonds over the past several years.

The Corporation's net interest spread ratio (defined as total interest revenues, less interest expense divided by total interest revenues) is 25.5%. This ratio is up from 10.5% last fiscal year. This is a reflection of the increased production of single-family mortgages, single-family indenture restructuring and issuance of the new MBS debt.

The fiscal year general and administrative budget of \$10.2 million was adequate to fund operations.

## **DEBT ADMINISTRATION**

At fiscal year end June 30, 2016, the Corporation had total debt outstanding of \$1,405 million, a decrease of \$82 million, or 5.49%, during the fiscal year, as shown in the table below. During the year ended June 30, 2016, the Corporation issued \$49.3 million of taxable single-family bonds, \$114.8 million of tax-exempt single-family bonds, and \$214 million of single-family tax-exempt pass-through bonds. More detailed information about the Corporation's debt is presented in Notes 8 and 10 to the financial statements.

The Corporation has sold variable-rate bonds to meet the demands of its overall funding strategy. These variable-rate bonds are subject to tender by the bondholders upon surrender to the remarketing agent. In the event the remarketing agent is unable to remarket these bonds, the variable-rate bonds will be, subject to certain conditions, purchased by a liquidity facility provider. Such purchase by the provider would require the Corporation to pay an increased predetermined interest rate on the bonds. As of June 30, 2016, the Corporation had \$83 million in variable-rate bonds subject to liquidity agreements.

During the fiscal year, the Corporation's variable-rate bonds have been remarketed on a normal basis, where the interest paid on variable-rate bonds, closely follows the receipt of revenues from the index-based swaps. Nevertheless, in this current environment, the Corporation's new liquidity agreements have required higher fees, which weaken the profitability of the single-family program. Fees that were projected to be in the 15 bps range over the life of the bond issue have been as high as 95 bps. During the year ended June 30, 2016, the Corporation paid fees under existing liquidity agreements between 33 and 43 bps.

The Corporation issued these variable-rate bonds to decrease the mortgage rate and increase the volume of funding available to purchase qualified homes under the Corporation's low- to moderate-income programs. Risks inherently associated with these variable-rate bonds are largely mitigated by the use of pay-fixed and receive-variable interest rate swap contracts.

The swap agreements have notional amounts that amortize in accordance with the scheduled and or anticipated reduction in the related bond liability. The Corporation is potentially exposed to loss in the event of nonperformance by the counterparty under the agreements or from early termination of the swap agreements. However, the Corporation does not anticipate such nonperformance and expects to hold its swap agreements until it can exercise various call options to reduce the notional amounts or until the stated termination dates. Additional information about the Corporation's swap contracts is presented in Note 9 to the financial statements.

**UTAH HOUSING CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

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The following table summarizes the changes in debt between fiscal years 2016 and 2015 (in thousands):

	<b>2016</b>	<b>2015</b>	<b>% (Decrease) Increase</b>
Notes payable	\$ 140,235	\$ 156,405	(10.34)%
Taxable bonds payable	503,504	707,432	(28.83)%
Subordinate general obligation bonds payable	122,530	71,975	70.24 %
All other bonds payable	<u>639,552</u>	<u>551,724</u>	<u>15.92 %</u>
Total debt	<u>\$ 1,405,821</u>	<u>\$ 1,487,536</u>	<u>(5.49)%</u>

All bonds and debts issued by the Corporation, except general obligation bonds, are special obligations of the Corporation and are payable solely from the designated revenues and assets derived from the proceeds of the bonds and are not legal obligations of the state of Utah or any other political subdivision thereof.

**CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens of Utah, our constituents and investors with a general overview of the Corporation's finances and to demonstrate the Corporation's financial accountability over its resources. If you have questions about this report or need additional financial information, contact the chief financial officer at Utah Housing Corporation, 2479 Lake Park Boulevard, West Valley City, UT 84120, call +1 801 902 8200, or visit our website at: [www.utahhousingcorp.org](http://www.utahhousingcorp.org).

# UTAH HOUSING CORPORATION

## BALANCE SHEET

AS OF JUNE 30, 2016

(In thousands)

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### ASSETS AND DEFERRED OUTFLOWS

#### CURRENT ASSETS:

Cash and cash equivalents	\$ 108,052
Investments (partially restricted, Note 3)	133,258
Current maturities of loans receivable (partially restricted, Note 4)	19,519
Interest receivable	5,621
Other current assets	<u>1,346</u>

Total current assets	<u>267,796</u>
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#### NONCURRENT ASSETS:

Investments (partially restricted, Note 3)	616,188
Loans receivable, net of allowance (partially restricted, Note 4)	878,122
Capital assets—net	6,469
Other assets	<u>19,557</u>

Total noncurrent assets	<u>1,520,336</u>
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Total assets	<u>1,788,132</u>
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#### DEFERRED OUTFLOWS:

Accumulated decrease in fair value of hedging derivatives	5,035
Pension	2,649
Deferred loss on refunding	<u>34,888</u>

Total deferred outflows	<u>42,572</u>
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TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 1,830,704</u>
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(Continued)

# UTAH HOUSING CORPORATION

## BALANCE SHEET

AS OF JUNE 30, 2016

(In thousands)

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### LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

#### CURRENT LIABILITIES:

Interest payable	\$ 15,474
Line-of-credit payable	70,248
Current maturities of bonds payable	150,532
Current maturities of notes payable	39,074
Other current liabilities	<u>5,937</u>

Total current liabilities	<u>281,265</u>
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#### NONCURRENT LIABILITIES:

Bonds payable	1,115,054
Notes payable	101,161
Unearned revenue	1,550
Net pension liability	5,809
Derivative instruments	38,437
Other liabilities	<u>136</u>

Total noncurrent liabilities	<u>1,262,147</u>
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Total liabilities	<u>1,543,412</u>
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#### DEFERRED INFLOWS:

Pension	486
Accumulated increase in fair value of hedging derivatives	<u>1,486</u>

Total deferred inflows	<u>1,972</u>
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#### NET POSITION:

Invested in capital assets—net of related debt	6,469
Restricted—expendable	176,153
Unrestricted	<u>102,698</u>

Total net position	<u>285,320</u>
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TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 1,830,704</u>
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See notes to financial statements.

(Concluded)

## UTAH HOUSING CORPORATION

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2016

(In thousands)

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#### OPERATING REVENUES:

Interest on loans receivable	\$ 42,080
Interest on cash and investments	20,797
Servicing revenues	9,450
Gain on sale of loans	37,478
Other revenues	3,083
Net increase in the fair value of investments	<u>4,122</u>

Total operating revenues	<u>117,010</u>
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#### OPERATING EXPENSES:

Interest	44,924
Swap termination expense	22,988
Salaries and benefits	9,655
General operating expense	4,410
Loan servicing fees	2,854
Amortization of other assets	5,893
Bond issuance expenses	3,513
Net recovery for loan losses	(1,412)
Depreciation of capital assets	<u>354</u>

Total operating expenses	<u>93,179</u>
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CHANGE IN NET POSITION	23,831
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NET POSITION—Beginning of year	<u>261,489</u>
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NET POSITION—End of year	<u>\$285,320</u>
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See notes to financial statements.

# UTAH HOUSING CORPORATION

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2016 (In thousands)

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from interest on loans receivable	\$ 41,686
Cash received from payments on loans receivable	210,673
Cash received from loan servicing	9,450
Cash received from other revenues	2,987
Cash received from sale of loan securities and other assets	760,171
Purchase of loans receivable	(954,188)
Cash payments for servicing fees	(2,854)
Cash payments for general operating expenses	(4,602)
Cash payments for salaries and benefits	<u>(9,378)</u>
Net cash provided by operating activities	<u>53,945</u>

### CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Proceeds from bonds payable	393,577
Proceeds from notes payable	33,124
Principal paid on notes payable	(49,294)
Principal paid on bonds payable	(456,669)
Proceeds from revolving credit agreement	507,622
Principal paid on revolving credit agreement	(466,713)
Interest paid on bonds payable/notes payable/revolving credit agreement	(53,895)
Cash payments for swap terminations	(25,863)
Cash payments for issuance of bonds	(3,513)
Proceeds from interest rate swap agreements	743
Payments made on interest rate swap agreements	(940)
Purchase of other assets	<u>(11,372)</u>
Net cash used in non-capital financing activities	<u>(133,193)</u>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITY—Purchases of capital assets

(1,012)

### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(1,391,323)
Proceeds from sales and maturities of investments	1,448,012
Interest and dividends on investments and cash equivalents	<u>20,243</u>
Net cash provided by investing activities	<u>76,932</u>

### NET DECREASE IN CASH AND CASH EQUIVALENTS

(3,328)

### CASH AND CASH EQUIVALENTS—Beginning of year

111,380

### CASH AND CASH EQUIVALENTS—End of year

\$ 108,052

(Continued)

# UTAH HOUSING CORPORATION

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2016 (In thousands)

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### RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Change in net position	\$ 23,831
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Adjustments to reconcile operating income to net cash provided by  
operating activities—adjustments for operating activities:

Depreciation	354
Interest on cash and investments	(20,797)
Interest expense	44,924
Swap termination expense	22,988
Amortization of other assets	5,893
Net recovery for loan losses	(1,412)
Changes in assets and liabilities:	
Increase in receivables	(21,747)
Decrease in other assets	121
Increase in other liabilities	(295)
Increase in net pension asset/liability	2,045
Decrease in deferred inflows/outflows for pension	(1,864)
Decrease in unearned revenue	(96)

Total adjustments	<u>30,114</u>
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NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 53,945</u>
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See notes to financial statements.

(Concluded)



# UTAH HOUSING CORPORATION

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

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### 1. DESCRIPTION OF THE CORPORATION AND PROGRAMS

Utah Housing Corporation (the "Corporation"), previously known as Utah Housing Finance Agency, was created in 1975 by the Utah Legislature under the provisions of Part 9, Chapter 4, Title 9 of the Utah Code, Annotated 1953, as amended (the "Act"). The Act empowers the Corporation, among other things, to issue bonds and other obligations and to purchase mortgage loans in furtherance of its purpose of providing safe and sanitary housing for persons of limited income residing in the state of Utah. The principal amount of bonds and other obligations outstanding is not limited by the Act.

The enabling legislation, along with bond indentures and bond resolutions adopted by the Corporation, contains specific provisions pertaining to (a) the use of the proceeds from the sale of notes and bonds, (b) the application of pledged receipts and recoveries of principal from mortgages, and (c) the creation of certain funds along with the accounting policies of such funds.

The Corporation has no taxing authority. Bonds and obligations issued by the Corporation do not constitute a debt of the state of Utah or any political subdivision thereof.

The Corporation has divided its operations into specific fund groups, as follows:

*Operating Fund*—This fund is primarily used to account for the operating expenses and general administration of the Corporation. Resources to operate the Corporation are provided from servicing net revenues, other revenues, and transfers from unrestricted single-family programs.

*Single-Family Mortgage Program Funds*—These funds are established to track and maintain the various single-family programs of the Corporation. This includes the funds established under the single-family mortgage revenue bond (MRB) resolutions adopted at various dates, warehoused loans, sale and issuance of mortgage-backed securities (MBS), repurchased loans from MBS, and the Corporation's second mortgage program. The bond programs account for proceeds from the sale of the single-family MRBs, the debt service requirements of the bond indebtedness, and the mortgage loans on eligible single-family housing being financed from bond proceeds, as well as loans and corresponding notes payable from the Community Reinvestment Act (CRA) participation program. First mortgage loans are insured by private mortgage insurance, Federal Housing Administration, or are guaranteed by the Veterans' Administration.

The Corporation exercises its authority, granted by the Internal Revenue Code, to issue tax-exempt MRBs to provide funds for the purchase of mortgage loans to be made to finance the acquisition of single-family residences in the state of Utah by households of low and moderate income. The Corporation has also issued various MRBs that are taxable.

*Housing Development Funds*—These funds are used to account for funds to assist in financing difficult-to-develop housing. Those activities include the acquisition, development, financing of new construction or rehabilitation of transitional housing,

permanently affordable rental housing for very low-income households, and others with special housing needs. In addition, these funds are used to make construction and long-term loans for affordable housing developments throughout Utah. These funds are also used to assist very low-income first-time homebuyers with down payment, closing costs, and other forms of financial assistance.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**—The accounting and reporting policies of the Corporation conform with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” and follow the accrual basis of accounting as prescribed by Governmental Accounting Standards Board (GASB). Financial activities of the Corporation are recorded in funds established under various bond resolutions. The administrative and operational activities, including the operating expenses of various programs, are recorded in the general operating fund and are not allocated to the various funds, except for fiduciary and other miscellaneous expenditures.

**Cash and Cash Equivalents**—Cash and cash equivalents consist principally of cash deposits, sweep account investments in money market funds, and investments in the Utah State Public Treasurer’s Investment Fund (PTIF).

**Investments**—Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Guaranteed investment contracts (GICs) are recorded at current carrying amount.

**Loans Receivable**—Loans receivable are carried at the unpaid principal balance outstanding, less the allowance for estimated loan losses.

**Allowance for Loan Losses**—The allowance for loan losses is a reserve against current operations based on management’s estimate of expected future loan losses. Management’s estimate considers such factors as the payment history of the loans, guarantees, mortgage insurance, historical loss experience, and overall economic conditions. Based on the review of the factors, a total reserve amount is calculated and a provision is made against current operations to reflect the estimated balance. While management uses available information to recognize losses future additions to the allowance may be necessary based on changes in economic conditions.

**Interest Receivable**—Interest on loans and investments is recognized as earned.

**Capital Assets**—Capital assets with an initial cost greater than \$1,000 are carried at cost. Office equipment, furniture and fixtures, and vehicles are depreciated using the straight-line method over their estimated useful lives of three to seven years. The building is depreciated using the straight-line method over an estimated useful life of 40 years.

**Swap Termination Expense**—Expense includes the cost of terminating various swaps during year and interest on those swaps.

**Bond Financing Costs**—Costs of issuing bonds are expensed as they are incurred.

**Bond Discounts and Premiums**—Discounts and premiums on bonds payable are amortized to interest expense over the lives of the respective bond issues using the interest method.

**Debt Refundings**—For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old or new debt, whichever is shorter. The difference is amortized using the effective interest method. The deferred refunding amounts are classified as a component of deferred outflows in the balance sheet.

**Derivative Instruments**—The Corporation has entered into various interest rate swap contracts and forward sales contracts as part of its overall funding strategy. The objective of these financial instruments is to increase the volume of funding available to purchase qualified homes under the Corporation's low- to moderate-income programs. The Corporation has recorded the fair market value of its derivative investments on the financial statements and has evaluated and measured their effectiveness. All of the Corporation's derivative instruments were deemed to be effective, and the Corporation has deferred the changes in fair value for these derivatives and has reported them as deferred outflows and deferred inflow of resources in the balance sheet (see Note 9).

**Transfers**—The Corporation may make transfers among the various funds to meet the cash flow requirements of the individual programs or to account for equity and working capital contributions. The Corporation may also contribute amounts from the operating funds to provide assistance on certain bond issues or transfer from unrestricted single-family programs to provide resources for the Corporation's general and administrative expenses.

**Mortgage Loan Servicing**—Mortgage loan servicing fees paid to the general operating fund are based on a stipulated percentage of the outstanding loan principal balances being serviced. Costs associated with the acquisition of loan servicing rights through the purchase of servicing contracts or bulk loan purchases from external mortgage servicers are deferred and amortized over the estimated lives of loans being serviced.

**Use of Estimates**—The preparation of these financial statements required the use of estimates and assumptions by management in determining the entity's assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses. Actual results could differ materially from these estimates and assumptions.

**Restricted Assets**—Assets whose use is restricted for a specific purpose are disclosed in the financial statements. When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted as they are needed.

**Pensions**—For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems (URS) Pension Plan and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**Deferred Outflows/Inflows of Resources**—In addition to assets, financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the financial statements will

sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

**New Accounting Principles**—GASB Statement No. 72, *Fair Value Measurement and Application*, which was adopted during the year ended June 30, 2016, addresses accounting and reporting issues related to fair value measurements. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques used. The application of this statement affected the disclosures of investments and derivative instruments held by the Corporation and reported at fair value in the accompanying financial statements (see Note 12).

### 3. CASH AND INVESTMENTS

Cash and investments at June 30, 2016, are summarized as follows (in thousands):

	<b>Single Family</b>	<b>Operating</b>	<b>Housing Development</b>	<b>Total</b>
Cash and cash equivalents	\$ 71,649	\$8,895	\$27,508	\$108,052
Investments	<u>749,386</u>	<u>          </u>	<u>60</u>	<u>749,446</u>
Total	<u>\$821,035</u>	<u>\$8,895</u>	<u>\$27,568</u>	<u>\$857,498</u>

Cash deposits at June 30, 2016, are summarized as follows (in thousands):

<b>Fund</b>	<b>Bank Balances</b>	<b>Book Balances</b>
Single family	\$3,526	\$6,954
Operating	5,219	138
Housing development	<u>28</u>	<u>28</u>
	<u>\$8,773</u>	<u>\$7,120</u>

The Corporation also invests in the Utah PTIF pool, which is a voluntary external local governmental investment pool managed by the Utah State Treasurer's Office and is audited by the Utah State Auditor. No separate report as an external investment pool has been issued for the PTIF. The PTIF is not registered with the Securities and Exchange Commission as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act (Utah Code Title 51 and Chapter 7). The PTIF invests in high-grade securities which are delivered to the custody of the Utah State Treasurer, assuring a perfected interest in the securities, and, therefore, there is very little credit risk, except in the most unusual and unforeseen circumstances. The maximum weighted-average life of the portfolio does not exceed 90 days. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah and participants share proportionally in any realized gains or losses on investments. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share of the total funds in the PTIF based on the participant's average daily

balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor. Additional information is available at the Utah State Treasurer's Office.

**Investments**—As of June 30, 2016, the Corporation had the following investments and maturities (in thousands):

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than One	One to Five	Six to 10	More than 10
Money market mutual funds *	\$ 135,436	\$ 135,436	\$ -	\$ -	\$ -
Negotiable certificates of deposit	60	60			
Guaranteed investment contracts	81,166				81,166
US treasuries	831		831		
US agencies	534,191				534,191
Utah State Public Treasurer's Investment Fund *	<u>99,177</u>	<u>99,177</u>	<u>      </u>	<u>      </u>	<u>      </u>
Total	<u>\$ 850,861</u>	<u>\$ 234,673</u>	<u>\$ 831</u>	<u>\$ -</u>	<u>\$ 615,357</u>

\* Investments in the Utah State PTIF of \$99,177 and money market mutual funds from checking sweep accounts of \$2,227 as of June 30, 2016, are included in cash and cash equivalents in the financial statements.

**Restricted Investments**—\$743,464,000 of single-family investments as of June 30, 2016, are restricted under bond indentures or other debt agreements or are otherwise pledged as collateral for borrowings.

**Interest Rate Risk**—The Corporation's policy for investment maturities is determined by various bond indentures and bond resolutions adopted by the Corporation. Excess cash is invested in the PTIF.

**Custodial Credit Risk**—Custodial credit risk for investments is the risk that, in the event of failure of the counter party, the Corporation will not be able to recover the value of the investment in the possession of an outside party. The Corporation does not have a formal policy for custodial credit risk.

The Corporation's deposits at times exceed federally insured limits. At June 30, 2016, the Corporation had \$8,524,000 of uninsured deposits. All other cash deposits were insured or collateralized as of June 30, 2016.

The Corporation's investments were held in the Corporation's name by their custodian, except \$2,227,000 in a money market sweep account where the underlying securities were uninsured and held by the investment's counterparty, not in the name of the Corporation. These investments are collateralized by investments held by the money market.

**Credit Risk**—Investments for each bond issue are those permitted by the various bond indentures and bond resolutions adopted by the Corporation, which also enable the underlying bonds to maintain their credit ratings. The investment activities are not subject to state statutes. As of June 30, 2016, the Corporation holds investments in money market mutual funds, securities issued and guaranteed by US agencies (Fannie Mae (FNMA)) rated AAA by Standard & Poor's or Fitch and Aaa by Moody's Investors Service. The underlying investments of the Corporation's sweep accounts are invested in a money market mutual

fund that is rated AAA by Standard & Poor's or Fitch and Aaa by Moody's Investors Service. The Corporation's investments in Ginnie Mae (GNMA) securities are unrated and uninsured; however, they are guaranteed by the full faith and credit of the federal government. The Corporation's remaining investments, primarily are guaranteed investment contracts issued by insurance companies, are unrated and subject to the credit risk of the issuers.

**Concentration of Credit Risk**—The Corporation places no limit on the amount the Corporation may invest in any one issuer. More than 5% of the Corporation's investments are in MassMutual GICs and GNMA investments. These investments are 6.34% and 69.53%, respectively, of the Corporation's total investments at June 30, 2016.

#### 4. LOANS RECEIVABLE

As of June 30, 2016, loans receivable consisted of the following (in thousands):

	<b>Current Maturities</b>	<b>Long-Term Portion</b>	<b>Total</b>
Single-family mortgage program funds	\$19,378	\$873,201	\$892,579
Housing development funds	141	7,889	8,030
Unamortized loan costs and fees		(1,136)	(1,136)
Allowance for loan losses		(1,832)	(1,832)
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$19,519</u>	<u>\$878,122</u>	<u>\$897,641</u>

The weighted-average mortgage rates for the single-family mortgage program funds and housing development funds were 4.74%, and 3.36%, respectively, as of June 30, 2016.

The Corporation issues bonds payable and notes payable and applies the proceeds to fund the purchase of qualified loans originated from certified lenders. The receipt of payments from these loans is restricted principally for the purpose of paying the related principal and interest. Of the total loans receivable balance, \$660,939,000 of the single-family program loans are restricted under bond indentures or other debt agreements or are otherwise pledged as collateral for borrowings as of June 30, 2016.

The Corporation has \$1,954,000 in loans that have completed the foreclosure proceedings as of June 30, 2016, and are in the process of being conveyed to the Department of Housing and Urban Development. The amount is included in the single-family mortgage program funds' loans receivable.

## 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows (in thousands):

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets—not being depreciated—land	<u>\$ 1,472</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,472</u>
Total capital assets—not being depreciated	<u>1,472</u>	<u>-</u>	<u>-</u>	<u>1,472</u>
Capital assets—being depreciated:				
Buildings and improvements	5,337	477		5,814
Furniture and fixtures	425	231		656
Equipment	1,473	304	(71)	1,706
Vehicles	<u>148</u>	<u>      </u>	<u>      </u>	<u>148</u>
Total capital assets being depreciated	<u>7,383</u>	<u>1,012</u>	<u>(71)</u>	<u>8,324</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,271)	(138)		(1,409)
Furniture and fixtures	(347)	(38)		(385)
Equipment	(1,314)	(151)	71	(1,394)
Vehicles	<u>(113)</u>	<u>(26)</u>	<u>      </u>	<u>(139)</u>
Total accumulated depreciation	<u>(3,045)</u>	<u>(353)</u>	<u>71</u>	<u>(3,327)</u>
Total capital assets—being depreciated—net	<u>4,338</u>	<u>659</u>	<u>-</u>	<u>4,997</u>
Capital assets—net	<u>\$ 5,810</u>	<u>\$ 659</u>	<u>\$ -</u>	<u>\$ 6,469</u>

## 6. BOND RESERVE FUNDS

A significant portion of investments in the single-family bond program funds are held by trustees and are restricted as to use as required by the various bond resolutions (see Note 3). Such restricted assets are included in funds and accounts within the program funds as established by the bond resolutions. Such funds typically include, among others, bond proceed funds, revenue funds, recovery of principal funds, debt service funds, redemption funds, and asset accumulation funds.

In addition to the funds referred to above, the resolutions provide for a debt service reserve fund and, in some cases, a mortgage reserve fund or interest reserve fund. The reserve requirements are defined in the bond documents based on maximum annual debt service requirements or some percentage of bonds outstanding for the debt service reserve fund and some percentage of mortgages outstanding for the mortgage reserve fund.

As of June 30, 2016, these reserve requirements and the resulting related balance of investments was as follows (in thousands):

	<b>Minimum Requirement</b>	<b>Balance</b>
Single-family mortgage bond funds	<u>\$ 51,639</u>	<u>\$ 54,876</u>

## **7. REVOLVING CREDIT NOTES**

The Corporation has revolving credit agreements with financial institutions for the acquisition of mortgage loans. As of June 30, 2016, the total amount available under existing agreements was \$225,000,000. The first revolving credit agreement is scheduled to mature on December 26, 2016, and the limit under this agreement is \$75,000,000 at June 30, 2016. The second agreement provides a commitment up to \$150,000,000 and is scheduled to mature on May 25, 2017. Interest paid on amounts drawn is calculated at one-month London InterBank Offered Rate (LIBOR), plus 0.6%, with the one-month LIBOR rate not to be less than 0.25% under both agreements.

Total interest expense incurred on these revolving credit agreements for the year ended June 30, 2016, was \$333,000.

**Changes in Line-of-Credit Payable**—Short-term debt for the year ended June 30, 2016, was as follows (in thousands):

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Line-of-credit payable	<u>\$29,339</u>	<u>\$507,622</u>	<u>\$(466,713)</u>	<u>\$70,248</u>



## 8. LONG-TERM DEBT

**Single-Family Mortgage Program Bonds**—Bonds payable in each series or issue generally consist of both serial and term bonds maturing at annual or semiannual intervals. Bonds payable consisted of the following at June 30, 2016 (in thousands):

Bond Issue	Interest Rate Range	Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
2000 Series C	5.610%–6.350%*	2031	\$ -	\$ 4,710	\$ 4,710
2000 Series D	5.370%–5.370%*	2031		4,795	4,795
2000 Series E	5.380%–5.380%*	2031		4,890	4,890
2000 Series F	5.340%–7.150%*	2032		5,065	5,065
2000 Series G	5.070%–6.530%*	2032		5,085	5,085
2001 Series A	4.910%–4.910%*	2032		3,165	3,165
2001 Series B	4.860%–4.860%*	2032		4,230	4,230
2001 Series C	4.910%–4.910%*	2033		4,020	4,020
2001 Series D	4.840%–4.840%*	2033		5,500	5,500
2001 Series E	4.770%–4.770%*	2033		3,755	3,755
2001 Series F	4.580%–4.580%*	2033		4,995	4,995
2002 Series A	5.030%–5.030%*	2033		3,770	3,770
2002 Series B	4.980%–4.980%*	2033		5,200	5,200
2002 Series C	4.860%–4.860%*	2033		6,365	6,365
2002 Series D	4.795%–5.148%*	2033		6,020	6,020
2002 Series E	4.930%–4.930%*	2034		3,155	3,155
2002 Series F	4.310%–4.310%*	2034		4,045	4,045
2003 Series A	4.200%–4.200%*	2034		4,305	4,305
2009 Series C	3.000%–5.000%	2031	9,395		9,395
2010 Series A	2.850%–4.950%	2032	8,975		8,975
2010 Series B	3.000%–4.625%	2034	29,110		29,110
2011 Series A	3.850%–5.450%	2033	11,435		11,435
2012 Series A	3.989%–5.060%*	2030		99,600	99,600
2012 Series C	2.500%–2.500%	2039	6,982		6,982
2012 Series D	2.100%–2.100%	2039	9,842		9,842
2013 Series A	3.970%–4.620%*	2029		120,610	120,610
2013 Series C	2.150%–2.150%	2043	15,864		15,864
2013 Series D	2.050%–2.050%	2043	15,959		15,959
2013 Series E	2.200%–2.200%	2041	55,770		55,770
2013 Series F	3.100%–3.100%	2043	14,834		14,834
2013 Series G	2.650%–2.650%	2043	12,566		12,566
2013 HOMES Series A	4.000%–4.000%	2043	6,627		6,627
2014 Series A	2.900%–2.900%	2044	16,372		16,372
2014 HOMES Series A	3.500%–3.500%	2044	6,741		6,741
2014 HOMES Series B	3.500%–3.500%	2044	6,089		6,089
2014 Series B	2.850%–2.850%	2044	12,573		12,573
2014 HOMES Series C	3.500%–3.500%	2044	7,195		7,195
2014 HOMES Series D	4.000%–4.000%	2044	6,089		6,089
2014 HOMES Series E	3.500%–3.500%	2044	9,734		9,734
2014 HOMES Series F	3.500%–3.500%	2044	18,146		18,146
2014 HOMES Series G	3.500%–3.500%	2044	16,818		16,818
2014 HOMES Series H	3.500%–3.500%	2044	23,462		23,462
2014 HOMES Series I	3.500%–3.500%	2044	17,152		17,152
2014 HOMES Series J	3.500%–3.500%	2044	17,316		17,316
2014 Series C	2.070%–2.070%	2044	19,247		19,247
2015 HOMES Series A	3.500%–3.500%	2045	15,820		15,820
2015 HOMES Series B	3.500%–3.500%	2045	15,525		15,525

(Continued)

<b>Bond Issue</b>	<b>Interest Rate Range</b>	<b>Final Maturity Date</b>	<b>Outstanding Fixed</b>	<b>Outstanding Variable</b>	<b>Total</b>
2015 HOMES Series C	3.500%–3.500%	2045	\$ 12,191	\$ -	\$ 12,191
2015 Series A	2.200%–2.200%	2041	21,910		21,910
2015 HOMES Series D	3.500%–3.500%	2045	24,033		24,033
2015 HOMES Series E	3.500%–3.500%	2045	30,595		30,595
2015 HOMES Series F	3.500%–3.500%	2045	31,907		31,907
2015 Series B	2.500%–2.500%	2045	29,475		29,475
2015 HOMES Series G	3.500%–3.500%	2045	31,383		31,383
2015 HOMES Series H	3.500%–3.500%	2045	8,861		8,861
2015 TEMS Series A	3.500%–3.500%	2045	9,371		9,371
2015 Series C	2.700%–2.700%	2045	24,400		24,400
2015 TEMS Series B	3.500%–3.500%	2045	22,153		22,153
2015 TEMS Series C	3.500%–3.500%	2045	20,614		20,614
2015 Series D	0.750%–4.000%	2045	114,765		114,765
2016 Series A	2.650%–2.650%	2046	24,900		24,900
2016 TEMS Series A	3.500%–3.500%	2046	10,934		10,934
2016 TEMS Series B	3.500%–3.500%	2046	9,579		9,579
2016 TEMS Series C	3.000%–3.000%	2046	13,456		13,456
2016 TEMS Series D	3.000%–3.000%	2046	31,442		31,442
2016 TEMS Series E	3.500%–3.500%	2046	28,998		28,998
2016 TEMS Series F	3.000%–3.000%	2046	24,945		24,945
Total single-family mortgage program bonds			<u>\$ 931,550</u>	<u>\$ 303,280</u>	<u>\$ 1,234,830</u>

(Concluded)

\* Interest rate includes swap rate for variable-rate outstanding bonds.

All of the above described bonds are subject to early redemption after various dates at prices ranging from par to 105% of par.

Interest on the single-family bonds is payable semiannually. Principal and interest for HOMES and TEMS Series are paid monthly based on receipts from the underlying pass-through security.

Of the bonds described in the bonds payable listing, \$503,504,000 is not excluded from gross income for federal income tax purposes and is, therefore, taxable. Also, there are \$13,090,000 Class II bonds and \$122,530,000 of Class III bonds. The Class III bonds carry the Corporation's general obligation rating of AA-.

If the variable-rate bonds cannot be remarketed, the Corporation has entered into various irrevocable standby bond purchase agreements (liquidity facility). These agreements provide that these institutions will provide funds to purchase the variable-rate bonds that have been tendered and not remarketed. As of June 30, 2016, there was \$83,070,000 of variable-rate debt covered under liquidity facility agreements. These liquidity providers receive a fees ranging from 32.5 to 42.5 bps of the outstanding amount of the variable-rate bonds paid quarterly. As of June 30, 2016, none of the original commitments listed above were available for replacement of existing liquidity facilities or to issue new variable-rate bonds.

Additionally, the 2012A and 2013A variable bonds require a spread of additional interest in addition to the underlying index. The spread is based on the maturity of the underlying bonds ranging from 45 to 65 bps annually.

Annual sinking fund payments are generally required for all bonds during years with no annual maturities. The assets of each bond or group of bonds (indenture) listed above are pledged for the payment of principal and interest on the bonds issued and to be issued by the respective programs.

Scheduled amounts of future debt service requirements for the single-family bond issues, including principal maturities and sinking fund requirements for the years subsequent to June 30, 2016, are as follows (in thousands):

<b>Years Ending June 30</b>	<b>Principal Amount</b>	<b>Interest Amount</b>	<b>Total</b>
2017	\$ 146,316	\$ 41,111	\$ 187,427
2018	109,575	37,769	147,344
2019	113,147	33,884	147,031
2020	115,096	29,863	144,959
2021	117,604	25,764	143,368
2022-2026	288,718	80,113	368,831
2027-2031	137,307	43,414	180,721
2032-2036	103,618	20,990	124,608
2037-2041	73,282	8,810	82,092
2042-2046	<u>30,167</u>	<u>1,606</u>	<u>31,773</u>
Total	<u>\$ 1,234,830</u>	<u>\$ 323,324</u>	<u>\$ 1,558,154</u>

See Note 9 for debt service requirements for the Corporation's variable-rate debt and net swap payments.

**Changes in Long-Term Liabilities**—Long-term debt activity (including current portions of long-term debt) for the year ended June 30, 2016, was as follows (in thousands):

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
Bonds payable:					
Single-family mortgage					
purchase bonds	\$ 1,313,302	\$ 378,197	\$(456,669)	\$ 1,234,830	\$ 146,316
Premium on bonds	<u>17,829</u>	<u>15,381</u>	<u>(2,454)</u>	<u>30,756</u>	<u>4,216</u>
Total bonds payable	1,331,131	393,578	(459,123)	1,265,586	150,532
Notes payable	<u>156,405</u>	<u>33,125</u>	<u>(49,295)</u>	<u>140,235</u>	<u>39,074</u>
Total long-term debt	<u>\$ 1,487,536</u>	<u>\$ 426,703</u>	<u>\$(508,418)</u>	<u>\$ 1,405,821</u>	<u>\$ 189,606</u>

Total interest expense incurred on long-term debt for the year ended June 30, 2016, was \$44,924,000, none of which was capitalized.

Under the Internal Revenue Code, arbitrage earnings on certain bond issues may be subject to rebate. At June 30, 2016, the accumulated accrual for estimated arbitrage rebates payable was \$134,000. Any expense or changes in the accrual for the year ended June 30, 2016, was included with interest income on cash and investments in the statement of revenues, expenses, and changes in net position.

## 9. DERIVATIVE INSTRUMENTS

The Corporation has entered into two types of derivative instruments to hedge against interest rate or cash flow risks: swaps and forward commitments on MBS.

Summary of derivative instruments as of June 30, 2016, is as follows (in thousands):

	<b>Notional Amount</b>	<b>Fair Market Value</b>
Swaps	\$278,505	\$(36,539)
Forwards	<u>255,000</u>	<u>(1,898)</u>
Total	<u>\$533,505</u>	<u>\$(38,437)</u>

**Objective of the Swaps**—The Corporation has entered into synthetic fixed-rate structures (variable-rate debt combined with fixed interest rate swaps) to provide a lower cost of fixed-rated financing versus issuing fixed-rate bonds. In order to protect against the potential of rising interest rates on its variable-rate debt, the Corporation has entered into 45 separate pay-fixed, receive-variable interest rate swaps as of June 30, 2016.

**Terms, Fair Value, and Credit Risk**—The terms, including the fair value of the outstanding swaps, as of June 30, 2016, are shown below. The notional amounts of the swaps matched the principal amounts of the associated debt at the time of issuance. Except as discussed under rollover risk, the Corporation's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category.

## Interest Rate Swap Agreements (In Thousands)

Associated Single-Family Bond Issue	Outstanding Notional Amount	Effective Date	Fixed-Rate Paid by the Corporation	Variable-Rate Received from Counterparty	Fair Values	Swap Termination Date
2000C	\$ 4,710	November 20, 2008	5.610 %	SIFMA, plus 0.27%	\$ (592)	July 1, 2022
2000D-1	4,795	November 20, 2008	5.370	SIFMA, plus 0.27%	(574)	July 1, 2022
2000E-1	4,890	November 20, 2008	5.380	SIFMA, plus 0.27%	(602)	July 1, 2022
2000F-2	4,220	November 20, 2008	5.340	SIFMA, plus 0.27%	(606)	January 1, 2023
2000F-3	845	November 20, 2008	7.150	LIBOR, plus 0.15%	(59)	January 1, 2019
2000G-2	3,825	November 20, 2008	5.070	SIFMA, plus 0.27%	(535)	January 1, 2023
2000G-3	1,260	November 20, 2008	6.530	LIBOR, plus 0.15%	(112)	January 1, 2020
2001A-2	3,165	December 17, 2015	4.910	SIFMA, plus 0.27%	(397)	July 1, 2023
2001B	4,230	December 17, 2015	4.860	SIFMA, plus 0.27%	(544)	July 1, 2023
2001C-1	4,020	December 17, 2015	4.910	SIFMA, plus 0.27%	(542)	January 1, 2024
2001D-1	5,500	December 17, 2015	4.840	SIFMA, plus 0.27%	(759)	January 1, 2024
2000E-1	3,755	November 18, 2008	4.770	SIFMA, plus 0.27%	(513)	January 1, 2024
2001F-1	4,995	November 18, 2008	4.580	SIFMA, plus 0.27%	(779)	January 1, 2026
2002A-1	3,770	December 17, 2015	5.030	SIFMA, plus 0.27%	(516)	January 1, 2024
2002B	5,200	December 17, 2015	4.980	SIFMA, plus 0.27%	(808)	January 1, 2025
2002C-2	6,365	December 17, 2015	4.860	SIFMA, plus 0.27%	(936)	January 1, 2025
2002D-2	5,525	December 17, 2015	4.795	SIFMA, plus 0.27%	(941)	July 1, 2025
2002D-3	495	November 20, 2008	5.148	LIBOR, plus 0.15%	(24)	January 1, 2019
2002E-2	3,155	December 17, 2015	4.930	SIFMA, plus 0.27%	(531)	January 1, 2026
2002F-1	4,045	December 17, 2015	4.310	SIFMA, plus 0.27%	(558)	January 1, 2026
2012A	6,740	December 17, 2015	4.220	SIFMA, plus 0.27%	(934)	July 1, 2026
2003A	4,305	December 17, 2015	4.200	SIFMA, plus 0.27%	(606)	July 1, 2026
2012A	6,325	December 17, 2015	3.939	SIFMA, plus 0.27%	(712)	July 1, 2025
2012A	5,860	December 17, 2015	4.300	SIFMA, plus 0.27%	(863)	January 1, 2027
2012A	6,175	December 17, 2015	4.990	SIFMA, plus 0.27%	(1,135)	January 1, 2027
2012A	3,340	December 17, 2015	4.620	SIFMA, plus 0.27%	(335)	July 1, 2022
2012A	3,340	December 17, 2015	4.415	LIBOR	(329)	July 1, 2022
2012A	2,890	December 17, 2015	4.225	LIBOR	(234)	July 1, 2021
2012A	5,790	August 8, 2012	4.459	LIBOR	(1,009)	July 1, 2027
2012A	9,040	August 8, 2012	3.989	LIBOR	(1,370)	January 1, 2028
2013A	9,970	November 19, 2008	4.165	SIFMA, plus 0.27%	(589)	July 1, 2028
2013A	10,250	November 19, 2008	4.230	SIFMA, plus 0.27%	(621)	January 1, 2029
2012A	7,190	August 8, 2012	4.176	LIBOR	(1,087)	January 1, 2026
2012A	5,445	August 8, 2012	4.203	LIBOR	(523)	January 1, 2023
2012A	9,000	August 8, 2012	4.124	LIBOR	(1,218)	July 1, 2026
2012A	11,570	August 8, 2012	4.146	LIBOR	(2,065)	July 1, 2030
2013A	9,115	August 8, 2012	4.144	LIBOR	(1,204)	July 1, 2026
2013A	9,925	August 8, 2012	4.464	LIBOR	(1,554)	July 1, 2026
2013A	8,570	August 8, 2012	4.345	LIBOR	(1,115)	January 1, 2026
2013A	10,135	August 8, 2012	4.089	LIBOR	(1,226)	January 1, 2026
2013A	10,525	August 8, 2012	4.157	LIBOR	(1,320)	January 1, 2026
2013A	10,570	June 17, 2013	4.168	LIBOR	(1,332)	January 1, 2026
2013A	13,205	June 17, 2013	4.006	LIBOR	(1,876)	July 1, 2028
2013A	12,225	June 17, 2013	4.191	LIBOR	(1,739)	July 1, 2027
2008E	<u>8,240</u>	August 8, 2012	3.484	LIBOR	<u>(615)</u>	July 1, 2023
	<u>\$ 278,505</u>				<u>\$ (36,539)</u>	

**Fair Value**—The fair values of swaps are a function of market interest rates and the remaining term on the swap contracts. The fair values of the swap contracts were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

**Credit Risk**—The Corporation's swap contracts do not require it to post collateral at any time. The Corporation believes that the high credit rating of the counterparty will mitigate most credit risk associated with the derivatives' fair value in the event that the derivative instruments have a positive fair value.

**Basis Risk**—The Corporation's tax-exempt variable-rate bond coupon payments have historically been substantially the same as the Securities Industry and Financial Markets Association (SIFMA) rate. Its taxable variable-rate bond coupon payments have historically been substantially the same as the LIBOR rate, plus any required spread, as applicable. At June 30, 2016, the weighted-average interest rate on the Corporation's variable-rate hedged debt is 0.84%, while the SIFMA swap index is 0.41% and the one-month LIBOR is 0.47%. As the interest rate swaps pay a variable rate based on the SIFMA rate (tax-exempt debt) or the LIBOR rate (taxable debt), the Corporation, therefore, has limited exposure to basis risk, except as disclosed below under the crossover risk.

**Crossover Risk**—Twenty-one of the Corporation's SIFMA-based swaps are exposed to additional basis risk if the LIBOR rate is 3.5% or greater and in some cases 4.0% or greater. When the LIBOR rate is greater than 3.5% or 4.0%, the counterparty will pay the Corporation 68% of the LIBOR rate, rather than the SIFMA rate. Historically, on an average, 68% of the LIBOR rate has been substantially the same as the Corporation's tax-exempt variable-rate bond coupon payments. However, this relationship has been subject to more basis risk than the relationship between SIFMA and the Corporation's tax-exempt variable-rate bond payments.

**Termination Risk**—The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In addition, the Corporation has the option to terminate, at any time, at market rates (i.e., fair value adjusted for the counterparty's transaction costs).

**Rollover Risk**—The Corporation is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, or in the case of the termination option, the Corporation will not realize the synthetic rate offered by the swaps on the underlying debt issues.

The following debt is exposed to rollover risk at June 30, 2016:

<b>Associated Debt Issuance</b>	<b>Debt Maturity Date</b>	<b>Swap Termination Date</b>
UHCSFMB2000C1	July 1, 2031	July 1, 2022
UHCSFMB2000D1	July 1, 2031	July 1, 2022
UHCSFMB2000E1	July 1, 2031	July 1, 2022
UHCSFMB2000F2	January 1, 2030	January 1, 2023
UHCSFMB2000F3	January 1, 2032	January 1, 2019
UHCSFMB2000G2	July 1, 2030	January 1, 2023
UHCSFMB2000G3	July 1, 2032	January 1, 2020
UHCSFMB2001A2	July 1, 2032	July 1, 2023
UHCSFMB2001B	July 1, 2032	July 1, 2023
UHCSFMB2001C1	January 1, 2033	January 1, 2024
UHCSFMB2001D1	January 1, 2033	January 1, 2024
UHCSFMB2001E1	January 1, 2033	January 1, 2024
UHCSFMB2001F1	July 1, 2033	January 1, 2026
UHCSFMB2002A1	July 1, 2033	January 1, 2024
UHCSFMB2002B	July 1, 2033	January 1, 2025
UHCSFMB2002C2	July 1, 2033	January 1, 2025
UHCSFMB2002D2	January 1, 2033	July 1, 2025
UHCSFMB2002D3	July 1, 2033	January 1, 2019
UHCSFMB2002E	January 1, 2034	January 1, 2026
UHCSFMB2002F	January 1, 2034	January 1, 2026
UHCSFMB2012A	July 1, 2030	July 1, 2026
UHCSFMB2003A	January 1, 2034	July 1, 2026
UHCSFMB2012A	July 1, 2030	July 1, 2025
UHCSFMB2012A	July 1, 2030	January 1, 2027
UHCSFMB2012A	July 1, 2030	January 1, 2027
UHCSFMB2012A	July 1, 2030	July 1, 2022
UHCSFMB2012A	July 1, 2030	July 1, 2022
UHCSFMB2012A	July 1, 2030	July 1, 2021
UHCSFMB2012A	July 1, 2030	July 1, 2027
UHCSFMB2012A	July 1, 2030	January 1, 2028
UHCSFMB2012A	July 1, 2030	January 1, 2026
UHCSFMB2012A	July 1, 2030	January 1, 2023
UHCSFMB2012A	July 1, 2030	July 1, 2026
UHCSFMB2012A	July 1, 2030	July 1, 2030
UHCSFMB2013A	July 1, 2029	July 1, 2028
UHCSFMB2013A	July 1, 2029	January 1, 2029
UHCSFMB2013A	July 1, 2029	July 1, 2026
UHCSFMB2013A	July 1, 2029	July 1, 2026
UHCSFMB2013A	July 1, 2029	January 1, 2026
UHCSFMB2013A	July 1, 2029	January 1, 2026
UHCSFMB2013A	July 1, 2029	January 1, 2026
UHCSFMB2013A	July 1, 2029	July 1, 2028
UHCSFMB2013A	July 1, 2029	July 1, 2023

**Swap Payments and Associated Debt**—Using rates as of June 30, 2016, debt service requirements of the Corporation's outstanding variable-rate debt and net swap payments are as follows (in thousands):

Fiscal Years Ending June 30	Variable-Rate Bonds		Interest Rate Swaps—Net	Total
	Principal	Interest		
2017	\$ 27,915	\$ 2,555	\$11,293	\$ 41,763
2018	23,480	2,309	10,669	36,458
2019	23,420	2,085	9,793	35,298
2020	23,225	1,864	8,908	33,997
2021	22,490	1,648	8,035	32,173
2022–2026	102,795	5,321	27,944	136,060
2027–2031	64,540	1,410	9,871	75,821
2032–2036	<u>15,415</u>	<u>118</u>	<u>948</u>	<u>16,481</u>
Total	<u>\$303,280</u>	<u>\$17,310</u>	<u>\$87,461</u>	<u>\$408,051</u>

**Forward Sales Contracts**—Forward sales securities commitments and private sales commitments are utilized to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans. At June 30, 2016, the Corporation had executed 69 forward sales transactions with a \$255,000,000 notional amount and a (\$1,898,000) fair market value for GNMA and FNMA securities. The forward sales are scheduled to be settled by September 21, 2016.

**Credit Risk**—Several of the Corporation's forward agreements require it to post collateral in the event that the fair market value of the contract has decreased. No collateral was required to be posted at June 30, 2016.

The following is a summary of the forward commitments entered into as of June 30, 2016 (in thousands):

Count	Par	Exposure	Original Premium	June 30, 2016 Premium	Fair Value
11	\$ 42,000	17 %	\$ 43,860	\$ 44,188	\$ (328)
20	80,000	32	83,989	84,649	(660)
12	34,000	13	35,543	35,754	(211)
7	29,000	11	30,491	30,722	(231)
6	25,000	10	26,297	26,436	(139)
5	16,000	6	16,726	16,885	(159)
8	<u>29,000</u>	<u>11</u>	<u>30,509</u>	<u>30,679</u>	<u>(170)</u>
Total	<u>\$255,000</u>	<u>100 %</u>	<u>\$267,415</u>	<u>\$269,313</u>	<u>\$ (1,898)</u>



## 10. NOTES PAYABLE

The Corporation has entered into several different agreements with financial institutions to provide a source of capital for the purchase of single-family mortgage loans. Under the terms of these agreements, the Corporation is obligated to make a scheduled monthly principal and interest payment based on the six-year LIBOR swap rate, plus any principal curtailments received on the underlying loans receivable. The rates applicable to the outstanding balance as of June 30, 2016, were between 2.111% and 3.165%, respectively. The balance of notes under these agreements at June 30, 2016, was \$122,247,000.

As of June 30, 2016, there are \$118,329,000 of single-family loans receivable, which are pledged to provide the corresponding principal and interest payments related to these agreements. Payments made under these agreements will occur until the maturity of the underlying loans receivable mature or are paid in full.

There was \$223,018,000 of available capital under the existing agreements as of June 30, 2016.

The Corporation has also entered into a term note agreement with a financial institution dated December 18, 2015, the proceeds of which were used to terminate several swap agreements. The note matures on December 18, 2020. Interest is calculated based on LIBOR, plus an amount based on the Corporation's rating. The interest rate at June 30, 2016, was 1.467%. The balance of the note under this agreement at June 30, 2016, was \$17,988,000.

The future expected debt service payments as of June 30, 2016, are as follows (in thousands):

<b>Years Ending June 30</b>	<b>Principal Amount</b>	<b>Interest Amount</b>	<b>Total</b>
2017	\$ 39,074	\$ 3,066	\$ 42,140
2018	33,734	2,393	36,127
2019	28,437	1,703	30,140
2020	29,144	996	30,140
2021	6,803	271	7,074
2022-2026	<u>3,043</u>	<u>114</u>	<u>3,157</u>
Total	<u>\$ 140,235</u>	<u>\$ 8,543</u>	<u>\$ 148,778</u>

## 11. CONDUIT DEBT

The Corporation has issued Multi-Family Mortgage Purchase Bonds as conduit debt obligations. The Corporation is not obligated, in any manner, for repayment of the conduit debt. The Corporation has not included the activity of these bonds in the financial statements for the current year. Conduit debt consisted of the following issues at June 30, 2016 (in thousands):

Bond Issue	Interest Rate Range	Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
2000 Series A, Holiday Village	7.500%–7.500%	2032	\$ 2,766	\$ -	\$ 2,766
2001 Series, Kings Row	6.550%–7.950%	2033	5,990		5,990
2001 Issue C, Candlestick	Variable weekly rate	2036		6,400	6,400
2001 Series, Millcreek II	6.000%–6.000%	2019	1,347		1,347
2003 Series, Layton Pointe	6.500%–6.500%	2035	3,130		3,130
2004 A & B Series, Tanglewood	Variable weekly rate	2035		9,275	9,275
2004 Series, Cedar Pointe	5.300%–5.300%	2032	6,295		6,295
2004 Series, Rose Cove	6.600%–6.600%	2046	6,205		6,205
2005 Series, Riverview	6.200%–7.375%	2023	5,125		5,125
2005 A Series, Springwood	Variable weekly rate	2035		8,485	8,485
2005 A Series, Boyer Hill Military Housing	5.392%–5.442%	2050	39,390		39,390
2005 A & B Series, Towne Gate	5.440%–7.000%	2037	16,111		16,111
2006 A-1 & A-2 Series, Liberty Commons	5.590%–6.500%	2041	15,895		15,895
2007 Series, The Pointe	Variable weekly rate	2024		10,625	10,625
2008 Series, Todd Hollow	5.300%–6.250%	2043	10,931		10,931
2009 A Series, Timbergate	Variable weekly rate	2042		25,000	25,000
2009 A Series, Florentine Villas	Variable weekly rate	2049		18,880	18,880
2010 A Series, Providence Place	3.01%–3.01%	2052	9,360		9,360
2010 A Series, Liberty Peak	2.250%–4.250%	2028	13,585		13,585
2011 A Series, Fireclay II	2.150%–4.000%	2051	26,170		26,170
2012 A Series, State Street	1.700%–4.100%	2030	19,055		19,055
2012 B Series, Beacon Hill	1.00%–3.40%	2030	17,200		17,200
2014 Series, Enclave	Variable weekly rate	2047		18,085	18,085
2015 Series, Liberty Center	Variable monthly rate	2048		8,452	8,452
2015 Series, Lofts 616	Variable monthly rate	2036		5,307	5,307
Total			<u>\$ 198,555</u>	<u>\$ 110,509</u>	<u>\$ 309,064</u>

## 12. FAIR VALUE MEASUREMENTS

The Corporation categorizes their value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the investment or derivative instrument and gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements.

*Level 1*—Unadjusted quoted prices for identical instruments in active markets

*Level 2*—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable

*Level 3*—Valuations derived from valuation techniques in which significant inputs are unobservable

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The following valuation techniques are used for financial instruments carried at fair value:

Money market funds and certificates of deposit are reported at cost, plus accrued interest, which approximates fair value.

*US Treasury Securities and Agency Mortgage-Backed Securities*—Debt securities are composed of investments in US Treasuries or mortgage-backed securities (MBS) issued under US Agencies (FNMA and GNMA). These securities are valued using a matrix-pricing technique, which values securities based on the securities' relationship to benchmark quoted prices for similar securities.

	<b>Fair Value June 30, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investment Type</b>				
Money market mutual funds	\$135,436	\$ -	\$135,436	\$ -
Negotiable certificates of deposit	60		60	
US Treasuries	831		831	
US agencies	534,191		534,191	
Utah State Public Treasurer's Investment Fund	<u>99,177</u>	<u></u>	<u>99,177</u>	<u></u>
Total	<u>\$769,695</u>	<u>\$ -</u>	<u>\$769,695</u>	<u>\$ -</u>
<b>Derivatives</b>				
Forward sale agreements	\$ 1,898	\$ -	\$ 1,898	\$ -
Interest rate swaps	<u>36,539</u>	<u></u>	<u>36,539</u>	<u></u>
Total	<u>\$ 38,437</u>	<u>\$ -</u>	<u>\$ 38,437</u>	<u>\$ -</u>

### 13. COMMITMENT AND CONTINGENCY

As of June 30, 2016, the Corporation is committed to purchase mortgages under the warehouse loans and the single-family programs in the amount of \$131,259,000. These mortgage commitments will be funded through cash and cash equivalents or revolving credit agreements, and are expected to be purchased by the end of September 2016.

## 14. RETIREMENT PLANS

**Plan Description**—Eligible plan participants are provided with pensions through the URS. URS are composed of the following Pension Trust Funds:

### *Defined Benefit Plans*

- Public Employees Noncontributory Retirement System ("Noncontributory System");
- Public Employees Contributory Retirement System ("Contributory System");
- Are multiple employer, cost-sharing, retirement systems.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) is a multiple employer, cost-sharing, public employee retirement system.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the URS are members of the Tier 2 Retirement System.

The URS are established and governed by the respective sections of Title 49 of the Utah Code Annotate 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. URS is a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

URS issues a publicly available financial report that can be obtained by writing Utah Retirement Systems, 560 E. 200 S., Salt Lake City, UT 84102 or visiting the website at [www.urs.org](http://www.urs.org).

Benefits provided: URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

*Summary of Benefits by System*

<b>System</b>	<b>Final Average Salary</b>	<b>Years of Service Required and/or Age Eligible for Benefit</b>	<b>Benefit Percent per Year of Service</b>	<b>COLA**</b>
Noncontributory System	Highest three years	30 years, any age 25 years, any age* 20 years, age 60* 10 years, age 62* Four years, age 65	2.0% per year all years	Up to 4%
Contributory System	Highest five years	30 years, any age 25 years, any age* 20 years, age 60* 10 years, age 62* Four years, age 65	1.25% per year to June 1975 2.00% per year July 1975 to present	Up to 4%
Tier 2 Public Employees System	Highest five years	35 years, any age 20 years, age 60* 10 years, age 62* Four years, age 65	1.5% per year all years	Up to 2.5%

\* With actuarial reductions

\*\* All postretirement cost-of-living adjustments (COLA) are noncompounding and are based on the original benefit, except for Judges, which is a compounding benefit. The COLA are also limited to the actual consumer price index (CPI) increase for the year, although unused CPI increases not met maybe carried forward to subsequent years.

**Contributions**—As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the URS board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable), is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates are as follows:

<b>System</b>	<b>Employee Paid</b>	<b>Paid by Employer for Employee</b>	<b>Employer Contribution Rates</b>	<b>Employer Rate 401(k) plan</b>
Contributory System:				
12—State and School Division Tier 1	N/A	6.000 %	17.700 %	N/A
112—State and School Division Tier 2	N/A	N/A	18.240	1.78
Noncontributory System—				
16—State and School Division Tier 1	N/A	N/A	22.190	1.50
Tier 2 DC Only				
212—State and School	N/A	N/A	10.02	10.00

Tier 2 rates include a statutorily required contribution to finance the unfunded actuarial accrued liability of the Tier 1 Plans.

<b>System</b>	<b>Employer Contributions</b>
Noncontributory System	\$ 857,000
Contributory System	87,000
Tier 2 Public Employees System	231,000
Tier 2 DC Only System	<u>36,000</u>
Total contributions	<u>\$ 1,211,000</u>

Contributions reported are the URS Board approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems. There were no employee contributions made during the year ended June 30, 2016.

**Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**—At June 30, 2016, the Corporation reported a net pension asset of \$0 and a net pension liability of \$5,809,000.

<b>System</b>	<b>Proportionate Share</b>	<b>Net Pension Liability</b>
Noncontributory System	0.1545306%	\$ 4,854,000
Contributory System	1.5236271	<u>955,000</u>
Total net pension asset/liability		<u>\$ 5,809,000</u>

The net pension asset and liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2015, and rolled forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended June 30, 2016, the Corporation recognized pension expense of \$1,390,888.

At June 30, 2016, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Outflows of Resources</b>	<b>Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$388,000
Changes in assumptions		98,000
Net difference between projected and actual earning on pension plan investments	1,845,000	
Changes in proportion and differences between contributions and proportionate share of contributions	209,000	
Contributions subsequent to the measurement date	<u>595,000</u>	<u>          </u>
Total	<u>\$2,649,000</u>	<u>\$486,000</u>

There was \$595,000 reported as deferred outflows of resources related to pension results from contributions made by us prior to our fiscal year end, but subsequent to the measurement date of December 31, 2015.

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Years Ended December 31</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2016	\$ 373,000
2017	373,000
2018	387,000
2019	440,000
2020	(1,000)
Thereafter	<u>(5,000)</u>
Total	<u>\$1,567,000</u>

**Actuarial Assumptions**—The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%–10.50%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2015, and valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	<b>Expected Return Arithmetic Basis</b>		<b>Long-Term Expected Portfolio Real Rate of Return</b>
	<b>Target Asset Allocation</b>	<b>Real Return Arithmetic Basis</b>	
Equity securities	40 %	7.06 %	2.82 %
Debt securities	20	0.80	0.16
Real assets	13	5.10	0.66
Private equity	9	11.30	1.02
Absolute return	<u>18</u>	<u>3.15</u>	<u>0.57</u>
Totals	<u>100 %</u>		5.23 %
Inflation			<u>2.75 %</u>
Expected arithmetic nominal return			<u>7.98 %</u>

The 7.50% assumed investment rate of return is composed of an inflation rate of 2.75% and a real return of 4.75% that is net of investment expense.

**Discount Rate**—The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



Sensitivity of the proportionate Share of the Net Pension Asset and Liability to Changes in the Discount Rate: The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	<b>1% Decrease (6.5%)</b>	<b>Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
Proportionate share of net pension liability	<u>\$ 11,013,000</u>	<u>\$ 5,809,000</u>	<u>\$ 1,438,000</u>

**Pension Plan Fiduciary Net Position**—Detailed information about the pension plan’s fiduciary net position is available in the separately issued URS financial report.

### **Defined Contribution Savings Plans**

The Defined Contribution Savings Plans are administered by the Utah Retirement Systems Board and are generally supplemental plans to the basic retirement benefits of the Retirement Systems, but may also be used as a primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 457(b), and 408 of the Internal Revenue code. Detailed information regarding plan provisions is available in the separately issued URS financial report.

The Corporation participates in the following Defined Contribution Savings Plans with URS:

- 401(k) Plan
- 457(b) Plan
- Roth IRA Plan

Employee and employer contributions to the Utah Retirement Define Contribution Savings Plans for the fiscal years ended June 30, were as follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>401(k) Plan</b>			
Employer contributions	\$155,000	\$131,000	\$111,000
Employee contributions	235,000	216,000	196,000
<b>457 Plan</b>			
Employer contributions			
Employee contributions	65,000	22,000	32,000
<b>Roth IRA Plan</b>			
Employee contributions	27,244	21,000	24,000

## **15. DIVERSITY OF CREDIT RISK**

The Corporation purchases mortgage loans secured by residences located throughout the state of Utah. Loans are diversified geographically in approximate proportion to population dispersion.

Guidelines affecting diversity of risk have been established by Corporation management, mortgage insurers, and bond rating agencies in order to minimize losses in the event that certain projects, geographic areas, or industrial sectors within the state may be adversely affected by natural or economic disaster.

## **16. RELATED-PARTY TRANSACTIONS**

At June 30, 2016, the Corporation had \$99,177,000 in an investment pool maintained by the Utah State Treasurer and had earned interest income for the year then ended of \$573,000. During the year ended June 30, 2016, the Corporation recorded expenses of \$2,647,000 in the General Operating Fund for retirement plans and health insurance expenses paid to the State of Utah or agencies thereof.

The Act prohibits any member or employee of the Corporation from participating in any action by the Corporation authorizing a transaction to which the member or employee of the Corporation has or will have a direct or indirect interest, unless it is disclosed in a public meeting.

## **17. UNRESTRICTED NET POSITION DESIGNATIONS**

The Corporation's board and management have designated the unrestricted net positions of the Operating Fund and Single-Family Program Funds for the following purposes at June 30, 2016 (in thousands):

Future operating expenses	\$ 21,904
Down payment assistance	20,000
Swap liquidity reserve	10,000
Debt service shortfall and maintenance of bond ratings	<u>50,794</u>
Total	<u>\$102,698</u>

These designations are reviewed annually by the Corporation's board and management as to amount and purpose.

## **18. MORTGAGE LOAN SERVICING**

The Corporation's mortgage servicing department serviced a total of 33,147 loans with unpaid principal balances of \$2,709,222,000 as of June 30, 2016. Escrow cash balances for these loans were \$45,497,000 at June 30, 2016. These escrow balances are not included in the accompanying financial statements.

During the year ended June 30, 2016, the Corporation purchased and capitalized loan servicing rights of \$11,372,000 for \$868,422,000 of loans, respectively. The Corporation also amortized \$5,893,000 of servicing rights during the years ended June 30, 2016. Mortgage servicing rights are recorded with other assets.

During the year ended June 30, 2016, the Corporation issued 62 GNMA loan pools with security proceeds of \$612,598,000. Additionally, the Corporation was servicing 268 GNMA loan pools with an outstanding security balance of \$1,531,637,000 as of June 30, 2016.

Additionally, during the year ended June 30, 2016, the Corporation issued \$109,812,000 of FNMA securities under the FNMA risk share program. As of June 30, 2016, the Corporation was servicing \$302,826,000 of FNMA securities.

#### **19. LOANS SOLD WITH RECOURSE**

During the year ended June 30, 2016, the Corporation sold no mortgage loans with full recourse to any financial institution. As of June 30, 2016, the unpaid principal balance on loans sold in prior years with recourse was \$13,388,000, of which \$11,205,000 is Federal Housing Administration insured.

During the year ended June 30, 2016, the Corporation sold \$109,812,000 under the FNMA risk share program. Loans sold under this program bear recourse risk during the first year upon occurrence of certain events. Utah Housing Corporation experienced no events during the year requiring repurchase of loans or extending recourse obligations on any loans in the FNMA risk share program.

#### **20. SUBSEQUENT EVENTS**

Subsequent to the year ended June 30, 2016, the Corporation has issued \$107,331,000 of TEMS.

\* \* \* \* \*

## **REQUIRED SUPPLEMENTAL INFORMATION**

# UTAH HOUSING CORPORATION

## SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

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	Date	Noncontributory System	Contributory System	Tier 2 Public Employees System
Proportion of the net pension liability	12/31/14	0.144527 %	1.264525 %	0.192269 %
	12/31/15	0.154531	1.523627	0.170759
Proportionate share of net pension liability (asset)	12/31/14	\$3,631,000	\$ 139,000	\$ (6,000)
	12/31/15	4,854,000	955,000	
Covered-employee payroll	12/31/14	3,728,000	454,000	944,000
	12/31/15	3,953,000	483,000	1,103,000
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12/31/14	97.40 %	30.50 %	(0.60)%
	12/31/15	122.79	197.82	(0.03)
Plan fiduciary net position as a percentage of the total pension plan liability	12/31/14	87.20	98.70	103.50
	12/31/15	84.50	92.40	100.20

# UTAH HOUSING CORPORATION

## SCHEDULE OF CONTRIBUTIONS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	As of Fiscal Year Ended June 30	Actuarial Determined Contributions	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
Noncontributory System	2014	\$ 737,000	\$ 737,000	\$ -	\$ 3,714,000	19.84 %
	2015	818,000	818,000		3,807,000	21.49
	2016	857,000	857,000		3,993,000	21.46
Contributory System	2014	70,000	70,000		441,000	15.87
	2015	82,000	82,000		465,000	17.63
	2016	87,000	87,000		493,000	17.65
Tier 2 Public Employees System*	2014	135,000	135,000		805,000	16.77
	2015	186,000	186,000		1,018,000	18.27
	2016	231,000	231,000		1,264,000	18.28
Tier 2 Public Employees DC Only System*	2014	130	130		161,000	0.08
	2015	25,000	25,000		244,000	10.25
	2016	36,000	36,000		355,000	10.14

\* Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems.  
Tier 2 systems were created effective July 1, 2011.

# **UTAH HOUSING CORPORATION**

## **NOTES TO REQUIRED SUPPLEMENTAL INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

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### **1. CHANGES IN ASSUMPTIONS**

The following assumption changes were adopted from the most recent actuarial experience study. There was a decrease in the wage inflation assumption for all employee groups from 3.75 percent to 3.50 percent. Also there was a modification to the rate of salary increases for most groups. The payroll growth assumption was decreased from 3.5 percent to 3.25 percent. There was an improvement in the postretirement mortality assumption for female educators and minor adjustments to the preretirement mortality assumption.

There were additional changes to certain demographic assumptions that generally resulted in: (1) more members are anticipated to terminate employment prior to retirement, (2) slightly fewer members are expected to become disabled, and (3) members are expected to retire at a slightly later age.

## **COMBINING SUPPLEMENTAL SCHEDULES**



# UTAH HOUSING CORPORATION

## COMBINING BALANCE SHEET AS OF JUNE 30, 2016 (In thousands)

	General Operating Fund	Single-Family Mortgage Program Funds	Housing Development Funds	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 8,895	\$ 71,649	\$ 27,508	\$ 108,052
Investments		133,198	60	133,258
Current maturities of loans receivable		19,378	141	19,519
Interest receivable		5,581	40	5,621
Other current assets	1,205	104	37	1,346
Total current assets	10,100	229,910	27,786	267,796
NONCURRENT ASSETS:				
Investments		616,188		616,188
Loans receivable		870,233	7,889	878,122
Capital assets—net	6,469			6,469
Other assets	18,475		1,082	19,557
Total noncurrent assets	24,944	1,486,421	8,971	1,520,336
Total assets	35,044	1,716,331	36,757	1,788,132
DEFERRED OUTFLOWS:				
Accumulated decrease in fair value of hedging derivatives		5,035		5,035
Pension	2,649			2,649
Deferred loss on refunding		34,888		34,888
Total deferred outflows	2,649	39,923	-	42,572
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 37,693	\$ 1,756,254	\$ 36,757	\$ 1,830,704
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>				
CURRENT LIABILITIES:				
Interest payable	\$ -	\$ 15,474	\$ -	\$ 15,474
Line of credit payable		70,248		70,248
Current maturities of bonds payable		150,532		150,532
Current maturities of notes payable		39,074		39,074
Other current liabilities	1,589	262	4,086	5,937
Total current liabilities	1,589	275,590	4,086	281,265
NONCURRENT LIABILITIES:				
Bonds payable		1,115,054		1,115,054
Notes payable		101,161		101,161
Unearned revenue	1,199	351		1,550
Net pension liability	5,809			5,809
Derivative instruments		38,437		38,437
Other liabilities		136		136
Interfund payable (receivable)	4,440	(4,440)		-
Total noncurrent liabilities	11,448	1,250,699	-	1,262,147
Total liabilities	13,037	1,526,289	4,086	1,543,412
DEFERRED INFLOWS:				
Pension	486			486
Accumulated increase in fair value of hedging derivatives		1,486		1,486
Total deferred inflows	486	1,486	-	1,972
NET POSITION:				
Invested in capital assets—net of related debt	6,469			6,469
Restricted—expendable		143,482	32,671	176,153
Unrestricted	17,701	84,997		102,698
Total net position	24,170	228,479	32,671	285,320
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	\$ 37,693	\$ 1,756,254	\$ 36,757	\$ 1,830,704

# UTAH HOUSING CORPORATION

## COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2016

(In thousands)

	General Operating Fund	Single-Family Mortgage Program Funds	Housing Development Funds	Total
OPERATING REVENUE:				
Interest on loans receivable	\$ 5	\$ 41,815	\$ 260	\$ 42,080
Interest on cash and investments	68	20,729		20,797
Servicing revenue	9,450			9,450
Gain on sale of loans		37,478		37,478
Other revenue	2,501	420	162	3,083
Net increase in the fair value of investments		4,122		4,122
Total operating revenue	<u>12,024</u>	<u>104,564</u>	<u>422</u>	<u>117,010</u>
OPERATING EXPENSES:				
Interest		44,924		44,924
Swap termination expense		22,988		22,988
Salaries and benefits	9,655			9,655
General operating expense	3,120	1,263	27	4,410
Loan servicing fees		2,854		2,854
Amortization of other assets	5,893			5,893
Bond issuance expenses		3,513		3,513
Net recovery for loan losses		(1,412)		(1,412)
Depreciation of capital assets	354			354
Total operating expenses	<u>19,022</u>	<u>74,130</u>	<u>27</u>	<u>93,179</u>
OPERATING (LOSS) INCOME	(6,998)	30,434	395	23,831
TRANSFERS IN (OUT)	<u>9,020</u>	<u>(9,020)</u>		
CHANGE IN NET POSITION	2,022	21,414	395	23,831
NET POSITION—Beginning of year	<u>22,148</u>	<u>207,065</u>	<u>32,276</u>	<u>261,489</u>
NET POSITION—End of year	<u>\$24,170</u>	<u>\$228,479</u>	<u>\$32,671</u>	<u>\$285,320</u>

# UTAH HOUSING CORPORATION

## COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2016 (In thousands)

	General Operating Fund	Single-Family Mortgage Program Funds	Housing Development Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from interest on loans receivable	\$ 8	\$ 41,417	\$ 261	\$ 41,686
Cash received from payments on loans receivable	142	209,986	545	210,673
Cash received from loan servicing	9,450			9,450
Cash received from other revenue	2,405	420	162	2,987
Cash received from sale of loan securities and other assets		759,878	293	760,171
Purchase of loans receivable		(952,859)	(1,329)	(954,188)
Cash payments for servicing fees		(2,854)		(2,854)
Cash (payments) received for general operating expenses	(3,274)	(1,461)	133	(4,602)
Cash payments for salaries and benefits	(9,378)			(9,378)
Net cash (used in) provided by operating activities	(647)	54,527	65	53,945
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds payable		393,577		393,577
Proceeds from notes payable		33,124		33,124
Principal paid on notes payable		(49,294)		(49,294)
Principal paid on bonds payable		(456,669)		(456,669)
Proceeds from revolving credit agreement		507,622		507,622
Principal paid on revolving credit agreement		(466,713)		(466,713)
Interest paid on bonds payable/notes payable/revolving credit agreements		(53,895)		(53,895)
Cash payments for swap terminations		(25,863)		(25,863)
Cash payments for bonds costs of issuance		(3,513)		(3,513)
Proceeds from interest rate swap agreements		743		743
Payments made on interest rate swap agreements		(940)		(940)
Purchase of other assets	(11,372)			(11,372)
Transfers	9,020	(9,020)		
Interfund payable (receivables)	4,005	(4,005)		
Net cash provided by (used in) noncapital financing activities	1,653	(134,846)	-	(133,193)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES—Purchases of capital assets	(1,012)			(1,012)
Net cash used in capital and related financing activities	(1,012)	-	-	(1,012)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments		(1,391,318)	(5)	(1,391,323)
Proceeds from sales and maturities of investments		1,448,012		1,448,012
Interest and dividends on investments	68	20,175		20,243
Net cash provided by (used in) investing activities	68	76,869	(5)	76,932
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	62	(3,450)	60	(3,328)
CASH AND CASH EQUIVALENTS—Beginning of year	8,833	75,099	27,448	111,380
CASH AND CASH EQUIVALENTS—End of year	\$ 8,895	\$ 71,649	\$ 27,508	\$ 108,052

(Continued)

# UTAH HOUSING CORPORATION

## COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2016

(In thousands)

	General Operating Fund	Single-Family Mortgage Program Funds	Housing Development Fund	Total
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (6,998)	\$ 30,434	\$ 395	\$ 23,831
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities—adjustments for operating activities:				-
Depreciation	354			354
Interest revenue on cash and investments	(68)	(20,729)		(20,797)
Interest expense		44,924		44,924
Swap termination expense		22,988		22,988
Amortization of other assets	5,893			5,893
Net recovery for loan losses		(1,412)		(1,412)
Changes in assets and liabilities:				-
Increase (decrease) in receivables	146	(21,480)	(413)	(21,747)
Increase (decrease) in other assets	126	72	(77)	121
(Decrease) increase in other liabilities	(185)	(270)	160	(295)
Increase in net pension asset/liability	2,045			2,045
Decrease in deferred inflows/outflows related to pensions	(1,864)			(1,864)
Decrease in unearned revenue	(96)			(96)
Adjustments for operating activities	6,351	24,093	(330)	30,114
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (647)	\$ 54,527	\$ 65	\$ 53,945

(Concluded)

# UTAH HOUSING CORPORATION

## SINGLE-FAMILY MORTGAGE PROGRAM FUNDS BALANCE SHEET AS OF JUNE 30, 2016 (In thousands)

	General Obligation	Single Family Mortgage Loans	2000 Indenture Series	2001 Indenture Series	2007 Indenture Series
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 6,835	\$ 22,994	\$ 1,269	\$ 1,143	\$ -
Investments	1,278	3,814	62,759	3,290	
Current maturities of loans receivable	3,882	367	6,564	253	
Interest receivable	1,062	33	1,297	45	
Other current assets		5	42	9	
Total current assets	<u>13,057</u>	<u>27,213</u>	<u>71,931</u>	<u>4,740</u>	<u>-</u>
NONCURRENT ASSETS:					
Investments		830	76,212	19,355	
Loans receivable	<u>220,328</u>	<u>4,095</u>	<u>249,726</u>	<u>8,597</u>	
Total noncurrent assets	<u>220,328</u>	<u>4,925</u>	<u>325,938</u>	<u>27,952</u>	<u>-</u>
Total assets	<u>233,385</u>	<u>32,138</u>	<u>397,869</u>	<u>32,692</u>	<u>-</u>
DEFERRED OUTFLOWS:					
Accumulated decrease in fair value of hedging derivatives	1,898			3,137	
Deferred loss on refunding			<u>34,888</u>		
Total deferred outflows	<u>1,898</u>	<u>-</u>	<u>34,888</u>	<u>3,137</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 235,283</u>	<u>\$ 32,138</u>	<u>\$ 432,757</u>	<u>\$ 35,829</u>	<u>\$ -</u>
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>					
CURRENT LIABILITIES:					
Interest payable	\$ 18	\$ -	\$ 8,575	\$ 535	\$ -
Line of credit payable	70,248				
Current maturities of bonds payable			32,684	1,220	
Current maturities of notes payable	12,000				
Other current liabilities	<u>2</u>		<u>83</u>	<u>33</u>	
Total current liabilities	<u>82,268</u>	<u>-</u>	<u>41,342</u>	<u>1,788</u>	<u>-</u>
NONCURRENT LIABILITIES:					
Bonds payable			365,744	21,280	
Notes payable	5,988				
Unearned revenue			287	64	
Derivative instruments	1,898		33,402	3,137	
Other liabilities			45	91	
Interfund payable (receivable)	<u>50,111</u>	<u>(55,327)</u>	<u>472</u>	<u>31</u>	
Total noncurrent liabilities	<u>57,997</u>	<u>(55,327)</u>	<u>399,950</u>	<u>24,603</u>	<u>-</u>
Total liabilities	<u>140,265</u>	<u>(55,327)</u>	<u>441,292</u>	<u>26,391</u>	<u>-</u>
DEFERRED INFLOWS—Accumulated increase in fair value of hedging derivatives					
			<u>1,486</u>		
NET POSITION:					
Restricted—expendable		87,465		9,438	
Unrestricted	<u>95,018</u>		<u>(10,021)</u>		
Total net position	<u>95,018</u>	<u>87,465</u>	<u>(10,021)</u>	<u>9,438</u>	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 235,283</u>	<u>\$ 32,138</u>	<u>\$ 432,757</u>	<u>\$ 35,829</u>	<u>\$ -</u>

(Continued)

# UTAH HOUSING CORPORATION

## SINGLE-FAMILY MORTGAGE PROGRAM FUNDS

### BALANCE SHEET

AS OF JUNE 30, 2016

(In thousands)

	2009 Indenture Series	2012 Indenture Series	CRA Participation	MBS Series	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 1,382	\$ 113	\$ 10,361	\$ 27,552	\$ 71,649
Investments	33,903	28,154			133,198
Current maturities of loans receivable	2,281	3,411	2,620		19,378
Interest receivable	482	833	363	1,466	5,581
Other current assets	8	8		32	104
Total current assets	<u>38,056</u>	<u>32,519</u>	<u>13,344</u>	<u>29,050</u>	<u>229,910</u>
NONCURRENT ASSETS:					
Investments	4,575	9,220		505,996	616,188
Loans receivable	<u>101,066</u>	<u>170,776</u>	<u>115,645</u>		<u>870,233</u>
Total noncurrent assets	<u>105,641</u>	<u>179,996</u>	<u>115,645</u>	<u>505,996</u>	<u>1,486,421</u>
Total assets	<u>143,697</u>	<u>212,515</u>	<u>128,989</u>	<u>535,046</u>	<u>1,716,331</u>
DEFERRED OUTFLOWS:					
Accumulated decrease in fair value of hedging derivatives					5,035
Deferred loss on refunding					<u>34,888</u>
Total deferred outflows	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,923</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 143,697</u>	<u>\$ 212,515</u>	<u>\$ 128,989</u>	<u>\$ 535,046</u>	<u>\$ 1,756,254</u>
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>					
CURRENT LIABILITIES:					
Interest payable	\$ 2,179	\$ 2,589	\$ 253	\$ 1,325	\$ 15,474
Line of credit payable					70,248
Current maturities of bonds payable	21,005	22,639		72,984	150,532
Current maturities of notes payable			27,074		39,074
Other current liabilities			3	141	262
Total current liabilities	<u>23,184</u>	<u>25,228</u>	<u>27,330</u>	<u>74,450</u>	<u>275,590</u>
NONCURRENT LIABILITIES:					
Bonds payable	115,590	180,375		432,065	1,115,054
Notes payable			95,173		101,161
Unearned revenue					351
Derivative instruments					38,437
Other liabilities					136
Interfund payable (receivable)	<u>15</u>	<u>192</u>		<u>66</u>	<u>(4,440)</u>
Total noncurrent liabilities	<u>115,605</u>	<u>180,567</u>	<u>95,173</u>	<u>432,131</u>	<u>1,250,699</u>
Total liabilities	<u>138,789</u>	<u>205,795</u>	<u>122,503</u>	<u>506,581</u>	<u>1,526,289</u>
DEFERRED INFLOWS—Accumulated increase in fair value of hedging derivatives					
					<u>1,486</u>
NET POSITION:					
Restricted—expendable	4,908	6,720	6,486	28,465	143,482
Unrestricted					<u>84,997</u>
Total net position	<u>4,908</u>	<u>6,720</u>	<u>6,486</u>	<u>28,465</u>	<u>228,479</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 143,697</u>	<u>\$ 212,515</u>	<u>\$ 128,989</u>	<u>\$ 535,046</u>	<u>\$ 1,756,254</u>

(Concluded)

# UTAH HOUSING CORPORATION

## SINGLE-FAMILY MORTGAGE PROGRAM FUNDS

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

(In thousands)

	General Obligation	Single Family Mortgage Loans	2000 Indenture Series	2001 Indenture Series	2007 Indenture Series
OPERATING REVENUE:					
Interest on loans receivable	\$ 9,131	\$ 306	\$ 11,666	\$ 678	\$ 1,550
Interest on cash and investments	243	352	4,551	957	198
Gain on sale of loans	26,167				
Other revenue	35		321	64	
Net increase (decrease) in the fair value of investments	<u>          </u>	<u>6</u>	<u>47</u>	<u>(20)</u>	<u>(843)</u>
Total operating revenue	<u>35,576</u>	<u>664</u>	<u>16,585</u>	<u>1,679</u>	<u>905</u>
OPERATING EXPENSES:					
Interest	500		15,535	1,263	3,149
Swap termination expense			15,866	803	6,319
General operating expense	295	146	547	70	84
Loan servicing fees	531	16	714	44	114
Bond issuance expenses			1,931		
Net (recovery) provision for loan losses	<u>(1,405)</u>	<u>          </u>	<u>29</u>	<u>(2)</u>	<u>          </u>
Total operating expenses	<u>(79)</u>	<u>162</u>	<u>34,622</u>	<u>2,178</u>	<u>9,666</u>
OPERATING INCOME (LOSS)	35,655	502	(18,037)	(499)	(8,761)
TRANSFERS (OUT) IN	<u>(8,180)</u>	<u>(25,059)</u>	<u>10,599</u>	<u>(4,428)</u>	<u>17,445</u>
CHANGE IN NET POSITION	27,475	(24,557)	(7,438)	(4,927)	8,684
NET POSITION—Beginning of year	<u>67,543</u>	<u>112,022</u>	<u>(2,583)</u>	<u>14,365</u>	<u>(8,684)</u>
NET POSITION—End of year	<u>\$95,018</u>	<u>\$ 87,465</u>	<u>\$(10,021)</u>	<u>\$ 9,438</u>	<u>\$ -</u>

(Continued)

# UTAH HOUSING CORPORATION

## SINGLE-FAMILY MORTGAGE PROGRAM FUNDS

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2016

(In thousands)

	2009 Indenture Series	2012 Indenture Series	CRA Participation	MBS Series	Total
OPERATING REVENUE:					
Interest on loans receivable	\$6,021	\$7,032	\$5,431	\$ -	\$ 41,815
Interest on cash and investments	260	332		13,836	20,729
Gain on sale of loans				11,311	37,478
Other revenue					420
Net (decrease) increase in the fair value of investments	<u>(114)</u>	<u>292</u>	<u>      </u>	<u>4,754</u>	<u>4,122</u>
Total operating revenue	<u>6,167</u>	<u>7,656</u>	<u>5,431</u>	<u>29,901</u>	<u>104,564</u>
OPERATING EXPENSES:					
Interest	4,682	4,931	3,480	11,384	44,924
Swap termination expense					22,988
General operating expense	29	21		71	1,263
Loan servicing fees	425	539	471		2,854
Bond issuance expenses		574		1,008	3,513
Net (recovery) provision for loan losses	<u>(29)</u>	<u>30</u>	<u>(35)</u>	<u>      </u>	<u>(1,412)</u>
Total operating expenses	<u>5,107</u>	<u>6,095</u>	<u>3,916</u>	<u>12,463</u>	<u>74,130</u>
OPERATING INCOME	1,060	1,561	1,515	17,438	30,434
TRANSFERS IN (OUT)	<u>      </u>	<u>603</u>	<u>      </u>	<u>      </u>	<u>(9,020)</u>
CHANGE IN NET POSITION	1,060	2,164	1,515	17,438	21,414
NET POSITION—Beginning of year	<u>3,848</u>	<u>4,556</u>	<u>4,971</u>	<u>11,027</u>	<u>207,065</u>
NET POSITION—End of year	<u>\$4,908</u>	<u>\$6,720</u>	<u>\$6,486</u>	<u>\$28,465</u>	<u>\$228,479</u>

(Concluded)



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

The Audit Committee of  
Utah Housing Corporation  
West Valley City, Utah

We have audited, in accordance with the 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, the financial statements of Utah Housing Corporation, which are comprised of the balance sheet as of June 30, 2016, the related statement of revenues, expenses, and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2016.

**Internal Control over Financial Reporting**

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

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

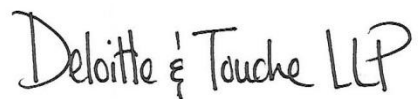
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The script is cursive and fluid, with the letters connected. The "D" is large and loops around the "e" in "Deloitte". The "&" is written as an ampersand. "Touche" is written in a similar cursive style, and "LLP" is in a slightly more upright script at the end.

September 23, 2016