Tennessee Housing Development Agency

FINANCIAL STATEMENTS

June 30, 2019

Tennessee Comptroller of the Treasury

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy 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 Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2019, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
December 6, 2019

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2019

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, 2019, with comparative information presented for the fiscal year ended June 30, 2018. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2019, THDA has originated over 125,000 single-family mortgage loans in its 46-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 70 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 372 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

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

Overview of the Financial Statements

The basic financial statements include statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows, as well as 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 *Comprehensive Annual Financial Report*. This report may be viewed at https://www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

During fiscal year 2019, THDA implemented accounting standard Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* This Statement improves the information disclosed in the financial statements related to debt, particularly related to direct borrowings and direct placements.

Financial Highlights

Year Ended June 30, 2019

- Total assets increased by $557.7 million, or 20.4%.
- Total liabilities increased by $540.9 million, or 24.2%.
- Net position was $526.1 million. This is an increase of $16.2 million, or 3.2%, from fiscal year 2018 net position.
- Cash and cash equivalents increased by $160.3 million, or 56.7%.
- Total investments decreased by $57.9 million, or 22.2%.
- Bonds payable increased by $499.6 million, or 23.5%.
- THDA originated $667.9 million in new loans, which is an increase of $204.5 million, or 44.1%, 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):

	2019	2018
Current assets	$ 550,787	$ 406,809
Capital assets	3,890	2,876
Other noncurrent assets	2,743,254	2,330,505
Total assets	3,297,931	2,740,190
Deferred outflows of resources	4,314	4,609
Current liabilities	220,924	170,949
Noncurrent liabilities	2,554,495	2,063,595
Total liabilities	2,775,419	2,234,544
Deferred inflows of resources	746	365
Invested in capital assets	3,890	2,876
Restricted net position	453,704	438,516
Unrestricted net position	68,486	68,498
Total net position	$ 526,080	$ 509,890

2019 to 2018

First and second mortgage loans receivable (net of allowance for forgivable second mortgages) increased by $418.8 million. During fiscal year 2019, single-family mortgage loan originations increased by $204.5 million, whereas mortgage loan payoffs decreased by $33.1 million and mortgage loan repayments increased $3.6 million. In addition, THDA recognized an allowance for future uncollectable forgivable second mortgages of $19.3 million for fiscal year 2019. All of these changes are primarily attributable to a rise in mortgage loan production.

Total liabilities increased $540.9 million. The increase is primarily due to a $499.6 million increase of bonds payable at June 30, 2019, as compared to June 30, 2018.

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

	2019	2018
Operating revenues		
Mortgage interest income	$ 106,949	$ 90,105
Investment income	14,370	2,738
Other	20,376	20,482
Total operating revenues	141,695	113,325
Operating expenses		
Interest expense	69,520	58,239
Other	50,385	45,368
Total operating expenses	119,905	103,607
Operating income	21,790	9,718
Nonoperating revenues (expenses)		
Grant revenues	342,404	317,326
Payments from primary govt	665	0
Grant expenses	(348,669)	(325,340)
Total nonoperating revenues (expenses)	(5,600)	(8,014)
Change in net position	$ 16,190	$ 1,704

2019 to 2018

Total operating revenues increased $28.4 million, primarily due to an increase in mortgage interest income of $16.8 million. In addition, fair value of investments increased by $6.2 million in fiscal year 2019, having decreased $4.2 million in fiscal year 2018.

Total operating expenses increased $16.3 million. This is primarily due to an increase in bond interest expense. Bond interest expense increased due to an increase in bonds payable which is primarily attributable to a rise in mortgage loan production.

Nonoperating grant revenues increased $25.7 million and nonoperating grant expenses increased $23.3 million, primarily due to an increase in spending in the LIHEAP, Project Based Contract Administration, and down payment assistance programs.

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

	2019	2018
Bonds payable	$2,628,317	$2,128,712

Year Ended June 30, 2019

Total bonds payable increased $499.6 million, which is deemed primarily attributable to an increase in mortgage loan production. During the fiscal year, THDA issued debt totaling $749.9 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded $28.9 million of outstanding bonds into new bond originations with lower interest rates.

Bond Ratings

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

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

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

Debt Limits

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

THDA is working with the legislature to increase the debt ceiling to $5,000,000,000 in early 2020.

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:

	2019	2018	2017 and Prior	Total
Funding Sources:				
THDA	$8,500,000	$7,500,000	$74,800,000	$90,800,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	$8,500,000	$7,500,000	$79,150,000	$95,150,000
Approved Uses:				
Rural repair program (USDA)	$ -	$ -	$ 6,300,000	$ 6,300,000
Ramp Programs & Hsg Modification	300,000	300,000	1,650,000	2,250,000
Emergency Repairs	2,700,000	2,700,000	21,200,000	26,600,000
Competitive Grants	3,500,000	3,500,000	41,100,000	48,100,000
Rebuild & Recover	500,000	500,000	3,800,000	4,800,000
Challenge Grant Program	1,000,000	-	-	1,000,000
Other Grants	500,000	500,000	5,100,000	6,100,000
Totals	$8,500,000	$7,500,000	$79,150,000	$95,150,000

Current Mortgage Products and Environment

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

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

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

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

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- 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 chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's Internet site at https://thda.org/homebuyers/homebuyers.

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

As of June 30, 2019, 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	26,720	576	$ 48,470,159	2.16%
90+ Days Past Due	26,720	1,244	107,977,371	4.66%
In Foreclosure	26,720	77	6,629,809	0.29%

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.

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

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.

Direct Loan Servicing

During FY 2017, THDA commenced the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of $91.5 million was transferred to VMLS from an existing THDA mortgage servicer. In FY 2018, THDA began directly servicing the flow-business of new mortgage loans. On August 1, 2018, THDA began servicing loans previously serviced by US Bank. As of May 1, 2019 all loans are being serviced by THDA.

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, 2019
(Expressed in Thousands)

ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$	374,906
Investments (Note 2)		44,078
Receivables:		
Accounts		8,806
Interest		14,693
First mortgage loans		69,097
Due from federal government		39,207
Total current assets		550,787
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		68,090
Investments (Note 2)		124,900
Investment interest receivable		764
Investments (Note 2)		33,417
First mortgage loans receivable		2,459,103
Second mortgage loans receivable		52,199
Allowance for uncollectable second mortgages		(19,349)
Other recevables (Note 1)		20,910
Advance to local government		3,143
Net pension asset (Note 5)		77
Capital assets:		
Furniture and equipment		6,916
Less accumulated depreciation		(3,026)
Total noncurrent assets		2,747,144
Total assets		3,297,931
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refundings		323
Deferred outflows related to pensions (Note 5)		3,635
Deferred outflows related to OPEB (Note 9)		356
Total deferred outflows of resources		4,314
LIABILITIES		
Current liabilities:		
Accounts payable		33,509
Accrued payroll and related liabilities		753
Compensated absences		741
Total OPEB liability (Note 9)		208
Due to primary government		98
Interest payable		39,478
Escrow deposits		23,223
Prepayments on mortgage loans		1,177
Due to federal government		20,672
Bonds payable (Note 3)		101,065
Total current liabilities		220,924
Noncurrent liabilities:		
Bonds payable (Note 3)		2,527,252
Compensated absences		759
Net pension liability (Note 5)		6,997
Total OPEB liability (Note 9)		3,143
Escrow deposits		15,965
Arbitrage rebate payable		379
Total noncurrent liabilities		2,554,495
Total liabilities		2,775,419
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 5)		239
Deferred inflows related to OPEB (Note 9)		507
Total deferred inflows of resources		746
NET POSITION		
Investment in capital assets		3,890
Restricted for single family bond programs (Note 4 and Note 7)		434,893
Restricted for grant programs (Note 4)		15,581
Restricted for Homebuyers Revolving Loan Program (Note 4)		3,153
Restricted for net pension asset (Note 5)		77
Unrestricted (Note 7)		68,486
Total net position	$	526,080

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, 2019
(Expressed in Thousands)

OPERATING REVENUES	
Mortgage interest income	$ 106,949
Investment income:	
Interest	8,158
Net increase in the fair value of investments	6,212
Federal grant administration fees	15,262
Fees and other income	5,114
Total operating revenues	141,695
OPERATING EXPENSES	
Salaries and benefits	22,517
Contractual services	7,642
Materials and supplies	1,277
Rentals and insurance	15
Other administrative expenses	885
Other program expenses	10,949
Interest expense	69,520
Mortgage service fees	723
Issuance costs	5,583
Depreciation	794
Total operating expenses	119,905
Operating income	21,790
NONOPERATING REVENUES (EXPENSES)	
Federal grants revenue	342,404
Payment from primary government (Note 10)	665
Federal grants expenses	(341,638)
Local grants expenses	(7,031)
Total nonoperating revenues (expenses)	(5,600)
Change in net position	16,190
Total net position, July 1	509,890
Total net position, June 30	$ 526,080

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, 2019
(Expressed in Thousands)

Cash flows from operating activities:		
Receipts from customers	$	373,025
Receipts from federal government		15,052
Other miscellaneous receipts		5,114
Acquisition of mortgage loans		(667,910)
Payments of service release premiums		(21,498)
Payments to service mortgages		(723)
Payments to suppliers		(2,800)
Payments to or for employees		(23,163)
Net cash used by operating activities		(322,903)
Cash flows from non-capital financing activities:		
Operating grants received		330,231
Proceeds from sale of bonds		770,641
Operating grants paid		(349,434)
Cost of issuance paid		(5,583)
Principal payments		(263,200)
Interest paid		(69,939)
Net cash provided by non-capital financing activities		412,716
Cash flows from capital and related financing activities:		
Purchases of capital assets		(1,809)
Net cash used by capital and related financing activities		(1,809)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		138,277
Purchases of investments		(75,815)
Investment interest received		8,144
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents		1,642
Net cash provided by investing activities		72,248
Net increase in cash and cash equivalents		160,252
Cash and cash equivalents, July 1		282,744
Cash and cash equivalents, June 30	$	442,996

(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, 2019
(Expressed in Thousands)

Reconciliation of operating income to	
net cash used by operating activities:	
Operating income	$ 21,790
Adjustments to reconcile operating income to	
net cash used by operating activities:	
Depreciation	794
Changes in assets and liabilities:	
(Increase) in accounts receivable	(7,967)
(Increase) in mortgage interest receivable	(3,501)
(Increase) in other receivables	(19,804)
(Increase) in pension asset	(42)
Decrease in deferred pension outflows	296
(Increase) in deferred OPEB outflows	(119)
(Increase) in mortgage loans receivable	(418,811)
(Increase) in due from federal government	(237)
Increase in accounts payable	44,245
Increase in accrued payroll / compensated absences	207
Increase in due to primary government	7
Increase in arbitrage rebate liability	14
(Decrease) in pension liability	(662)
(Decrease) in OPEB liability	(227)
Increase in deferred pension inflows	11
Increase in deferred OPEB inflows	370
Investment income included as operating revenue	(14,370)
Interest expense included as operating expense	69,520
Issuance cost included as operating expense	5,583
Total adjustments	(344,693)
Net cash used by operating activities	$ (322,903)
Noncash investing, capital, and financing activities:	
Increase in fair value of investments	$ 534
Total noncash investing, capital, and financing activities	$ 534

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 *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

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

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

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

Basis of Presentation

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

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, 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, Hardest Hit Fund cash, and Net Pension Assets (see note 4).

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

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

Deferred Amount on Refundings and Bond Premiums and Discounts

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

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

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 FY 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 one percent (1%) of the loan purchase amount to the Originating Agent that was intended to function as a "service release premium." In FY 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 Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

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

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

Mortgages
Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents. On August 1, 2018, THDA began servicing loans previously serviced by U.S. Bank and as of May 1, 2019, all loans are being serviced by THDA.

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

Operating Revenues and Expenses

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

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, 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 ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. 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 2019, 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.

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, 2019, the bank balance was $53,411,774. This amount includes $25,840,857.82; which is held in a taxes and insurance escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2019, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of $250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2019, $19,312,407 was in the BNYM. Of this amount, $19,062,407 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at www.treasury.tn.gov.

Investments

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

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the daily fair market value of THDA total investments must mature within five 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, 2019	
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$164,703,453	1.276
U.S. Treasury Coupon	12,692,509	1.923
U.S. Agency Discount	199,843,435	0.034
Total	$377,239,397	0.641

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, 2019, (expressed in thousands):

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)
	June 30, 2019			
Debt securities				
U.S. Agency Coupon	$164,703	$ -	$164,703	$ -
U.S. Treasury Coupon	12,693	12,693	-	-
U.S. Agency Discount	199,843	-	199,843	-
Total debt securities	$377,239	$12,693	364,546	$ -

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.

<u>Credit Risk</u> – 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, 2019, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

Investment Type	Fair Value	U.S. Treasury[1]	AAA	AA+	Not Rated[2]
	June 30, 2019				
U.S. Agency Coupon	$164,703,453	$ -	$14,980,480	$147,577,873	$ 2,145,100
U.S. Treasury Coupon	12,692,509	12,692,509	-	-	-
U.S. Agency Discount	199,843,435	-	-	-	199,843,435
Total	$377,239,397	$12,692,509	$14,980,480	$147,577,873	$201,988,535

In addition to these investments, the agency has $197,270,129 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.

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

[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, but are not rated by Standard & Poor's or Moody's.

	June 30, 2019	
Issuer	**Fair Value** *(Thousands)*	**% of Portfolio**
Federal Home Loan Bank	$297,524	78.87
Federal Home Loan Mortgage Corp.	$42,331	11.22
Federal National Mortgage Assoc.	$22,547	05.98

GASB 79 Disclosures – 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.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2019 *(Thousands)*
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	-
2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	-
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	25,850
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	40,095
2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	50,025
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	39,480
Total Homeownership Program Bonds		$617,690		$ 155,450
Plus: Unamortized Bond Premiums				1,259
Net Homeownership Program Bonds				$156,709

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2019 *(Thousands)*
2009-A	1/1/2011 – 1/1/2040	$100,000	0.90 to 4.625	$ 1,410
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	7,705
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	34,130
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	10,290
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	39,960
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	35,620
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	86,360
Total Housing Finance Program Bonds		$810,000		$215,475
Plus: Unamortized Bond Premiums				2,124
Net Housing Finance Program Bonds				$217,599

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount *(Thousands)*	Interest Rate *(Percent)*	Ending Balance 6/30/2019 *(Thousands)*
2013-1	1/1/2014 – 7/1/2043	$ 215,905	0.40 to 4.00	$ 80,320
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	56,710
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	76,335
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	93,640
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	101,185
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	123,915
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	100,320
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	104,315
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	36,925
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	86,330
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	155,140
2017-3	7/1/2018 – 1/1/2048	99,900	0.80 to 3.65	95,550
2017-4	7/1/2018 – 7/1/2048	99,900	0.95 to 4.00	95,340
2018-1	1/1/2019 – 1/1/2043	99,900	1.40 to 4.00	97,045
2018-2	1/1/2019 – 1/1/2049	160,000	1.75 to 4.00	156,300
2018-3	7/1/2019 – 7/1/2049	149,900	1.50 to 4.25	148,555
2018-4	7/1/2019 – 7/1/2049	225,000	1.875 to 4.50	221,875
2019-1	1/1/2020 – 1/1/2050	175,000	1.60 to 4.25	175,000
2019-2	1/1/2020 – 1/1/2048	200,000	1.40 to 4.00	200,000

Total Residential Finance Program Bonds	$2,758,805	$2,204,800
Plus: Unamortized Bond Premiums		49,239
Subtract: Unamortized Bond Discount		(30)
Net Residential Finance Program Bonds		$2,254,009
Net Total All Bonds		$2,628,317

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

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

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

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

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

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

Debt Service Requirements

Debt service requirements to maturity at June 30, 2019, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2020	$ 68,485	$ 83,640	$ 152,125
2021	90,130	86,175	176,305
2022	87,560	83,921	171,481
2023	86,115	81,684	167,799
2024	89,300	79,384	168,684
2025 – 2029	443,255	356,871	800,126
2030 – 2034	470,480	281,740	752,220
2035 – 2039	502,215	195,332	697,547
2040 – 2044	440,795	103,911	544,706
2045 – 2049	288,565	30,787	319,352
2050	8,825	209	9,034
Total	$2,575,725	$1,383,654	$3,959,379

The agency's bond resolutions govern the outstanding bonds payable for all bond programs in the amount of $2,575,725 (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 $2,575,725 (expressed in thousands) are secured by a pledge of all assets in each of the respective bond resolutions.

The agency does not have any unused lines of credit.

Redemption of Bonds and Notes

During the year ended June 30, 2019, bonds were retired at par before maturity in the Homeownership Program in the amount of $32,135,000, in the Housing Finance Program in the amount of $42,875,000, and in the Residential Finance Program in the amount of $127,325,000. The respective carrying values of the bonds were $32,697,175, $43,399,278 and $132,265,183.

This resulted in revenue to the Homeownership Program of $562,175, to the Housing Finance Program of $524,278, and to the Residential Finance Program of $4,940,183.

On June 12, 2018, the agency issued $160,000,000 in Residential Finance Program Bonds, Issue 2018-2. On July 1, 2018, the agency used $13,075,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $13,075,000 early redemption). The carrying amount of these bonds was $13,075,000. The refunding reduced the agency's debt service by $3,199,665 over the next 11 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $1,636,564.

On September 6, 2018, the agency issued $149,900,000 in Residential Finance Program Bonds, Issue 2018-3.

On November 15, 2018, the agency issued $225,000,000 in Residential Finance Program Bonds, Issue 2018-4. On December 1, 2018, the agency used $15,780,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $15,780,000 early redemption). The carrying amount of these bonds was $15,780,000. The refunding reduced the agency's debt service by $1,812,556 over the next 8.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $650,335.

On March 21, 2019, the agency issued $175,000,000 in Residential Finance Program Bonds, Issue 2019-1.

On June 27, 2019, the agency issued $200,000,000 in Residential Finance Program Bonds, Issue 2019-2.

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2019 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2018	Additions	Reductions	Ending Balance June 30, 2019	Amounts Due Within One Year[3]
Bonds Payable	$2,089,025	$749,900	($263,200)	$2,575,725	$101,065
Plus: Unamortized Bond Premiums	39,721	20,741	(7,840)	52,622	-
Less: Unamortized Bond Discounts	(34)	-	4	(30)	-
Compensated Absences	1,366	1,291	(1,157)	1,500	741
Net Pension Liability	7,659	1,229	(1,891)	6,997	-
Total OPEB Liability	3,578	459	(686)	3,351	208
Escrow Deposits	13,315	56,823	(30,950)	39,188	23,223
Arbitrage Rebate Payable	365	14	-	379	-
Total	$2,154,995	$830,457	($305,720)	$2,679,732	$125,237

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

Note 4. Restricted Net Position

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

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

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

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 five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. 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. 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, 2019, to the Closed State and Higher Education Employee Pension Plan were $1,930,643, which is 19.23 percent 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, 2019, THDA reported a liability of $6,997,119 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, THDA's proportion was 0.433148 percent. The proportion measured as of June 30, 2017, was 0.427994 percent.

Pension expense – For the year ended June 30, 2019, THDA recognized a pension expense of $1,606,955. Allocated pension expense was $1,594,088 before being increased by $12,868 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, 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	$ 632	$ 33
Net difference between projected and actual earnings on pension plan investments	-	201
Change in proportionate share of net asset or liability	78	-
Changes in assumptions	880	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2018	1,931	-
Total	$3,521	$234

Deferred outflows of resources, resulting from THDA's employer contributions of $1,931 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2020	1,263,955
2021	676,404
2022	(454,482)
2023	(129,135)
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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

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

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	$15,378,312	$6,997,119	$(56,461)

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

Payable to the Pension Plan

At June 30, 2019, THDA reported a payable of $80,205 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

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

The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the 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 – *Tennessee Code Annotated* Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and years of service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent 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 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent 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, 2019, to the State and Higher Education Employee Retirement Plan were $97,838, which is 1.66 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2019, THDA reported an asset of $76,565 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018, 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, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, THDA's proportion was 0.198493 percent. The proportion measured as of June 30, 2017, was 0.170803 percent.

Pension expense – For the year ended June 30, 2019, THDA recognized a pension expense of $24,045. Allocated pension expense was $22,543 before being increased by $1,502 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2	$1
Net difference between projected and actual earnings on pension plan investments	-	4
Changes in proportion of share of net asset or liability	12	-
Changes in assumptions	2	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2018	98	-
Total	$114	$5

Deferred outflows of resources, resulting from THDA's employer contributions of $97,838 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2020	1,002
2021	922
2022	495
2023	1,387
2024	1,876
Thereafter	5,815

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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

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

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	$(12,700)	$(76,565)	$(124.354)

Payable to the Pension Plan

At June 30, 2019, THDA reported a payable of $4,579 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2019, for both defined benefit pension plans was $1,631,000.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (IRC), Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The THDA provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public

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

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

The THDA recognized a pension expense of $420,618 for employer contributions.

The THDA recognized a pension payable of $19,337 for employer contributions.

Note 7. Provisions for Mortgage Loan Losses

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

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

Note 8. Insurance-Related Activities

Commercial Insurance

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

Risk Management Fund

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

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2019, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2019, the Risk Management Fund held $186 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 9. 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 include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System.

Benefits provided - The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65 are enrolled in this plan. All members have the option of choosing between the 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 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 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. During the current measurement 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. However, during the current fiscal year, the plan was transitioned to a prefunding arrangement where assets will be accumulating in a qualifying trust.

Contributions - Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*, establishes the minimum required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates. While the plan operated on a pay-as-you-go basis, employers made the minimum required payments for retiree costs. However, once the plan transitioned to the prefunding arrangement through the qualifying trust, employers began making contributions to the trust based on an actuarially determined contribution rate (ADC). Employer contributions for the year ended June 30, 2019, to the EGOP were $208,862, which is 2.3% of covered employee payroll.

Total OPEB Liability

Proportionate share - The Tennessee Housing Development Agency's proportion and proportionate share of the collective total OPEB liability, related to the EGOP, is 0.241928% and $3.4 million, respectively. The proportion existing at the prior measurement date was 0.266480%. This resulted in a change in proportion of 0.024552% between the current and prior measurements dates. Tennessee Housing Development Agency's proportion of the collective total 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, 2018, and measurement date of June 30, 2018.

Actuarial assumptions - The collective total OPEB liability in the June 30, 2018, 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	6.75% for 2019, decreasing annually to an ultimate rate of 3.91% for 2050 and later years.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017, 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, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 3.62%. 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 as shown on the Fidelity 20-Year Municipal General Obligation (GO) AA index.

Changes in assumptions - The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability. Additionally, the near-term health trend rates was changed from 5.4%, 5.3%, and 5.2% for plan years 2019 to 2021, respectively, to 6.75%, 6.25%, and 5.75% respectively. Further, the assumed initial per capita costs and premium amounts were revised to reflect rates adopted for the 2019 plan year. These two changes in assumptions increased the total OPEB liability.

Significant changes subsequent to measurement date – During fiscal year 2019, the EGOP was transitioned from a pay-as-you-go funding arrangement to a prefunded arrangement where assets would be deposited and accumulated in a qualifying trust and benefits would be paid directly from the trust assets. In the first year of this arrangement, participating employers made estimated total contributions to the trust of $297.2 million. The trust had an estimated net position of $213.3 million at June 30, 2019. These plan assets will significantly reduce the net OPEB liability recorded by employers in the fiscal year 2020 financial statements.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate - The following presents Tennessee Housing Development Agency's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62%) or 1-percentage-point higher (4.62%) than the current discount rate (expressed in thousands).

	1% Decrease (2.62%)	Discount Rate (3.62%)	1% Increase (4.62%)
Proportionate share of the collective total OPEB liability	$ 3,575	$ 3,351	$ 3,140

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate - The following presents Tennessee Housing Development Agency's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.75% decreasing to 2.91%) or 1-percentage-point higher (7.75% decreasing to 4.91%) than the current healthcare cost trend rate (expressed in thousands).

	1% Decrease (5.75% decreasing to 2.91%)	Healthcare Cost Trend Rates (6.75% decreasing to 3.91%)	1% Increase (7.75% decreasing to 4.91%)
Proportionate share of the collective total OPEB liability	$ 3,027	$ 3,351	$ 3,731

<u>OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB</u>

<u>OPEB Expense</u> – For the fiscal year ended June 30, 2019, the Tennessee Housing Development Agency recognized OPEP expense of $219 thousand.

<u>Deferred outflows of resources and deferred inflows of resources</u> - For the fiscal year ended June, 30, 2019, 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	$ -	$ 120
Changes of assumptions	148	107
Changes in proportion and differences between benefits paid and proportionate share of benefits paid.	-	280
Payments subsequent to the measurement date	208	
Total	$ 356	$ 507

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

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

For the year ended June 30:

2020	$ (55)
2021	(55)
2022	(55)
2023	(55)
2024	(55)
Thereafter	(84)

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 Corporations, 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 Insurance Plans.

Benefits provided - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Title 8, Chapter 27, Parts 201, 301, and 701, *Tennessee Code Annotated.* Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible and 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 $8,188 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, Parts 209, *Tennessee Code Annotated*, the state insurance committees established by Title 8, Chapter 27, Parts 201, 301, and 701 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. Employers contribute toward employee costs based on their own developed policies.

Total OPEB Liability and OPEB Expense

Proportionate share – 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 retirees participating in the TNP is 100% and $311 thousand, respectively. The Tennessee Housing Development Agency's proportion of the collective total OPEB 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. There has been no change in the Tennessee Housing Development Agency's proportion since the prior measurement date. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018, and a measurement date of June 30, 2018.

Actuarial assumptions – The total OPEB liability in the June 30, 2018, 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, 2018, valuations were the same as those employed in the July 1, 2017, 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, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2 percent load for males and a -3 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.62 percent. 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 as shown on the Fidelity 20-Year Municipal GO (General Obligation) AA index.

Changes in assumptions – The discount rate was changed from 3.56 percent as of the beginning of the measurement period to 3.62 percent as of June 30, 2018. This change in assumption decreased the total OPEB liability.

Sensitivity of proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary governments 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 (2.62%) or 1-percentage-point higher (4.62%) 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.

	1% Decrease (2.62%)	Discount Rate (3.62%)	1% Increase (4.62%)
Primary government's share of the collective total OPEB liability	$ 351	$ 311	$ 277

OPEB expense – For the fiscal year ended June 30, 2019, the primary government recognized OPEB expense of $9 thousand for employees of the Tennessee Housing Development Agency participating in the TNP.

Total OPEB Expense – The total OPEB expense for the year ended June 30, 2019 was $228 thousand, which consisted of OPEB expense of $219 thousand for the EGOP and $9 thousand paid by the primary government for the TNP.

Note 10. On-Behalf Payments

During the year ended June 30, 2019, the State of Tennessee made payments of $8,188 on behalf of THDA for retirees participating in the Closed Tennessee OPEB Plan and payments of $656,901 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 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*.

Note 11. Payments to Primary Government

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

Note 12. Subsequent Events

On July 1, 2019, the agency used $7,520,000 of Residential Finance Program Bonds, Issue 2019-2, to refund bonds previously issued in the Homeownership Program (this amount consists of $7,520,000 early redemption). The carrying amount of these bonds was $7,520,000. The refunding reduced the agency's debt service by $801,953 over the next 5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $543,000.

Residential Finance Program Bonds, Issue 2019-3, were authorized by the board of directors on July 23, 2019, not to exceed $150,000,000. The sale of the bonds will occur no later than December 31, 2019.

Residential Finance Program Bonds, Issue 2019-4, were authorized by the board of directors on September 24, 2019, not to exceed $200,000,000. The sale of the bonds will occur no later than December 31, 2019.

Residential Finance Program Bonds, Issue 2019-3, were sold on September 30, 2019. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate *(Percent)*
2019-3	7/1/2020 – 1/1/2050	$150,000,000	1.100 to 3.750

Residential Finance Program Bonds, Issue 2020-1, were authorized by the board of directors on November 19, 2019, not to exceed $200,000,000. The sale of the bonds will occur no later than April 30, 2020.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of THDA's Contribution
Closed State and Higher Education Employee Pension 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
2019	0.433148%	$ 6,997	$ 10,024	69.80%	90.26%
2018	0.427994%	7,659	10,268	74.60%	88.88%
2017	0.419.91%	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
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 Contribution
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
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%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%

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

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

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

(Expressed in Thousands)

	2018	2019
Employer proportion of the collective total OPEB liability	0.266480%	0.241928%
Employer proportionate share of the collective total OPEB liability	$ 3,578	$ 3,351
Covered-employee payroll	$ 9,720	$ 8,999
Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	36.81%	37.24%

Notes to the Schedule

As of the measurement date, there were 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.

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)

	2018	2019
Employer proportion of the collective total OPEB liability	0.00%	0.00%
Employer proportionate share of the collective total OPEB liability	$ -	$ -
Primary government proportionate share of the collective total OPEB liability	$ 339	$ 311
Collective total OPEB liability	$ 339	$ 311
Covered-employee payroll	$ 10,005	$ 9,529
Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	0.00%	0.00%

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.

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2019
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	$ 23,217	$ 16,289	$ 19,818	$ 19,692	$ 295,890	$ 374,906
Investments	-	-	-	4,329	39,749	44,078
Receivables:						
Accounts	6,925	78	491	81	1,231	8,806
Interest	-	1	1,230	1,878	11,584	14,693
First mortgage loans	242	2,264	11,757	6,149	48,685	69,097
Due from federal government	39,207	-	-	-	-	39,207
Due from other funds	-	-	-	-	30,161	30,161
Total current assets	69,591	18,632	33,296	32,129	427,300	580,948
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	45,450	-	13,148	1,452	8,040	68,090
Investments	-	-	47,832	11,789	65,279	124,900
Investment Interest receivable	-	-	490	32	242	764
Investments	-	1,788	299	20	31,310	33,417
First mortgage loans receivable	439	47,753	189,468	206,065	2,015,378	2,459,103
Second mortgage loans receivable	-	-	52,199	-	-	52,199
Allowance for uncollectable second mortgages	-	-	(19,349)	-	-	(19,349)
Other receivables	20,910	-	-	-	-	20,910
Advance to local government	3,143	-	-	-	-	3,143
Net pension asset	77	-	-	-	-	77
Capital assets:						
Furniture and equipment	6,916	-	-	-	-	6,916
Less accumulated depreciation	(3,026)	-	-	-	-	(3,026)
Total noncurrent assets	73,909	49,541	284,087	219,358	2,120,249	2,747,144
Total assets	143,500	68,173	317,383	251,487	2,547,549	3,328,092
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	323	323
Deferred outflows related to pensions	3,635	-	-	-	-	3,635
Deferred outflows related to OPEB	356	-	-	-	-	356
Total deferred outflows of resources	3,991	-	-	-	323	4,314
LIABILITIES						
Current liabilities:						
Accounts payable	33,218	12	11	10	258	33,509
Accrued payroll and related liabilities	753	-	-	-	-	753
Compensated absences	741	-	-	-	-	741
Total OPEB liability	208	-	-	-	-	208
Due to primary government	98	-	-	-	-	98
Interest payable	-	-	2,928	3,602	32,948	39,478
Escrow deposits	23,223	-	-	-	-	23,223
Prepayments on mortgage loans	-	-	84	87	1,006	1,177
Due to federal government	20,672	-	-	-	-	20,672
Due to other funds	29,030	-	1,131	-	-	30,161
Bonds payable	-	-	14,720	16,620	69,725	101,065
Total current liabilities	107,943	12	18,874	20,319	103,937	251,085
Noncurrent liabilities:						
Bonds payable	-	-	141,989	200,979	2,184,284	2,527,252
Compensated absences	759	-	-	-	-	759
Net pension liability	6,997	-	-	-	-	6,997
Total OPEB liability	3,143	-	-	-	-	3,143
Escrow deposits	4,654	223	-	-	11,088	15,965
Arbitrage rebate payable	-	-	379	-	-	379
Total noncurrent liabilities	15,553	223	142,368	200,979	2,195,372	2,554,495
Total liabilities	123,496	235	161,242	221,298	2,299,309	2,805,580
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	239	-	-	-	-	239
Deferred inflows related to OPEB	507	-	-	-	-	507
Total deferred inflows of resources	746	-	-	-	-	746
NET POSITION						
Investment in capital assets	3,890	-	-	-	-	3,890
Restricted for single family bond programs	-	-	156,141	30,189	248,563	434,893
Restricted for grant programs	-	15,581	-	-	-	15,581
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for net pension asset	77	-	-	-	-	77
Unrestricted	16,129	52,357	-	-	-	68,486
Total net position	$ 23,249	$ 67,938	$ 156,141	$ 30,189	$ 248,563	$ 526,080

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	$ -	$ 15	$ 10,559	$ 11,362	$ 85,013	$ 106,949
Investment income:						
Interest	490	246	2,176	741	4,505	8,158
Net increase in the fair value of investments	-	103	903	720	4,486	6,212
Federal grant administration fees	15,262	-	-	-	-	15,262
Fees and other income	4,943	3	-	-	168	5,114
Total operating revenues	20,695	367	13,638	12,823	94,172	141,695
OPERATING EXPENSES						
Salaries and benefits	22,517	-	-	-	-	22,517
Contractual services	7,641	-	-	-	1	7,642
Materials and supplies	1,277	-	-	-	-	1,277
Rentals and insurance	15	-	-	-	-	15
Other administrative expenses	885	-	-	-	-	885
Other program expenses	2,673	388	6,017	218	1,653	10,949
Interest expense	-	-	6,179	7,284	56,057	69,520
Mortgage service fees	-	117	105	78	423	723
Issuance costs	-	-	-	-	5,583	5,583
Depreciation	794	-	-	-	-	794
Total operating expenses	35,802	505	12,301	7,580	63,717	119,905
Operating income (loss)	(15,107)	(138)	1,337	5,243	30,455	21,790
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	342,404	-	-	-	-	342,404
Payment from primary government	665	-	-	-	-	665
Federal grants expenses	(341,638)	-	-	-	-	(341,638)
Local grants expenses	(7,031)	-	-	-	-	(7,031)
Total nonoperating revenues (expenses)	(5,600)	-	-	-	-	(5,600)
Income (loss) before transfers	(20,707)	(138)	1,337	5,243	30,455	16,190
Transfers (to) other funds	-	-	(25,148)	(23,586)	-	(48,734)
Transfers from other funds	23,928	1,462	-	-	23,344	48,734
Change in net position	3,221	1,324	(23,811)	(18,343)	53,799	16,190
Total net position, July 1	20,028	66,614	179,952	48,532	194,764	509,890
Total net position, June 30	$ 23,249	$ 67,938	$ 156,141	$ 30,189	$ 248,563	$ 526,080

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	$ 25,454	$ 4,590	$ 51,318	$ 48,042	$ 243,621	$ 373,025
Receipts from federal government	15,025	-	27	-	-	15,052
Receipts from other funds	28,638	-	-	-	-	28,638
Other miscellaneous receipts	4,943	3	-	-	168	5,114
Acquisition of mortgage loans	-	(3,332)	(18,001)	-	(646,577)	(667,910)
Payments of service release premiums	(21,498)	-	-	-	-	(21,498)
Payments to service mortgages	-	(117)	(105)	(78)	(423)	(723)
Payments to suppliers	-	(389)	(708)	(238)	(1,465)	(2,800)
Payments to other funds	-	-	(1,644)	-	(26,994)	(28,638)
Payments to or for employees	(23,163)	-	-	-	-	(23,163)
Net cash provided (used) by operating activities	29,399	755	30,887	47,726	(431,670)	(322,903)
Cash flows from non-capital financing activities:						
Operating grants received	330,231	-	-	-	-	330,231
Transfers in (out)	23,928	1,462	(6,773)	(6,993)	(11,624)	-
Proceeds from sale of bonds	-	-	-	-	770,641	770,641
Operating grants paid	(349,434)	-	-	-	-	(349,434)
Cost of issuance paid	-	-	-	-	(5,583)	(5,583)
Principal payments	-	-	(66,010)	(44,915)	(152,275)	(263,200)
Interest paid	-	-	(8,201)	(8,747)	(52,991)	(69,939)
Net cash provided (used) by non-capital financing activities	4,725	1,462	(80,984)	(60,655)	548,168	412,716
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,809)	-	-	-	-	(1,809)
Net cash used by capital and related financing activities	(1,809)	-	-	-	-	(1,809)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	735	24,025	29,539	83,978	138,277
Purchases of investments	-	-	(5,770)	(16,520)	(53,525)	(75,815)
Investment interest received	490	246	2,233	777	4,398	8,144
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	60	176	129	1,277	1,642
Net cash provided by investing activities	490	1,041	20,664	13,925	36,128	72,248
Net increase (decrease) in cash and cash equivalents	32,805	3,258	(29,433)	996	152,626	160,252
Cash and cash equivalents, July 1	35,862	13,031	62,399	20,148	151,304	282,744
Cash and cash equivalents, June 30	$ 68,667	$ 16,289	$ 32,966	$ 21,144	$ 303,930	$ 442,996

(continued)

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2019
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	$ (15,107)	$ (138)	$ 1,337	$ 5,243	$ 30,455	$ 21,790
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	794	-	-	-	-	794
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(6,925)	216	41	(81)	(1,218)	(7,967)
(Increase) decrease in mortgage interest receivable	-	17	426	90	(4,034)	(3,501)
(Increase) in other receivables	(19,804)	-	-	-	-	(19,804)
(Increase) in pension asset	(42)	-	-	-	-	(42)
Decrease in deferred pension outflows	296	-	-	-	-	296
(Increase) in deferred OPEB outflows	(119)	-	-	-	-	(119)
(Increase) decrease in mortgage loans receivable	-	979	27,671	36,712	(484,173)	(418,811)
(Increase) in due from federal government	(237)	-	-	-	-	(237)
Decrease in interfund receivables	28,638	-	-	-	-	28,638
(Decrease) in interfund payables	-	-	(1,644)	-	(26,994)	(28,638)
Increase (decrease) in accounts payable	42,689	30	(58)	(61)	1,645	44,245
Increase in accrued payroll / compensated absences	207	-	-	-	-	207
Increase in due to primary government	7	-	-	-	-	7
Increase in arbitrage rebate liability	-	-	14	-	-	14
(Decrease) in pension liability	(662)	-	-	-	-	(662)
(Decrease) in OPEB liability	(227)	-	-	-	-	(227)
Increase in deferred pension inflows	11	-	-	-	-	11
Increase in deferred OPEB inflows	370	-	-	-	-	370
Investment income included as operating revenue	(490)	(349)	(3,079)	(1,461)	(8,991)	(14,370)
Interest expense included as operating expense	-	-	6,179	7,284	56,057	69,520
Issuance cost included as operating expense	-	-	-	-	5,583	5,583
Total adjustments	44,506	893	29,550	42,483	(462,125)	(344,693)
Net cash provided (used) by operating activities	$ 29,399	$ 755	$ 30,887	$ 47,726	$ (431,670)	$ (322,903)
Noncash investing, capital, and financing activities:						
Increase in fair value of investments	$ -	$ -	$ 17	$ 138	$ 379	$ 534
Total noncash investing, capital, and financing activities	$ -	$ -	$ 17	$ 138	$ 379	$ 534