Tennessee Housing Development Agency

FINANCIAL STATEMENTS

June 30, 2023

Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Tennessee Housing Development Agency (THDA), a component unit of the State of Tennessee, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the agency's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2023, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of the Tennessee Housing Development Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the agency's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks; such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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 agency's internal control; accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 13, the schedule of THDA's proportionate share of the net pension liability (asset) for the Closed State and Higher Education Employee Pension Plan within the Tennessee Consolidated Retirement System (TCRS) on page 55, the schedule of THDA's proportionate share of the net pension asset for the State and Higher Education Employee Retirement Plan within TCRS on page 56, the schedule of THDA's contributions to the Closed State and Higher Education Employee Pension Plan within TCRS on page 57, the schedule of THDA's contributions to the State and Higher Education Employee Retirement Plan within TCRS on page 58, the schedule of THDA's proportionate share of the collective total/net Other Postemployment Benefits (OPEB) liability for the Closed State Employee Group OPEB Plan on page 59, the schedule of THDA's proportionate share of the collective total OPEB liability for the Closed Tennessee OPEB Plan on page 60, and the schedule of THDA's contributions to the Closed State Employee Group OPEB plan on page 61 be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information on pages 62 through 68 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2023, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 11, 2023

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2023

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2023, with comparative information presented for the fiscal year ended June 30, 2022. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes. These financial statements and the accompanying note disclosures are the responsibility of management.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2023, THDA has originated over 135,000 single-family mortgage loans in its 50-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher program in approximately 70 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 376 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

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

Overview of the Financial Statements

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

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

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

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

Financial Highlights

Year Ended June 30, 2023

- Total assets decreased by $37 million, or 1.01%.
- Total liabilities decreased by $39.5 million, or 1.26%.
- Net position was $571.4 million. This is an increase of $12.5 million, or 2.23%, from fiscal year 2022 net position (as adjusted).
- Cash and cash equivalents decreased by $210.2 million, or 34.1%.
- Total investments increased by $38.0 million, or 16.66%.
- Bonds payable decreased by $12.3 million, or .4%.
- THDA originated $425.0 million in new loans, which is an increase of $14.6 million, or 3.6%, from the prior year.

Financial Analysis of the Agency

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

	2023	2022
Current assets	$664,393	$832,612
Capital assets	5,375	5,371
Other noncurrent assets	2,980,638	2,849,688
Total assets	3,650,406	3,687,671
Deferred outflows of resources	7,520	7,270
Current liabilities	171,330	196,300
Noncurrent liabilities	2,913,282	2,927,831
Total liabilities	3,084,612	3,124,131
Deferred inflows of resources	1,884	11,867
Investment in capital assets	5,375	5,371
Restricted net position	487,492	460,881
Unrestricted net position	78,563	92,691
Total net position	$571,430	$558,943

2023 to 2022

First and second mortgage loans receivable (net of allowance for forgivable second mortgages and allowance for non-performing first mortgage loans) increased by $130 million. During fiscal year 2023, single-family mortgage loan originations increased by $14.6 million, whereas mortgage loan payoffs decreased by $264.4 million and mortgage loan repayments increased $1.3 million. THDA recognized an allowance for future uncollectable forgivable second mortgages of $43.2 million for fiscal year 2023.In addition THDA recognized an allowance for non-performing first mortgage loans of $310 thousand.

Total liabilities decreased $39.5 million. The decrease is primarily due to a $12.3 million decrease of bonds payable at June 30, 2023, as compared to June 30, 2022, and a decrease of $19.1 million of unearned revenue.

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

	2023	2022
Operating revenues		
Mortgage interest income	$113,186	$108,506
Investment income	11,590	(7,796)
Other	52,830	70,435
Total operating revenues	177,606	171,145
Operating expenses		
Interest expense	74,316	70,315
Other	81,809	83,249
Total operating expenses	156,125	153,564
Operating income	21,481	17,581
Nonoperating revenues (expenses)		
Grant revenues	571,408	488,001
Payments from primary govt	1,021	215
Grant expenses	(581,423)	(495,525)
Total nonoperating revenues (expenses)	(8,994)	(7,309)
Change in net position	$12,487	$10,272

2023 to 2022

Total operating revenues increased $6.5 million, primarily due to an increase in mortgage interest income of $4.7 million. Mortgage interest income is primarily due to an increase in mortgage loans.

Total operating expenses increased $2.6 million. This is primarily due to an increase in salaries and benefits. Salaries and benefits increased primarily due to increases in personnel activity related to additional funding and the overall labor market.

Nonoperating grant revenues increased $84.2 million and nonoperating grant expenses increased $85.9 million, primarily due to an increase in spending of federal grant programs. The increase in spending of federal grant programs is due to THDA being awarded new sources of funding from the federal government that are related to COVID-19 pandemic relief.

Debt Activity
Bonds outstanding as of June 30, 2023, were $2,819,743 (expressed in thousands) which is a $12.3 million decrease from bonds outstanding of $2,832,029 (expressed in thousands) as of June 30, 2022. The decrease in bonds payable is primarily due to a decrease in mortgage production, which therefore lead to fewer bonds issued during fiscal year 2023. In addition, prepayments on bonds remained at a high level. During the fiscal year, THDA issued debt totaling $300 million, with activity arising from two bond issues.

Bond Ratings

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

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

Debt Limits

In accordance with Section 13-23-121, *Tennessee Code Annotated*, THDA operates under a "debt ceiling" of $4,000,000,000.

Grant Programs

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

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

	2023	2022	2021 and Prior	Total
Funding Sources:				
THDA	$7,500,000	$7,400,000	$108,700,000	$123,600,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	$7,500,000	$7,400,000	$113,050,000	$127,950,000
Approved Uses:				
Rural Repair Program (USDA)	$ -	$ -	$6,300,000	$6,300,000
Ramp Programs & Housing Modification	-	500,000	2,250,000	2,750,000
Emergency Repairs	2,700,000	2,700,000	32,000,000	37,400,000
Competitive Grants	3,800,000	3,700,000	54,700,000	62,200,000
Rebuild & Recover	500,000	-	5,800,000	6,300,000
Challenge Grant Program	500,000	-	1,500,000	2,000,000
Creating Homes Initiative – 2 Program	-	-	2,500,000	2,500,000
COVID-19 Supplemental	-	-	500,000	500,000
Other Grants	-	500,000	7,500,000	8,000,000
Totals	$7,500,000	$7,400,000	$113,050,000	$127,950,000

Current Mortgage Products and Environment

THDA offers a variety of mortgage loan products to address the needs of Tennesseans across the State. The Great Choice loan program offers THDA the opportunity to offer a more competitive interest rate on its 30-year fixed-rate mortgage product while still offering down payment assistance with the addition of one of two Great Choice Plus loan programs. Both options are second mortgages, with a 30 year term. The first is a deferred option at a 0% interest rate and a flat loan amount of $6,000. The second is an amortizing option at the same interest rate as the first mortgage and a loan amount of 6% of the sales price.

During fiscal year 2022, the Great Choice Plus loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15.

A special interest rate reduction on the Great Choice loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. In March 2023, the Homeownership for the Brave program was re-branded and new Homeownership loans are referred to as "Homeownership for Heroes". This special offer, provides a 0.5% rate reduction on the current interest rate for Great Choice loans. The program also was expanded to include firefighters, EMT, local and state law enforcement and paramedics. In addition to the rate reduction, Homeownership for Heroes applicants are eligible for optional down payment and closing cost assistance through the Great Choice Plus second mortgage loan described above.

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

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

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

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

As of June 30, 2023, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount Outstanding	Percentage[1]
60 – 89 Days Past Due	25,240	430	$49,546,681	1.70%
90+ Days Past Due	25,240	892	98,748,562	3.53%
In Foreclosure	25,240	55	5,024,968	0.22%

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

Economic Factors

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

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

Single-Family Mortgage Secondary Market Program

During fiscal year 2020, THDA implemented a secondary market mortgage program. In addition to the Mortgage Revenue Bond single-family mortgage products currently offered, THDA will purchase certain single-family mortgage loans from lenders with the intention of selling such mortgages on the secondary market. THDA intends to retain the servicing rights for these mortgages as a "seller/servicer." To provide capital for this program, THDA has entered into a revolving line of credit facility, whereby funds are drawn from the line of credit provider to purchase such mortgages. THDA repays these funds when THDA sells these loans on the secondary market.

Contacting THDA's Financial Management

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2023
(Expressed in Thousands)

ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$	371,513
Investments (Note 2)		116,807
Receivables:		
Accounts		21,837
Interest		12,286
Loans held for resale		4,660
First and second mortgage loans		78,607
Due from federal government		58,666
Due from other state funds		17
Total current assets		664,393
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		34,462
Investments (Note 2)		115,219
Investment interest receivable		421
Investments (Note 2)		34,319
First mortgage loans receivable		2,714,877
Allowance for Non-performing First Mortgage Loans		(310)
Second mortgage loans receivable		96,307
Allowance for uncollectable second mortgages		(43,223)
Other recevables (Note 1)		24,533
Unearned service release premium		719
Advance to local government		3,147
Net pension asset (Note 5)		167
Capital assets:		
Furniture and equipment		14,550
Less accumulated depreciation		(9,175)
Total noncurrent assets		2,986,013
Total assets		3,650,406
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refundings		26
Deferred outflows related to pensions (Note 5)		6,305
Deferred outflows related to OPEB (Note 8)		249
Deferred outflows related to defeased bonds (Note 3)		940
Total deferred outflows of resources		7,520
LIABILITIES		
Current liabilities:		
Accounts payable		35,119
Accrued payroll and related liabilities		947
Compensated absences (Note 3)		998
Due to primary government		101
Interest payable		44,054
Escrow deposits (Note 3)		18,239
Prepayments on mortgage loans		1,488
Due to federal government		4
Bonds payable (Note 3)		70,380
Total current liabilities		171,330
Noncurrent liabilities:		
Bonds payable (Note 3)		2,749,363
Compensated absences (Note 3)		1,170
Net pension liablility (Note 5)		5,041
Total OPEB liability (Note 8)		1,119
Escrow deposits (Note 3)		14,016
Arbitrage rebate payable		74
Unearned revenue (Note 3)		142,499
Total noncurrent liabilities		2,913,282
Total liabilities		3,084,612
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 5)		541
Deferred inflows related to OPEB (Note 8)		1,343
Total deferred inflows of resources		1,884
NET POSITION		
Investment in capital assets		5,375
Restricted for single family bond programs (Note 4))		463,725
Restricted for grant programs (Note 4)		20,447
Restricted for Homebuyers Revolving Loan Program (Note 4)		3,153
Restricted for net pension asset (Note 5)		167
Unrestricted (Note 4)		78,563
Total net position	$	571,430

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023
(Expressed in Thousands)

OPERATING REVENUES		
Mortgage interest income	$	113,186
Investment income:		
Interest		6,880
Net increase in the fair value of investments		4,710
Federal grant administration fees		39,818
Fees and other income		13,012
Total operating revenues		177,606
OPERATING EXPENSES		
Salaries and benefits		26,602
Contractual services		31,672
Materials and supplies		1,502
Rentals and insurance		38
Other administrative expenses		1,194
Other program expenses		16,428
Interest expense		74,316
Issuance costs		2,495
Amortization: service release premium		33
Depreciation		1,845
Total operating expenses		156,125
Operating income		21,481
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue		570,549
Other grants revenue		859
Payment from primary government (Note 9)		1,021
Federal grants expenses		(571,553)
Local grants expenses		(9,870)
Total nonoperating revenues (expenses)		(8,994)
Change in net position		12,487
Total net position, July 1		558,943
Total net position, June 30	$	571,430

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023
(Expressed in Thousands)

Cash flows from operating activities:		
Receipts from customers	$	411,630
Receipts from federal government		40,021
Other miscellaneous receipts		13,012
Acquisition of mortgage loans		(424,977)
Payments to suppliers		(89,476)
Payments to or for employees		(29,064)
Net cash used by operating activities		(78,854)
Cash flows from non-capital financing activities:		
Operating grants received		566,776
Payment from primary government		1,021
Proceeds from sale of bonds		305,757
Operating grants paid		(587,031)
Cost of issuance paid		(2,495)
Principal payments		(304,290)
Interest paid		(82,608)
Net cash used for non-capital financing activities		(102,870)
Cash flows from capital and related financing activities:		
Purchases of capital assets		(1,849)
Net cash used for capital and related financing activities		(1,849)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		282,099
Purchases of investments		(317,966)
Investment interest received		6,700
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents		2,536
Net cash used for investing activities		(26,631)
Net decrease in cash and cash equivalents		(210,204)
Cash and cash equivalents, July 1		616,179
Cash and cash equivalents, June 30	$	405,975

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2023
(Expressed in Thousands)

Reconciliation of operating income to net cash used by operating activities:		
Operating income	$	21,481
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation		1,845
Changes in assets and liabilities:		
Accounts receivable		(3,438)
Mortgage interest receivable		4,868
Other receivables		(1,329)
Unearned service release premium		(291)
Pension asset		2,968
Deferred pension outflows		(261)
Deferred OPEB outflows		(41)
Loans held for resale		(3,220)
Mortgage loans receivable		(129,708)
Due from federal government		57
Accounts payable		(11,901)
Accrued payroll / compensated absences		343
Due to primary government		(4)
Unearned revenue		(19,115)
Line of credit payable		(1,395)
Arbitrage rebate liability		74
Pension liability		5,041
OPEB liability		(66)
Deferred pension inflows		(9,715)
Deferred OPEB inflows		(268)
Investment income included as operating revenue		(11,590)
Interest expense included as operating expense		74,316
Issuance cost included as operating expense		2,495
Total adjustments		(100,335)
Net cash used by operating activities	$	(78,854)
Noncash investing, capital, and financing activities:		
Decrease in fair value of investments	$	(2,526)
Total noncash investing, capital, and financing activities	$	(2,526)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

Basis of Presentation

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

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

Basis of Accounting and Measurement Focus

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

Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

Restricted Assets

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

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

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

Deferred Amount on Refundings and Bond Premiums and Discounts

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

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

Cash and Cash Equivalents

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

Other Receivables

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

Investments

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

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

Accrual of Interest Income

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

Mortgages

Mortgages are carried at their original amount less collected principal.

Secondary Market Mortgage Program

During fiscal year 2020, THDA implemented a secondary market mortgage program. In addition to the Mortgage Revenue Bond single-family mortgage products currently offered, THDA will purchase certain single-family mortgage loans from lenders with the intention of selling such mortgages on the secondary market. THDA intends to retain the servicing rights for these mortgages as a "seller/servicer." To provide capital for this program, THDA has entered into a revolving Line of Credit facility, whereby funds are drawn from the Line of Credit provider to purchase such mortgage. THDA repays these funds when THDA sells the purchased loans on the secondary market.

Loans Held for Resale

Amounts reported as Loans Held for Resale represent mortgage loans that the Agency has the ability and intent to sell within the foreseeable future. These mortgages are carried at their original amount less collected principal.

Operating Revenues and Expenses

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

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, THDA introduced an interest-free forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within 10 years of the origination date. Beginning on the 11th anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home.

Because of the likelihood that some amount of the original amount will be forgiven in the course of time, or not recovered due to foreclosure, an allowance account has been established for those loans that may enter the forgivable period or for loss due to foreclosure. During the fiscal year 2020, the agency determined that an amount of second mortgage down payment assistance loans are not expected to be recovered due to forgiveness or foreclosure. This amount was recorded as an allowance.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State of Tennessee Postemployment Benefit Trust (OPEB Trust), that services the Employee Group OPEB Plan (EGOP), and additions to/deductions from the OPEB Trust fiduciary net position have been determined on the same basis as they are reported by the OPEB Trust. For this purpose, the OPEB Trust recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value. This trust meets the criteria in paragraph 4 of Statement No. 75.

Note 2. Deposits and Investments

Deposits

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

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

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

At June 30, 2023, the bank balance was $41,577,023.40. This amount includes $29,134,797.04; which is held in a taxes and insurance escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf related to THDA serviced loans; $460,393.15 which is held in various accounts to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf related to Freddie Mac serviced loans and $128,320.30 held in various accounts to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf related to Ginnie Mae Mortgage Backed Securities serviced loans. All bank balances at June 30, 2023, were insured.

Investments

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

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

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

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

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

June 30, 2023		
Investment Type	Fair Value *(in thousands)*	Effective Duration Unless Otherwise Noted *(Years)*
U.S. Agency Coupon	$140,839	0.978
U.S. Treasury Coupon	5,530	0.123
U.S. Agency Discount	186,699	0.037
Ginnie Mae Mortgage Backed Securities*	25,157	0.722
Total	$358,225	0.927

* = Modified Duration was used in the place of Effective Duration on Pass Through investments where average life was used instead of PSA speed

Fair Value Measurements – THDA implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB No. 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2023, (expressed in thousands):

	June 30, 2023			
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	$140,839	$ -	$140,839	$ -
U.S. Treasury Coupon	5,530	5,530	-	-
U.S. Agency Discount	186,699	-	186,699	-
Ginnie Mae Mortgage-Backed Securities	25,157	-	25,157	-
Total debt securities	$358,225	$ 5,530	$352,695	$ -

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

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2023, are included in the schedules below. Securities are rated using Nationally Recognized Statistical Rating Organizations (NRSRO) and are presented below (expressed in thousands).

	June 30, 2023				
Investment Type	**Fair Value**	**U.S. Treasury[1]**	**AAA**	**AA+**	**Not Rated[2]**
U.S. Agency Coupon	$140,839	$ -	$	$ 119,215	$21,624
U.S. Treasury Coupon	5,530	5,530	-	-	-
U.S. Agency Discount	186,699	-	-	15,991	170,708
Ginnie Mae Mortgage-Backed Securities	25,157	-	-	-	25,157
Total	$358,225	$5,530	$ -	$ 135,206	$217,489

In addition to these investments, the agency has $125,358,085 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poor's rating of AAA.

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

Issuer	*(in thousands)*	Portfolio
Federal Home Loan Bank	$ 273,712	76.41
Federal National Mortgage Admin	$ 46,291	12.92
Ginnie Mae Mortgage Backed Securities	$ 25,157	7.02

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

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

[2] This column includes securities that are implicitly guaranteed by the U.S. government, and GNMA MBS securities explicitly guaranteed by the U.S. government. Neither type are rated by an NRSRO.

Note 3. Liabilities

Bonds Issued and Outstanding

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2023 *(Thousands)*
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	39,595
Total Housing Finance Program Bonds		$150,000		$39,595
Plus: Unamortized Bond Premiums				623
Net Housing Finance Program Bonds				$40,218

Residential Finance Program

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2023 *(Thousands)*
2013-1	1/1/2014 – 7/1/2043	$ 215,905	0.40 to 4.00	$ 28,310
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	24,375
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	31,965
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	41,945
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	45,580
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	54,370
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	49,270
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	50,385
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	12,390
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	28,650
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	68,955
2017-3	7/1/2018 – 1/1/2048	99,900	0.80 to 3.65	50,115
2017-4	7/1/2018 – 7/1/2048	99,900	0.95 to 4.00	54,360
2018-1	1/1/2019 – 1/1/2043	99,900	1.40 to 4.00	48,675
2018-2	1/1/2019 – 1/1/2049	160,000	1.75 to 4.00	83,935
2018-3	7/1/2019 – 7/1/2049	149,900	1.50 to 4.25	85,490
2018-4	7/1/2019 – 7/1/2049	225,000	1.875 to 4.50	124,535
2019-1	1/1/2020 – 1/1/2050	175,000	1.60 to 4.25	106,735
2019-2	1/1/2020 – 1/1/2048	200,000	1.40 to 4.00	129,870
2019-3	7/1/2020 – 1/1/2050	150,000	1.10 to 3.75	102,020
2019-4	7/1/2020 – 1/1/2050	200,000	1.20 to 3.50	138,060
2020-1	1/1/2021 – 7/1/2050	200,000	0.80 to 3.75	140,985
2020-2	1/1/2021 – 7/1/2040	108,500	1.08 to 4.00	49,850
2020-3	1/1/2021 – 7/1/2050	145,000	0.80 to 3.50	116,515
2020-4	7/1/2021 – 1/1/2051	145,000	1.50 to 3.00	123,140
2021-1	1/1/2022 – 7/1/2051	149,990	0.20 to 3.00	136,485
2021-2	7/1/2022 – 1/1/2052	99,990	0.13 to 3.00	95,315
2021-3	7/1/2022 – 1/1/2052	170,000	0.20 to 3.00	78,620
2022-1	1/1/2023 – 7/1/2052	175,000	1.25 to 5.00	171,150
2022-2	1/1/2023 – 1/1/2053	149,990	1.75 to 5.00	148,405

2022-3	7/1/2023 – 1/1/2053	160,000	3.00 to 5.50	159,990
2023-1	1/1/2024 – 7/1/2054	140,000	3.80 to 5.756	140,000

Total Residential Finance Program Bonds	$4,752,275	$2,720,445
Plus: Unamortized Bond Premiums		59,394
Subtract: Unamortized Bond Discount		(314)
Net Residential Finance Program Bonds		$2,779,525
Net Total All Bonds		$2,819,743

Debt Service Requirements

Debt service requirements to maturity at June 30, 2023, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2024	61,190	90,228	151,418
2025	108,720	90,535	199,255
2026	110,205	87,932	198,137
2027	110,675	85,071	195,746
2028	110,845	82,053	192,898
2029 – 2033	538,425	360,148	898,573
2034 – 2038	448,680	282,306	730,986
2039 – 2043	486,205	201,378	687,583
2044 – 2048	481,125	113,895	595,020
2049 – 2053	295,320	30,681	326,001
2054 – 2055	8,650	356	9,006
Total	$2,760,040	$1,424,583	$4,184,623

The agency's bond resolutions govern the outstanding bonds payable for all bond programs in the amount of $2,760,040 (expressed in thousands). The bond resolutions contain a provision that in an event of default, the trustee can declare all bonds due and payable and can sell program loans and investment securities for payments to bondholders.
The outstanding bonds payable of $2,760,040 (expressed in thousands) are secured by a pledge of all assets in each of the respective bond resolutions.

The Agency has a line of credit in the amount of $75,000,000. The unused portion as of June 30, 2023 is $75,000,000.

Redemption of Bonds and Notes

During the year ended June 30, 2023, bonds were retired at par before maturity in the Housing Finance Program in the amount of $6,850,000 and in the Residential Finance Program in the amount of $294,120,000. The respective carrying values of the bonds were $7,053,373 and

$304,634,551. This resulted in revenue to the Housing Finance Program of $203,373 and to the Residential Finance Program of $10,514,551.

On September 29, 2022 the agency issued $160,000,000 in Residential Finance Program Bonds, Issue 2022-3.

On March 29, 2023 and supplemented on April 18, 2023, the agency issued $140,000,000 in Residential Finance Program Bonds, Issue 2023-1.

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2023 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2022	Additions	Reductions	Ending Balance June 30, 2023	Amounts Due Within One Year[3]
Bonds Payable	$2,764,330	$300,000	($304,290)	$2,760,040	$70,380
Plus: Unamortized Bond Premiums	68,041	5,754	(13,778)	60,017	-
Less: Unamortized Bond Discounts	(342)	(0)	28	(314)	-
Compensated Absences	1,916	1,549	(1,297)	2,168	998
Escrow Deposits	32,848	63,080	(63,673)	32,255	18,239
Unearned Revenue	161,614	5,784	(24,900)	142,498	
Arbitrage Rebate Payable	-	74	(-)	74	-
Total	$3,028,407	$376,241	($407,910)	$2,996,738	$89,617

Note 4. Restricted Net Position

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

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

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

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

Note 5. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

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

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

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

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

A reduced early retirement benefit is available at age 55 and vested. Members are vested with 5 years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. In fiscal year 2023, the state made a one-time direct contribution of $350 million to the plan. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2023, to the Closed State and Higher Education Employee Pension Plan, including its share of the one-time direct contribution mentioned, were $3,351,325.03, which is 38.57% of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2023, THDA reported a liability of $5,041,128.15 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. THDA's proportion of the net pension liability was based on the proportion of THDA's contributions during the year ended June 30, 2022, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2022, measurement date, THDA's proportion was 0.423141%. The proportion measured as of June 30, 2021, was 0.419379%.

Pension expense – For the year ended June 30, 2023, THDA recognized a pension expense of $1,480,782. Allocated pension expense was $1,556,215.66 before being decreased by $75,433.17 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2023, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 975	$ 300
Net difference between projected and actual earnings on pension plan investments	72	-
Change in proportionate share of net asset or liability	25	77
Changes in assumptions	1,368	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2022	3,351	-
Total	$5,791	$377

Deferred outflows of resources, resulting from THDA's employer contributions of $3,351 thousand subsequent to the measurement date will be recognized as reduction to net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows: (expressed in thousands):

Year Ended June 30:	
2024	1,032
2025	66
2026	(730)
2027	1,694
2028	-
Thereafter	-

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

Actuarial assumptions – The total pension liability as of the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4.00%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.125%

Mortality rates were based on customized tables based on actual experience, including a projection of mortality improvement using Scale MP-2021, with generational projection.

The actuarial assumptions used in the June 30, 2022, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. As a result of the 2020 actuarial experience study, investment and demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2020, actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation of 2.25%. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real estate	4.38%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blend of historical market returns and future capital market projections.

<u>Discount rate</u> – The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

<u>Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate</u> – The following presents THDA's proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what THDA's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	$14,787,474	$5,041,128	$(3,142982)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Payable to the Pension Plan

At June 30, 2023, THDA reported a payable of $74,794 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2023.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

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

The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and years of service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest five consecutive year average compensation by 1% multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and years of service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary. The THDA makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2023, to the State and Higher Education Employee Retirement Plan were $283,368, which is 2.47% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2023, THDA reported an asset of $167,357 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022 and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2022, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2022, measurement date, THDA's proportion was 0.671072%. The proportion measured as of June 30, 2021, was 0.671032%.

Pension expense – For the year ended June 30, 2023, THDA recognized a pension expense of $185,915. Allocated pension expense was $204,819 before being decreased by $18,904 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2023, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	31	$57
Net difference between projected and actual earnings on pension plan investments	51	-
Changes in proportion of share of net asset or liability	8	106
Changes in assumptions	140	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2022	284	-
Total	$514	$163

Deferred outflows of resources, resulting from THDA's employer contributions of $283,368 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:	
2024	(5)
2025	(4)
2026	(13)
2027	74
2028	(3)
Thereafter	19

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

Actuarial assumptions – The total pension liability as of the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from3.44% to 8.72% based on age, including inflation, averaging 4.00%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.125%

Mortality rates were based on customized tables based on actual experience, including a projection of mortality improvement using Scale MP-2021, with generational projection.

The actuarial assumptions used in the June 30, 2022, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. As a result of the 2020 actuarial experience study, investment and demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2020, actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation of 2.25%. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real estate	4.38%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blend of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all participating employers will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members and to cover administrative expenses. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate – The following presents THDA's proportionate share of the net pension liability (asset) calculated using the discount rate of 6.75%, as well as what THDA's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	$682,701	$(167,357)	$(805,920)

Pension plan fiduciary net position – Detailed information about the plan's fiduciary net position is available separately issued TCRS financial report at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Payable to the Pension Plan

At June 30, 2023, THDA reported a payable of $12,395 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2023.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2022, for both defined benefit pension plans was $1,666,697.

Note 6. Deferred Compensation Plans

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a $100 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

The Tennessee Housing Development Agency recognized a pension expense of $857,747 for employer contributions.

The Tennessee Housing Development Agency recognized a pension payable of $37,778 for employer contributions.

Note 7. Insurance-Related Activities

Commercial Insurance

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

Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state self-insures against property and cyber liability losses through the RMF and the State of Tennessee Captive Insurance Company (TCIC). The state purchases commercial insurance for real property and crime and fidelity coverage on the state's officials and employees above the limits of the RMF and TCIC. For property coverage, the deductible for an individual state agency is the first $25,000 to $75,000 of losses based on a tiered deductible system that accounts for averaged losses over a three year period and the type of loss. The RMF is responsible for property losses of $2.5 million per occurrence for all perils. The TCIC is responsible for property losses in excess of the RMF limits up to an annual aggregate of $25 million. Purchased insurance coverage is responsible for losses exceeding these limits to the maximum insurance coverage of $600 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in the New Madrid Zone. For cyber coverage, the RMF is responsible for $1.5 million per occurrence. The TCIC is responsible for losses in excess of the RMF limits up to an aggregate of $10 million. The amounts of settlements have not exceeded insurance coverage in any of the three past fiscal years.

The agency participates in the Risk Management Fund, except for RMF's cyber liability coverage. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2023, is presented in the *Annual Comprehensive Financial Report (ACFR).* The ACFR is available on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq, *Tennessee Code Annotated.* Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in, Section 50-6-101 et seq, *Tennessee Code Annotated*. Claims are paid through the state's Risk Management Fund. At June 30, 2023, the Risk Management Fund held $254 million in cash designated for payment of claims.

Employee Group Insurance Fund

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

Note 8. Other-Postemployment Benefits OPEB

Closed State Employee Group OPEB Plan
General information about the OPEB plan

Plan description - Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with pre-65 retiree health insurance benefits through the closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan includes the primary government, the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee and the institutions that make up the State University and Community College System. The State of Tennessee Postemployment Benefits Trust (OPEB Trust) was established to accumulate resources to pay for the retiree benefits of EGOP participants. The OPEB Trust prepares a stand-alone financial report that can be found at https://www.tn.gov/finance/rd-doa/opeb22121.html.

Benefits provided - The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated (TCA)*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65 are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, standard preferred provider organization (PPO) plan or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits, as active employees, at a blended premium rate that considers the cost of active and retired employees. This creates an implicit subsidy for the retirees. The retirees cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%.

Contributions - Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Part 201, *Tennessee Code Annotated* establishes the required contributions to the plan by member employees through the premiums established to approximate claims cost for the year. Pre-age 65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. Therefore, retirees pay either 20%, 30%, 40%, or 100% of the appropriate premium rate. These payments are deposited into the OPEB Trust. Employers contribute to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. The total ADC rate for plan employers for the fiscal year ended June 30, 2023 was $115.7 million. The Tennessee Housing Development Agency share of the ADC was $250 thousand. During the fiscal year the Tennessee Housing Development Agency contributed $127 thousand to the OPEB Trust. The state general assembly has the authority to change the contribution requirements for the employers participating in the EGOP. The primary government made payments on behalf of Tennessee Housing Development Agency in the amount of $1.009 million.

Net OPEB Liability

Proportionate share - The Tennessee Housing Development Agency's proportion and proportionate share of the collective net OPEB liability, related to the EGOP, is 0.158027% and $1.1 million, respectively. The proportion existing at the prior measurement date was 0.166138%. This resulted in a change in proportion of (0.008111%) between the current and prior measurements dates. Tennessee Housing Development Agency's proportion of the collective net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2022, and measurement date of June 30, 2022.

Actuarial assumptions - The collective total OPEB liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	8.37% for 2023, decreasing annually to an ultimate rate of 4.5% for 2030 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2022, valuations were the same as those employed in the July 1, 2021, Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table for General Employees for non-disabled pre-retirement mortality, with mortality improvement projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2020.

<u>Long-term Expected Rate of Return</u>- The long-term expected rate of return of 6% on OPEB Trust investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major 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 percentage and by adding expected inflation. Title 8, Chapter 27, Part 802, *Tennessee Code Annotated,* establishes the responsibility of the trustees to adopt written investment policies authorizing how assets in the OPEB Trust may be invested and reinvested by the State Treasurer. The treasurer may invest trust assets in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest, provided that investments by the OPEB Trust shall be governed by the investment policies and guidelines adopted by the trustees. Any changes to the investment policy will be the responsibility of the established trustees. The

OPEB Trust investment policy target asset allocation and allocation range for each major asset class is summarized in the following table:

Asset Class	Allocation Range Minimum	Allocation Range Maximum	Target Allocation
Equities	25%	80%	53%
Fixed income and short-term securities	20%	50%	25%
Real estate	0%	20%	10%
Private equity and strategic lending	0%	20%	7%
Cash and cash equivalents	0%	25%	5%
			100%

The best estimates of geometric real rates of return for each major asset class included in the OPEB Trust target asset allocation are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.89%
Developed market international equity	5.38%
Emerging market international equity	5.97%
Cash (government)	1.17%
Private equity and strategic lending	5.18%
U.S. fixed income	2.74%
Real estate	4.79%

Discount rate - The discount rate used to measure the total OPEB liability was 6.00%. This was the same rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the ADC rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on these assumptions, the OPEB Trust fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in assumptions – The medical and drug trend rate assumptions were updated to reflect more recent experience and a change in expected per capita health claims to reflect more recent information as of the measurement date. These changes decreased the liability by 2.57%.

Changes in benefit terms – Tennessee highway patrol members who retire with at least 25 years of service shall receive 80% of the schedule premium, regardless of the date of hire. Also, any commissioned member of the Tennessee Wildlife Resources Agency or Tennessee Bureau of Investigation who retires with at least 25 years of service shall receive 80% of the schedule premium.

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the discount rate - The following presents Tennessee Housing Development Agency's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5%) or 1-percentage-point higher (7%) than the current discount rate (expressed in thousands).

	1% Decrease *(5.00%)*	Discount Rate *(6.00%)*	1% Increase *(7.00%)*
Tennessee Housing Development Agency's Proportionate share of the collective net OPEB liability	$ 1,258	$ 1,119	$ 987

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate - The following presents Tennessee Housing Development Agency's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (7.37% decreasing to 3.5%) or 1-percentage-point higher (9.37% decreasing to 5.5%) than the current healthcare cost trend rate (expressed in thousands).

	1% Decrease *(7.37% decreasing to 3.50%)*	Healthcare Cost Trend Rates *(8.37% decreasing to 4.50%)*	1% Increase *(9.37% decreasing to 5.50%)*
Tennessee Housing Development Agency's Proportionate share of the collective net OPEB liability	$ 931	$ 1,119	$ 1,334

OPEB Expense – For the fiscal year ended June 30, 2023, the Tennessee Housing Development Agency recognized negative OPEB expense of $248 thousand.

Deferred outflows of resources and deferred inflows of resources - For the fiscal year ended June, 30, 2023, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ 103
Changes of assumptions	56	246
Net difference between actual and projected investment earnings	66	-
Changes in proportion and differences between benefits paid and proportionate share of benefits paid.	-	993
Contributions subsequent to the measurement date	127	
Total	$ 249	$ 1,343

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

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

For the year ended June 30:	
2024	$ (381)
2025	(382)
2026	(369)
2027	(61)
2028	(28)
Thereafter	-

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

Closed Tennessee OPEB Plan

General information about the OPEB plan

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

<u>Benefits provided</u> - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated,* benefits are established and amended by cooperation of insurance committees created by Title 8, Chapter 27, Parts 201, 301, and 701, *Tennessee Code Annotated.* Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost, however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. Tennessee Housing Development Agency does not provide any subsidies for retirees in the TNP. The primary government paid $12,800 for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated,* the state insurance committees established by Title 8, Chapter 27, Parts 201, 301, and 70, *Tennessee Code Annotated,* determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

<u>Proportionate share</u> – The primary government is entirely responsible for the Closed TN OPEB Plan liability associated with the Tennessee Housing Development Agency's employees. The primary government's proportion and proportionate share of the total OPEB liability associated with the Tennessee Housing Development Agency was $279 thousand. At the June 30, 2022, measurement date, the proportion of the collective total OPEB liability associated with the Tennessee Housing Development Agency was 0.1854%. This represents a change of 0.0126% from the prior proportion of 0.1980%. The proportion of the collective total OPEB liability associated with the Tennessee Housing Development Agency was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was

determined by an actuarial valuation with a valuation date of June 30, 2022, and a measurement date of June 30, 2022.

Actuarial assumptions – The total OPEB liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

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

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2022, valuations were the same as those employed in the July 1, 2021, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table for General Employees for non-disabled pre-retirement mortality, with mortality improvement projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2020.

Discount rate – The discount rate used to measure the total OPEB liability was 3.54%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer 20-Year Municipal GO AA index.

Changes in assumptions - The discount rate was changed from 2.16% to 3.54% as of June 30, 2022. This change in assumption decreased the total OPEB liability by 14.6%.

Sensitivity of proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary government's proportionate share of the Tennessee Housing Development Agency's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.54%) or 1-percentage-point higher (4.54%) than the current discount rate. The Tennessee Housing Development Agency does not report a proportionate share of the OPEB liability for the employees in the TNP (expressed in thousands).

	1% Decrease *(2.54%)*	Discount Rate *(3.54%)*	1% Increase *(4.54%)*
Tennessee Housing Development Agency's Proportionate share of the collective net OPEB liability	$ 318	$ 279	$ 246

OPEB expense – For the fiscal year ended June 30, 2023, the primary government recognized negative OPEB expense of $2 thousand for employees of the Tennessee Housing Development Agency participating in the TNP.

Total OPEB Expense – The total negative OPEB expense for the year ended June 30, 2023 was $250 thousand, which consisted of negative OPEB expense of $248 thousand for the EGOP and negative $2 thousand paid by the primary government for the TNP.

Note 9. On-Behalf Payments

During the year ended June 30, 2023, the State of Tennessee made payments of $12,800 on behalf of THDA for retirees participating in the Closed Tennessee OPEB Plan and payments of $1,008,616 on behalf of THDA for retirees participating in the Closed State Employee Group OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 8. The plan is reported in the *Tennessee Annual Comprehensive Financial Report*.

Note 10. Payments to Primary Government

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

Note 11. Subsequent Events

Residential Finance Program Bonds, Issue 2023-3, were authorized by the board of directors on July 25, 2023, not to exceed $325,000,000. On September 26, 2023, the board of directors approved an Amendment to bond issue 2023-3 that increased the authorized maximum to $360,000,000. The sale of the bonds will occur no later than November 30, 2023

Residential Finance Program Bonds, Issue 2023-2, were sold on July 25, 2023. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate *(Percent)*
2023-2	7/1/2024 –1/1/2054	$235,000,000	3.20 – 6.00

Residential Finance Program Bonds, Issue 2023-3, were sold on November 8, 2023. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate *(Percent)*
2023-3	7/1/2024 –1/1/2054	$360,000,000	3.90 – 6.534

Residential Finance Program Bonds, Issue 2024-1, were authorized by the board of directors on November 14, 2023 not to exceed $350,000,000. The sale of the bonds will occur no later than May 31, 2024.

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

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability (Asset)	THDA's Proportionate Share of the Net Pension Liability (Asset)	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability(Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	0.423141%	$5,041	$8,826	57.12%	93.80%
2022	0.419379%	(2,566)	8,852	(28.99%)	103.30%
2021	0.434725%	7,122	9,623	74.01%	90.58%
2020	0.445278%	6,288	10,040	62.63%	91.67%
2019	0.433148%	6,997	10,024	69.80%	90.26%
2018	0.427994%	7,659	10,268	74.60%	88.88%
2017	0.419391%	7,652	10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

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

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

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

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	0.671072%	($167)	$9,790	(1.71%)	104.81%
2022	0.671032%	569	8,496	6.69%	121.71%
2021	0.653018%	230	7,475	3.08%	112.90%
2020	0.628303%	261	5,893	4.42%	122.36%
2019	0.198493%	77	4,410	1.74%	132.39%
2018	0.170803%	35	3,068	1.15%	131.51%
2017	0.391715%	33	1,661	1.99%	130.56%
2016	0.457171%	13	498	2.60%	142.55%

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

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

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

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2023	$1,898	$3,351	($1,454)	$8,687	38.58%
2022	1,809	2,867	(1,058)	8,826	32.49%
2021	1,791	1,791	-	8,852	20.23%
2020	1,892	1,892	-	9,623	19.66%
2019	1,931	1,931	-	10,040	19.23%
2018	1,891	1,891	-	10,024	18.87%
2017	1,542	1,542	-	10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%

Notes to Schedule:

Changes of assumptions: In 2021, the following assumptions were changed: decreased inflation rate from 2.50% to 2.25%; decreased the investment rate of return from 7.25% to 6.75%; decreased the cost-of-living adjustment from 2.25% to 2.125%; and modified mortality assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; and decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

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

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2023	$283	$283	-	$11,479	2.47%
2022	182	182	-	9,790	1.86%
2021	153	153	-	8,496	1.80%
2020	129	129	-	7,475	1.73%
2019	98	98	-	5,893	1.66%
2018	57	57	-	4,410	1.29%
2017	35	35	-	3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

Notes to Schedule:

Changes of assumptions: In 2021, the following assumptions were changed: decreased inflation rate from 2.50% to 2.25%; decreased the investment rate of return from 7.25% to 6.75%; decreased the cost-of-living adjustment from 2.25% to 2.125%; and modified mortality assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4.00%; and modified mortality assumptions.

To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

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

(Expressed in Thousands)

	Employer proportion of the collective total/net OPEB liability	Employer proportionate share of the collective total/net OPEB liability	Covered-employee payroll	Employer proportionate share of the collective total/net OPEB liability as a percentage of covered-employee payroll	OPEB plan fiduciary net position as a percentage of the total OPEB liability
2023	0.158027%	$1,119	$8,782	12.74%	39.00%
2022	0.166138%	1,185	9,229	12.84%	39.00%
2021	0.165964%	1,389	9,903	14.03%	25.20%
2020	0.173646%	1,653	8,999	18.37%	18.00%
2019	0.241928%	3,351	9,720	34.47%	-
2018	0.266480%	3,578	10,046	35.62%	-

Notes to the Schedule

During fiscal year 2019, the EGOP transitioned from a pay-as-you-go OPEB plan to a prefunding arrangement where assets are accumulated in a qualifying trust and benefits are paid from that trust. The transition resulted in a significant increase to the discount rate from 3.6 percent to 6.0 percent. This change would be reflected in the June 30, 2020 reporting period due to the one year lookback on OPEB measurement.

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

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

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

(Expressed in Thousands)

	Employer proportion of the collective total OPEB liability	Primary government proportionate share of the collective total OPEB liability related to THDA	Collective total OPEB liability	Covered-employee payroll
2023	0.00%	$279	$279	$9,625
2022	0.00%	352	352	10,020
2021	0.00%	436	436	10,457
2020	0.00%	345	345	9,529
2019	0.00%	311	311	10,005
2018	0.00%	339	339	10,046

Notes to the Schedule

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

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

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

Change of assumptions: In 2023, the discount rate changed from 2.16% to 3.54%.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Contributions to the Closed State Employee Group OPEB Plan

(Expressed in Thousands)

	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution Deficiency (Excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2023	$250	$127	$123	$8,690	1.46%
2022	290	130	160	8,782	1.48%
2021	362	139	223	9,229	1.51%
2020	415	142	273	9,903	1.43%
2019	373	209	164	8,999	2.32%

Notes to the Schedule

Valuation Date: Actuarially determined contribution rates are determined based on valuations as of June 30 two years prior to the fiscal year in which the contributions are reported.

This schedule is intended to display 10 years of information. Additional years will be displayed as they become available.

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2023
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 158,501	$ 29,431	$ 882	$ 182,699	$ 371,513
Investments	-	1,055	1,660	114,092	116,807
Receivables:					
Accounts	11,770	128	83	9,856	21,837
Interest	-	2	255	12,029	12,286
Loans held for resale	-	4,660	-	-	4,660
First and second mortgage loans	-	2,410	1,824	74,373	78,607
Due from federal government	58,666		-	-	58,666
Due from other state funds	17	-	-	-	17
Due from other funds	-	-	-	35,435	35,435
Total current assets	228,954	37,686	4,704	428,484	699,828
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	30,358	-	17	4,087	34,462
Investments	-	-	6,165	109,054	115,219
Investment Interest receivable	-	-	15	406	421
Investments	-	1,143	-	33,176	34,319
First mortgage loans receivable	5	46,645	45,142	2,623,085	2,714,877
Allowance for Non-performing 1st Mortgage Loans		(43)	(6)	(261)	(310)
Second mortgage loans receivable	-	-	-	96,307	96,307
Allowance for uncollectable second mortgages	-	-	-	(43,223)	(43,223)
Other receivables	6,163	-	-	18,370	24,533
Unearned service release premium	719	-	-	-	719
Advance to local government	3,147	-	-	-	3,147
Net pension asset	167	-	-	-	167
Capital assets:					
Furniture and equipment	14,550	-	-	-	14,550
Less accumulated depreciation	(9,175)	-	-	-	(9,175)
Total noncurrent assets	45,934	47,745	51,333	2,841,001	2,986,013
Total assets	274,888	85,431	56,037	3,269,485	3,685,841
DEFERRED OUTFLOWS OF RESOURCES					
Deferred amount on refundings	-	-	-	26	26
Deferred outflows related to pensions	6,305	-	-	-	6,305
Deferred outflows related to OPEB	249	-	-	-	249
Deferred outflows related to defeased bonds	-	-	-	940	940
Total deferred outflows of resources	6,554	-	-	966	7,520
LIABILITIES					
Current liabilities:					
Accounts payable	34,982	12	3	122	35,119
Accrued payroll and related liabilities	947	-	-	-	947
Compensated absences	998	-	-	-	998
Due to primary government	101	-	-	-	101
Interest payable	-	-	673	43,381	44,054
Escrow deposits	18,239	-	-	-	18,239
Prepayments on mortgage loans	-	-	25	1,463	1,488
Due to federal government	4	-	-	-	4
Due to other funds	35,435	-	-	-	35,435
Bonds payable	-	-	2,360	68,020	70,380
Total current liabilities	90,706	12	3,061	112,986	206,765
Noncurrent liabilities:					
Bonds payable	-	-	37,858	2,711,505	2,749,363
Compensated absences	1,170	-	-	-	1,170
Net pension liability	5,041	-	-	-	5,041
Total OPEB liability	1,119	-	-	-	1,119
Escrow deposits	13,964	48	-	4	14,016
Arbitrage rebate payable	-	-	-	74	74
Unearned revenue	130,473	3,083	-	8,943	142,499
Total noncurrent liabilities	151,767	3,131	37,858	2,720,526	2,913,282
Total liabilities	242,473	3,143	40,919	2,833,512	3,120,047
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	541	-	-	-	541
Deferred inflows related to OPEB	1,343	-	-	-	1,343
Total deferred inflows of resources	1,884	-	-	-	1,884
NET POSITION					
Investment in capital assets	5,375	-	-	-	5,375
Restricted for single family bond programs	-	11,668	15,118	436,939	463,725
Restricted for grant programs	-	20,447	-	-	20,447
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	3,153
Restricted for net pension asset	167	-	-	-	167
Unrestricted	28,390	50,173	-	-	78,563
Total net position	$ 37,085	$ 82,288	$ 15,118	$ 436,939	$ 571,430

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES					
Mortgage interest income	$ 67	$ 147	$ 2,322	$ 110,650	$ 113,186
Investment income:					
Interest	918	472	81	5,409	6,880
Net increase (decrease) in the fair value of investments	-	627	(47)	4,130	4,710
Federal grant administration fees	39,818	-	-	-	39,818
Fees and other income	12,819	187	-	6	13,012
Total operating revenues	53,622	1,433	2,356	120,195	177,606
OPERATING EXPENSES					
Salaries and benefits	26,602	-	-	-	26,602
Contractual services	31,652	-	-	20	31,672
Materials and supplies	1,502	-	-	-	1,502
Rentals and insurance	38	-	-	-	38
Other administrative expenses	1,194	-	-	-	1,194
Other program expenses	9,360	63	14	6,991	16,428
Interest expense	48	-	1,190	73,078	74,316
Issuance costs	-	-	-	2,495	2,495
Amortization: service release premium	33	-	-	-	33
Depreciation	1,845	-	-	-	1,845
Total operating expenses	72,274	63	1,204	82,584	156,125
Operating income (loss)	(18,652)	1,370	1,152	37,611	21,481
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	570,549	-	-	-	570,549
Other grant revenue	859	-	-	-	859
Payment from primary government	1,021	-	-	-	1,021
Federal grants expenses	(571,553)	-	-	-	(571,553)
Local grants expenses	(9,870)	-	-	-	(9,870)
Total nonoperating revenues (expenses)	(8,994)	-	-	-	(8,994)
Income (loss) before transfers	(27,646)	1,370	1,152	37,611	12,487
Transfers (to) other funds	-	(6,569)	-	(13,858)	(20,427)
Transfers from other funds	19,883	-	544	-	20,427
Change in net position	(7,763)	(5,199)	1,696	23,753	12,487
Total net position, July 1	44,848	87,487	13,422	413,186	558,943
Total net position, June 30	$ 37,085	$ 82,288	$ 15,118	$ 436,939	$ 571,430

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:					
Receipts from customers	$ -	$ -	$ 6,393	$ 405,237	$ 411,630
Receipts from federal government	39,875	-	-	146	40,021
Receipts from other funds	756	-	-	-	756
Other miscellaneous receipts	12,819	187	-	6	13,012
Acquisition of mortgage loans	-	(4,154)	-	(420,823)	(424,977)
Payments to suppliers	(77,857)	(1,559)	(12)	(10,048)	(89,476)
Payments to federal government	-	-	-	-	-
Payments to other funds	-	-	-	(756)	(756)
Payments to or for employees	(29,064)	-	-	-	(29,064)
Net cash provided (used) by operating activities	(53,471)	(5,526)	6,381	(26,238)	(78,854)
Cash flows from non-capital financing activities:					
Operating grants received	566,776	-	-	-	566,776
Payment from primary government	1,021	-	-	-	1,021
Transfers in (out)	19,883	(6,569)	544	(13,858)	-
Proceeds from sale of bonds	-	-	-	305,757	305,757
Operating grants paid	(587,031)	-	-	-	(587,031)
Cost of issuance paid	-	-	-	(2,495)	(2,495)
Principal payments	-	-	(6,850)	(297,440)	(304,290)
Interest paid	(49)	-	(1,543)	(81,016)	(82,608)
Net cash provided (used) by non-capital financing activities	600	(6,569)	(7,849)	(89,052)	(102,870)
Cash flows from capital and related financing activities:					
Purchases of capital assets	(1,849)	-	-	-	(1,849)
Net cash used for capital and related financing activities	(1,849)	-	-	-	(1,849)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	38,527	3,340	275,470	317,337
Purchases of investments	-	(33,452)	(4,977)	(314,775)	(353,204)
Investment interest received	918	470	80	5,232	6,700
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	146	14	2,376	2,536
Net cash provided (used) by investing activities	918	5,691	(1,543)	(31,697)	(26,631)
Net decrease in cash and cash equivalents	(53,802)	(6,404)	(3,011)	(146,987)	(210,204)
Cash and cash equivalents, July 1	242,661	35,835	3,910	333,773	616,179
Cash and cash equivalents, June 30	$ 188,859	$ 29,431	$ 899	$ 186,786	$ 405,975

(continued)

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2023
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	$ (18,652)	$ 1,370	$ 1,152	$ 37,611	$ 21,481
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	1,845	-	-	-	1,845
Changes in assets and liabilities:					
Accounts receivable	713	(116)	(33)	(4,002)	(3,438)
Mortgage interest receivable	4	-	73	4,791	4,868
Other receivables	1,646	-	-	(2,975)	(1,329)
Unearned service release premium	(291)	-	-	-	(291)
Pension asset	2,968	-	-	-	2,968
Deferred pension outflows	(261)	-	-	-	(261)
Deferred OPEB outflows	(41)	-	-	-	(41)
Loans held for resale	1,440	(4,660)	-	-	(3,220)
Mortgage loans receivable	3	(1,043)	4,033	(132,701)	(129,708)
Due from federal government	57	-	-	-	57
Interfund receivables	756	-	-	-	756
Interfund payables	-	-	-	(756)	(756)
Accounts payable	(12,239)	2	-	336	(11,901)
Accrued payroll / compensated absences	343	-	-	-	343
Due to primary government	(4)	-	-	-	(4)
Unearned revenue	(24,485)	20	-	5,350	(19,115)
Line of credit payable	(1,395)	-	-	-	(1,395)
Arbitrage rebate liability	-	-	-	74	74
Pension liability	5,041	-	-	-	5,041
OPEB liability	(66)	-	-	-	(66)
Deferred pension inflows	(9,715)	-	-	-	(9,715)
Deferred OPEB inflows	(268)	-	-	-	(268)
Investment income included as operating revenue	(918)	(1,099)	(34)	(9,539)	(11,590)
Interest expense included as operating expense	48	-	1,190	73,078	74,316
Issuance cost included as operating expense	-	-	-	2,495	2,495
Total adjustments	(34,819)	(6,896)	5,229	(63,849)	(100,335)
Net cash provided (used) by operating activities	$ (53,471)	$ (5,526)	$ 6,381	$ (26,238)	$ (78,854)
Noncash investing, capital, and financing activities:					
Decrease in fair value of investments	$ -	$ (9)	$ (74)	$ (2,443)	$ (2,526)
Total noncash investing, capital, and financing activities	$ -	$ (9)	$ (74)	$ (2,443)	$ (2,526)

TENNESSEE HOUSING DEVELOPMENT AGENCY
COMPUTATION OF ADJUSTED NET WORTH PURSUANT TO GNMA REQUIREMENTS
AS OF JUNE 30, 2023

A. Adjusted net worth calculation:

Stockholder's equity per statement of financial condition at end of reporting period			$ 571,430,000
Less:			
Itemized unacceptable assets			
1. Pledged to SF Bond Resolutions		$ 463,725,000	
2. Restricted for Grant Program		$ 20,447,000	
3. Other Restricted Assets		$ 3,320,000	
Total unacceptable assets			$ 487,492,000
Adjusted net worth			$ 83,938,000

B. Required net worth calculation:

Unpaid principal balance (UPB) of securities outstanding

	UPB in $	# of pools	
Single family	$ 22,256,000	5	
Multifamily	$		
HMBS	$		
MH	$		
	Total UPB		$ 22,256,000

Plus:

Outstanding balance of available commitment authority and pools funded

Single family	$ 57,713,000	
Multifamily	$ -	
HMBS	$ -	
MH	$ -	
	Total	$ 57,713,000

Total outstanding portfolio, commitment authority, and pools funded	$ 79,969,000
Required net worth	$ 2,779,892

C. Excess (deficit) net worth: $ 81,158,109

(Adjusted net worth - required net worth)

TENNESSEE HOUSING DEVELOPMENT AGENCY
COMPUTATION OF LIQUID ASSETS REQUIREMENT PURSUANT TO GNMA REQUIREMENTS
AS OF JUNE 30, 2023

A. Liquid asset calculation

Required net worth (attachment B, section B)		$ 2,779,892
Acceptable liquid assets		
1. Cash and Cash Equivalents	$ 371,513,000	
2.	$	
3.	$	
4.	$	
5.	$	
6.	$	
Total liquid assets		$ 371,513,000

B. Required liquid asset:

Single-family issuer liquidity requirement			**Meets requirement?**
(Greater of $1,000,000 or .10% of outstanding single-family securities)	$ 2,225,600		(yes-no) **Yes**
			Meets requirement?
All other issuer types liquidity requirement			(yes-no)
(Total liquid assets-required net worth)	N/A %		N/A

Multiple program participation

Liquid assets	Required	Actual	
Single family	$ N/A	$ N/A	
Multifamily	$ N/A	$ N/A	**Meets**
HMBS	$ N/A	$ N/A	**requirement**
MH	$ N/A	$ N/A	(yes-no)
Total	$ 0	$ 0	**Yes**

TENNESSEE HOUSING DEVELOPMENT AGENCY
COMPUTATION OF INSURANCE REQUIREMENTS PURSUANT TO GNMA REQUIREMENTS
AS OF JUNE 30, 2023

A. Identification of affiliated Ginnie Mae Issuers:

Affiliated Ginnie Mae issuers: **Tennessee Housing Development Agency - 4446**
(Issuer name and Ginnie Mae issuer identification number)

Affiliated issuers
on same insurance policies: ______________________
(Issuer name and Ginnie Mae issuer identification number)

B. Required insurance calculation:

Servicing portfolio:		
Ginnie Mae	$	22,247,161
Fannie Mae	$	-
Freddie Mac	$	62,262,465
Conventional (other)	$	124,471,913
Remaining principal balance of total servicing portfolio	$	2,830,790,179
Required fidelity bond coverage	$	3,564,772
Required mortgage servicing errors and omissions coverage	$	3,564,772

C. Verification of insurance coverage:

Fidelity bond coverage at end of reporting period	$	4,500,000
Mortgage servicing errors and omissions coverage at end of reporting period	$	4,500,000

D. Excess (deficit) insurance coverage:

Fidelity bond coverage	$	935,228
Required mortgage servicing errors and omissions coverage	$	935,228

E. Policies contain the required elements

Fidelity bond coverage	Yes
Mortgage servicing errors and omissions coverage	Yes