AUDIT REPORT

Tennessee Housing Development Agency

For the Year Ended
June 30, 2012

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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February 14, 2013

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Members of the Board of Directors
Tennessee Housing Development Agency
and
Mr. Ralph M. Perrey, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1200
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Housing Development Agency for the year ended June 30, 2012. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Tennessee Housing Development Agency
For the Year Ended June 30, 2012

AUDIT OBJECTIVES

The objectives of the audit were to consider the Tennessee Housing Development Agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 2012

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Tennessee Housing Development Agency
For the Year Ended June 30, 2012

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Housing Development Agency. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Housing Development Agency (THDA) is a corporate governmental agency of the State of Tennessee and was established in 1973 under the provisions of Title 13, Chapter 23, *Tennessee Code Annotated* (the Act). THDA was created to increase available funds for the financing of residential housing for low- and moderate-income households. It is authorized to issue bonds and notes to provide such financing. These bonds and notes are payable solely from THDA's revenues and assets and are not general obligations of the state or of any of the state's political subdivisions.

THDA is governed by a board of directors (the board). 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 THDA. The Act provides that the remaining board members be appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. The Act also provides that board members be representatives of the housing, real estate, and home-building industries; the mortgage profession; local governments; the First, Second, or Third U.S. Congressional District; the Fourth, Fifth, or Sixth U.S. Congressional District; and the Seventh, Eighth, or Ninth U.S. Congressional District and be knowledgeable about the problems of inadequate housing conditions in Tennessee. In addition, one board member that receives Section 8 Rental Assistance from THDA is appointed by the Governor to occupy the position required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The Executive Director of THDA administers THDA affairs and serves as Secretary to the Board.

ORGANIZATION

The Tennessee Housing Development Agency (THDA) has 15 divisions; all except the Executive Division are managed by a division director. The Executive Division encompasses the Chief Program Officer, the Chief Leadership Officer, the Chief Financial Officer, the Chief Strategy Officer, and the Chief Legal Counsel. Internal Audit, Public Affairs, and all of the Executive Division report directly to the Executive Director. Legal matters are overseen by the Chief Legal Counsel. The Chief Program Officer oversees Multifamily Programs, which includes Multifamily Development, Section 8 Contract Administration, Single Family Programs, Community Programs, Section 8 Rental Assistance, and Program Compliance. The Chief Strategy Officer oversees Research and Planning. The Chief Financial Officer has responsibility for Finance, Accounting, Operations, and Information Technology. The Chief Leadership Officer oversees Human Resources.

Community Programs – This division is responsible for the federal HOME Investment Partnership Program, the various programs funded by the THDA Housing Trust Fund, the federal Emergency Solutions Grant Program, certain activities in connection with the Department of Revenue's Community Investment Tax Credit Program, the Homelessness Prevention and Rapid Re-Housing Program, and the Neighborhood Stabilization Program.

Finance – This division is responsible for THDA's cash management. This division's major functions are debt management and investment of funds.

Accounting – This division is responsible for bond, state, and federal accounting; financial reporting; and fiscal budget planning.

Human Resources – This division is responsible for serving as a reliable and valuable resource in helping recruit, retain, and develop individuals who continually perform to the utmost of their abilities. The division ensures that staff is treated with respect and fairness, and that processes are applied consistently. It also ensures that THDA is in compliance with all local, state, and federal employment regulations.

Information Technology – This division is responsible for developing, implementing, and maintaining THDA's computer systems.

Internal Audit – This division includes three functions: internal audit, quality management, and Section 8 Rental Assistance informal hearings. The Internal Audit section conducts independent reviews of THDA's operations and procedures under authority granted by Section 13-23-112(h), *Tennessee Code Annotated*, and reports observations and recommendations to the Executive Director and the Audit and Budget Committee of the THDA Board of Directors. The Quality Management section reviews work performed by the federally funded Section 8 Contract Administration and Rental Assistance divisions. The THDA Hearings Officer holds informal hearings on Section 8 Rental Assistance terminations and denials.

Multifamily Development – This division administers the Low Income Housing Tax Credit program for developers of rental properties and allocates multi-family bond authority to local issuers for specific developments. The Tax Credit Assistance Program and the Section 1602 Tax Credit Exchange Program are also administered by this division.

Operations – This division is responsible for general administrative operations including procurement, contracts, facilities, and lease management.

Program Compliance – This division conducts on-site compliance reviews of properties receiving allocations of Low-Income Housing Tax Credits as well as HOME grants and performed Management and Occupancy Reviews of properties that receive rental assistance subsidies from the U.S. Department of Housing and Urban Development (HUD).

Public Affairs – This division is responsible for THDA's internal and external communications. Its mission is to make THDA more widely known among industry, elected, and public audiences and to create effective avenues for communication among THDA divisions. It develops educational materials and personal presentations, and it arranges small and large meetings.

Research and Planning – This division conducts and oversees research on programmatic performance and housing issues and works with other agencies to coordinate community development and housing activities.

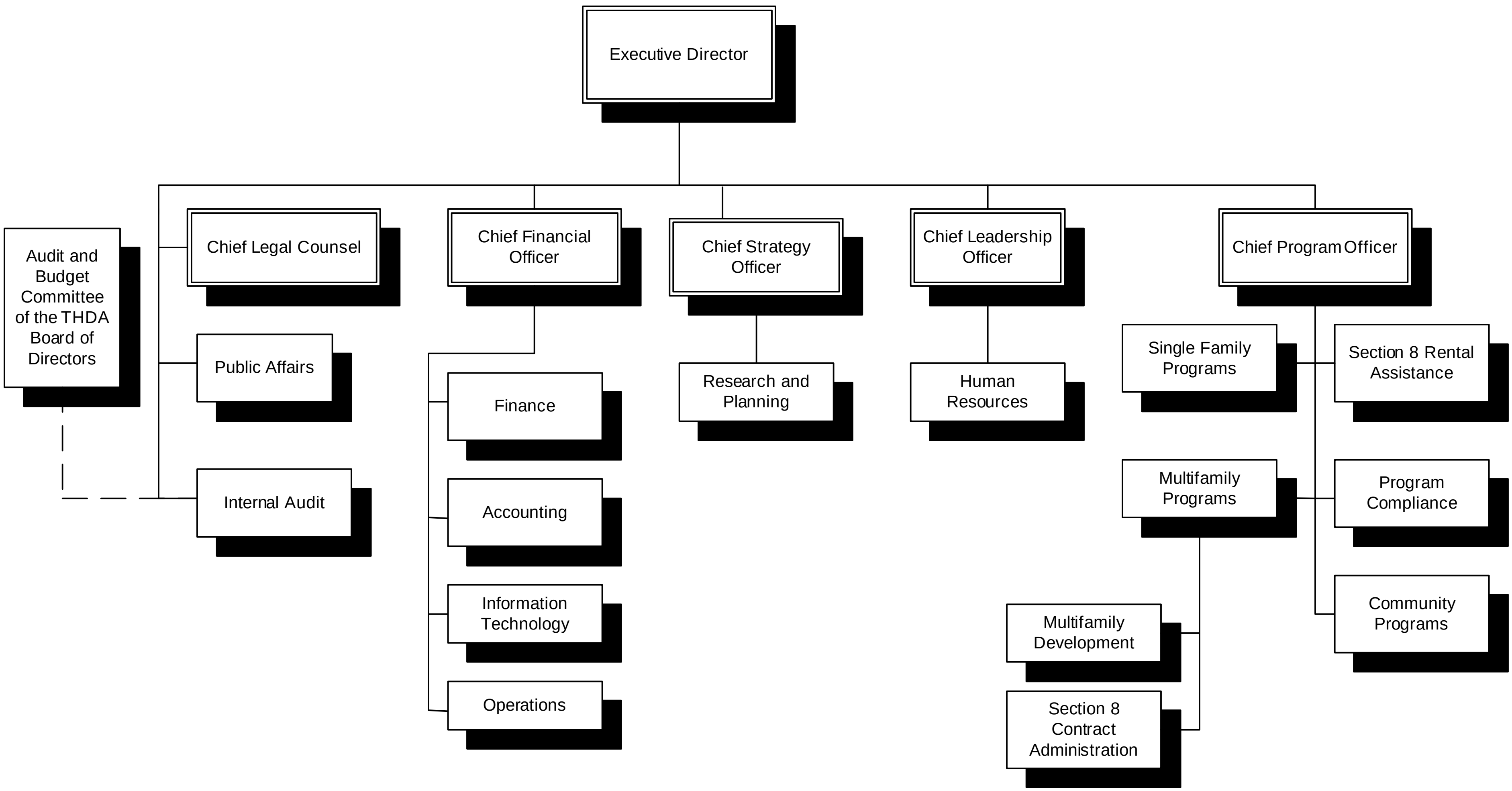
Section 8 Contract Administration – This division serves as the contract administrator for "project-based" Section 8 housing assistance payments (HAP) under contract with HUD. Project-based contracts provide rental subsidies to specific rental properties. Also, this division has oversight responsibilities of multifamily mortgages made by THDA that have HAP contracts with HUD.

Section 8 Rental Assistance – This division administers the Section 8 Housing Choice Voucher program. The division's functions include administering housing assistance payment contracts, making eligibility determinations, and monitoring and inspecting units (houses, apartments, and mobile homes) on an annual basis.

Single Family Programs – This division provides the link between funds available for single-family home loans and the individual prospective homeowners through a statewide network of participating lenders, and it provides the underwriting of loans for qualified applicants. This division also oversees loan servicing and collection of loans for THDA through servicing agents. In addition, the division is responsible for foreclosure prevention, homebuyer education, and pre-purchase counseling. One additional responsibility of this division is the Hardest Hit Fund, which is responsible for providing federally funded loans to unemployed or substantially underemployed homeowners who, through no fault of their own, are financially unable to make their mortgage payments and are in danger of losing their homes to foreclosure.

An organization chart for the Tennessee Housing Development Agency is on the following page.

Tennessee Housing Development Agency
Organization Chart



AUDIT SCOPE

The audit was limited to the period July 1, 2011, through June 30, 2012, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2012, and for comparative purposes, the year ended June 30, 2011. The Tennessee Housing Development Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

The audit included fund code 13001 of Edison (business unit 316.20).

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the Tennessee Housing Development Agency's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the controls after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Housing Development Agency's financial statements for the year ended June 30, 2012, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Tennessee Housing Development Agency's financial statements.

STATE OF TENNESSEE
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

October 26, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Members of the Board of Directors
Tennessee Housing Development Agency
and
Mr. Ted Fellman, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1200
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

Management of the Tennessee Housing Development Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Tennessee Housing Development Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Tennessee Housing Development Agency in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/vn

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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DIVISION OF STATE AUDIT
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Independent Auditor's Report

October 26, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Members of the Board of Directors
Tennessee Housing Development Agency
and
Mr. Ted Fellman, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1200
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2012, and June 30, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

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, 2012, and June 30, 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 23 and the schedule of funding progress on page 52 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 who 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplementary information on pages 53 through 57 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated October 26, 2012, 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 generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/vn

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012, AND JUNE 30, 2011

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2012 and June 30, 2011. This information is being presented to provide additional information regarding the activities of THDA and to meet the reporting and disclosure requirements of the 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 2012, THDA has originated over 108,000 single-family mortgage loans in its 39-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 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year. 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 "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at www.tn.gov/finance/act/cafr.shtml.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2012

- Total assets decreased by $98.3 million, or 3.6%.
- Total liabilities decreased by $136.3 million, or 6.2%.
- Net assets (the amount that total assets exceeds total liabilities) were $557.9 million. This is an increase of $37.9 million, or 7.3%, from fiscal year 2011.
- Cash and cash equivalents decreased $57.0 million, or 18.3%.
- Total investments decreased $8.5 million, or 3.6%.
- Bonds and notes payable decreased $128.6 million, or 6.0%.
- THDA originated $235.7 million in new loans, which is an increase of $4.6 million, or 2.0%, from the prior year.

Year Ended June 30, 2011

- Total assets decreased by $180.0 million, or 6.2 %.
- Total liabilities decreased by $181.2 million, or 7.6%.
- Net assets (the amount that total assets exceeds total liabilities) were $520.0 million. This is an increase of $1.2 million, or 0.2%, from fiscal year 2010.

- Cash and cash equivalents decreased $193.9 million, or 38.4%.
- Total investments increased $23.8 million, or 11.2%.
- Bonds and notes payable decreased $176.7 million, or 7.6%.
- THDA originated $231.1 million in new loans, which is a decrease of $113.0 million, or 32.8%, from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets. The following table focuses on the changes in net assets between fiscal years (expressed in thousands):

	2012	2011	2010
Current assets	$ 314,268	$ 304,429	$ 397,864
Capital assets	113	157	79
Other noncurrent assets	2,322,247	2,430,331	2,516,989
Total assets	2,636,628	2,734,917	2,914,932
Current liabilities	207,708	150,534	193,765
Noncurrent liabilities	1,871,002	2,064,427	2,202,405
Total liabilities	2,078,710	2,214,961	2,396,170
Invested in capital assets	114	157	79
Restricted net assets	517,980	517,587	514,383
Unrestricted net assets	39,824	2,212	4,300
Total net assets	$ 557,918	$ 519,956	$ 518,762

2012 to 2011

- THDA's total net assets increased $37.9 million, or 7.3%, from $520.0 million at June 30, 2011 to $557.9 million at June 30, 2012. The primary factor that contributed to this increase was the receipt of $34.5 million of funds from the multi-state national mortgage settlement with the nation's leading mortgage servicers.

- Mortgage loans receivable decreased $22.8 million, or 1.1%, from $2,119.4 million at June 30, 2011 to $2,096.6 million at June 30, 2012. During FY 2012, single-family mortgage loan originations increased $4.6 million or 2.0% from $231.1 million in FY 2011 to $235.7 million in FY 2012. Conversely, mortgage loan prepayments and repayments increased $28.8 million, or 16.0%, from $180.2 million in FY 2011 to $209.0 million in FY 2012.

- Total liabilities decreased $136.3 million, or 6.2%, from $2,215.0 million at June 30, 2011 to $2,078.7 million at June 30, 2012. While there were several factors that led to this decrease, notable year-to-year changes include a decrease of warrants / wires payable from $10.9 million at June 30, 2011 to $0 at June 30, 2012, and a decrease in the total amount of bonds and notes outstanding from $2,143.7 million at June 30, 2011 to $2,015.1 million at June 30, 2012.

2011 to 2010

- THDA's total net assets increased $1.2 million, or 0.2%, from $518.8 million at June 30, 2010 to $520.0 million at June 30, 2011. While various factors accounted for this change, the most significant factors include a decrease in interest expense, an increase in mortgage interest income, a decrease in the net increase/decrease in the fair value of investments, an increase in other program expenses, and a decrease in federal grant administration fees.

- Mortgage loans receivable increased $3.8 million, or 0.2%, from $2,115.6 million at June 30, 2010 to $2,119.4 million at June 30, 2011. During FY 2011, single-family mortgage loan originations decreased $113.0 million, or 32.8% from $344.1 million in FY 2010 to $231.1 million in FY 2011. Conversely, mortgage loan prepayments and repayments increased $0.9 million, or 0.5%, from $179.3 million in FY 2010 to $180.2 million in FY 2011.

- Total liabilities decreased $181.2 million, or 7.6%, from $2,396.2 million at June 30, 2010 to $2,215.0 million at June 30, 2011. The decrease is primarily due to a reduction in the amount of bonds issued during fiscal year 2011 as compared to fiscal year 2010, as well as an increase in the redemption of bonds as compared to fiscal year 2010.

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

	2012	2011	2010
Operating revenues			
Mortgage interest income	$ 116,015	$ 119,406	$ 118,572
Investment income	11,992	6,156	14,517
Other	17,693	17,041	17,588
Total operating revenues	145,700	142,603	150,677
Operating expenses			
Interest expense	87,835	88,301	93,154
Other	39,797	38,905	32,677
Total operating expenses	127,632	127,206	125,831
Operating income	18,068	15,397	24,846
Nonoperating revenues (expenses)			
Grant revenues	260,371	355,754	254,417
Payment from primary government	34,500	-	-
Grant expenses	(274,977)	(369,957)	(270,474)
Total nonoperating revenues (expenses)	19,894	(14,203)	(16,057)
Change in net assets	$ 37,962	$ 1,194	$ 8,789

2012 to 2011

Total operating revenues increased $3.1 million from $142.6 million for the year ended June 30, 2011 to $145.7 million for the year ended June 30, 2012. The primary reasons for this increase are as follows:

- Mortgage interest revenue decreased $3.4 million, or $2.8%, from $119.4 million in FY 2011 to $116.0 million in FY 2012. This decrease is due to prepayments of older mortgage loans with higher interest rates, as compared to new loans being originated at historically low interest rates.

- Investment income increased $5.8 million, or 93.5%, from $6.2 million in 2011 to $12.0 million in 2012. While the increase in investment interest income was insignificant, the net increase (decrease) in the fair value of investments improved

$5.2 million, or 106.5%, from a net decrease of $4.9 million in FY 2011 to a net increase of $0.3 million in FY 2012.

For the year ended June 30, 2012, total operating expenses increased $0.4 million, or 0.3%, from $127.2 million in 2011 to $127.6 million in 2012. The increase is not significant.

2011 to 2010

Total operating revenues decreased $8.1 million from $150.7 million for the year ended June 30, 2010 to $142.6 million for the year ended June 30, 2011. The primary reasons for this decrease are as follows:

- Investment income decreased $8.4 million, or 57.6%, from $14.5 million in 2010 to $6.2 million in 2011. This decrease is primarily due to a decrease in the fair value of investments of $4.9 million in FY 2011 as compared to an increase in the fair value of investments of $1.7 million in FY 2010.

- Federal grant administration fees decreased $1.2 million, or 8.1%, from $15.1 million in 2010 to $13.9 million in 2011. This primarily resulted from a decrease in federal administrative fees earned on the Section 8 tenant-based HCV program.

For the year ended June 30, 2011, total operating expenses increased $1.4 million, or 1.1%, from $125.8 million in 2010 to $127.2 million in 2011. The primary reasons for this increase are as follows:

- Interest expense decreased $4.9 million, or 5.2%, from $93.2 million in 2010 to $88.3 million in 2011. This decrease is primarily due to a decrease in bonds payable during FY 2011.

- Other program expenses increased $5.4 million, or 84.6%, from $6.4 million in 2010 to $11.9 million in 2011. There were several factors that contributed to this increase, among which were an increase in expenses related to mortgage loan foreclosures and incurring administrative expenses in administering ARRA grants as well as in implementing the Hardest Hit Fund (HHF).

DEBT ACTIVITY

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

	2012	2011	2010
Bonds payable	$ 2,015,181	$ 2,140,486	$ 2,316,748
Notes payable	-	3,250	3,672
Total bonds and notes payable	$ 2,015,181	$ 2,143,736	$ 2,320,420

Year Ended June 30, 2012

Total bonds and notes payable decreased $128.6 million, or 6.0%, due primarily to a decrease in the amount of bonds issued as well as an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $153.7 million, with activity arising from three bond issues. With investment interest rates at historically low levels, THDA has sought out opportunities to call bonds with proceeds from mortgage repayments and prepayments as practical. In addition to nominal advanced bond redemptions from mortgage loan prepayments, THDA refunded $135.1 million of bonds into bonds with lower interest rates.

Year Ended June 30, 2011

Total bonds and notes payable decreased $176.7 million, or 7.6%, due primarily to a decrease in the amount of bonds issued as well as an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $201.9 million, with activity arising from three bond issues.

New Issue Bond Program (NIBP)

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

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

Subsequently, THDA released, re-designated, and converted escrowed bonds (Bond Issue 2009-B) into fixed-rate, tax-exempt bonds as noted below:

Date	Amount	New Bond Issue
June 17, 2010	$ 85,290,000	Bond Issue 2009-B, Subseries B-1
October 27, 2010	60,000,000	Bond Issue 2009-B, Subseries B-2
March 24, 2011	60,000,000	Bond Issue 2009-B, Subseries B-3
August 25, 2011	60,000,000	Bond Issue 2009-B, Subseries B-4
November 03, 2011	34,710,000	Bond Issue 2009-B, Subseries B-5

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

Bond Ratings

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

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

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

There were no revisions to THDA's bond ratings during FY 2012 or FY 2011.

Debt Limits

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

<u>GRANT PROGRAMS</u>

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

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

	FY 2012	FY 2011	FY 2010 and Prior	Total
Funding Sources:				
THDA	$ 6,500,000	$ 6,000,000	$ 24,000,000	$ 36,500,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	**$ 6,500,000**	**$ 6,000,000**	**$ 28,350,000**	**$ 40,850,000**
Approved Uses:				
Rural repair program (USDA)	$ 700,000	$ 700,000	$ 2,800,000	$ 4,200,000
Ramp Program (UCP)	-	-	50,000	50,000
Ramp Program	-	-	400,000	400,000
Hsg Modification & Ramp Prg	150,000	150,000	150,000	450,000
Homebuyer Education Initiative	-	-	300,000	300,000
Emergency Repairs for Elderly	2,000,000	2,000,000	8,000,000	12,000,000
Competitive Grants	3,150,000	3,150,000	16,650,000	22,950,000
Manuf. Hsg. Replacement	500,000	-	-	500,000
Totals	**$ 6,500,000**	**$ 6,000,000**	**$ 28,350,000**	**$ 40,850,000**

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

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

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

THDA offers three primary choices for single-family mortgages. The *Great Rate* mortgage product offers an attractive interest rate loan secured by a first mortgage. The *Great Start* program offers a loan with an interest rate that is, as of June 30, 2012, 60 basis points higher than the Great Rate product, but provides 4% of the loan amount as down payment and closing cost assistance. In addition, THDA introduced the *Great Advantage* product during fiscal year 2006, which offers a loan with an interest rate that is, as of June 30, 2012, 30 basis points higher than the Great Rate product, and 2% of the loan amount as down payment and closing cost assistance.

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

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

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

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee; and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value.

Loans with a 78% LTV or lower do not require mortgage insurance.

A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at http://www.thda.org/index.aspx?NID=282.

More recently, media attention has focused on mortgage loan delinquencies and foreclosures. 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 Rate, Great Start, and Great Advantage), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2012, 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	Percentage
60-89 Days Past Due	26,430	561	42,078,643	2.12%
90+ Days Past Due	26,430	1,247	93,521,824	4.72%
In Foreclosure	26,430	166	12,663,174	0.63%

As of June 30, 2011, 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	Percentage
60-89 Days Past Due	26,725	521	39,122,105	1.95%
90+ Days Past Due	26,725	1,085	81,167,263	4.06%
In Foreclosure	26,725	308	24,127,169	1.15%

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

ECONOMIC FACTORS

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

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

CONTACTING THDA's FINANCIAL MANAGEMENT

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND JUNE 30, 2011
(Expressed in Thousands)

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 219,397	$ 203,071
Investments (Note 2)	578	-
Receivables:		
Accounts	18,989	23,750
Interest	12,611	12,854
First mortgage loans	51,702	49,947
Due from federal government	10,991	14,807
Total current assets	314,268	304,429
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	34,218	107,502
Investments (Note 2)	186,562	196,928
Investment interest receivable	1,683	2,261
Investments (Note 2)	40,130	38,857
First mortgage loans receivable	2,044,906	2,069,473
Deferred charges	11,741	12,327
Advance to local government	3,007	2,983
Capital assets:		
Furniture and equipment	556	517
Less accumulated depreciation	(443)	(360)
Total noncurrent assets	2,322,360	2,430,488
Total assets	2,636,628	2,734,917
LIABILITIES		
Current liabilities:		
Warrants / wires payable (Note 3)	-	10,913
Accounts payable	1,451	5,121
Accrued payroll and related liabilities	515	472
Compensated absences	555	477
Due to primary government	71	-
Interest payable	43,626	45,076
Escrow deposits	433	528
Prepayments on mortgage loans	1,414	1,662
Deferred revenue - U.S. Treasury	10,408	-
Notes payable (Note 4)	-	3,250
Bonds payable (Note 4)	149,235	83,035
Total current liabilities	207,708	150,534
Noncurrent liabilities:		
Bonds payable (Note 4)	1,865,946	2,057,451
Compensated absences	601	517
Net OPEB obligation (Note 9)	1,157	994
Escrow deposits	3,298	4,248
Arbitrage rebate payable	-	1,217
Total noncurrent liabilities	1,871,002	2,064,427
Total liabilities	2,078,710	2,214,961
NET ASSETS		
Invested in capital assets	114	157
Restricted for single family bond programs (Note 5 and Note 7)	508,687	504,874
Restricted for grant programs (Note 5)	6,140	9,560
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,153	3,153
Unrestricted (Note 7)	39,824	2,212
Total net assets	$ 557,918	$ 519,956

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011
(Expressed in Thousands)

	2012	2011
OPERATING REVENUES		
Mortgage interest income	$ 116,015	$ 119,406
Investment income:		
Interest	11,672	11,042
Net increase (decrease) in the fair value of investments	320	(4,886)
Federal grant administration fees	14,475	13,916
Fees and other income	3,218	3,125
Total operating revenues	145,700	142,603
OPERATING EXPENSES		
Salaries and benefits	15,671	15,190
Contractual services	3,208	2,625
Materials and supplies	184	226
Rentals and insurance	100	97
Other administrative expenses	482	465
Other program expenses	11,727	11,878
Interest expense	87,835	88,301
Mortgage service fees	7,539	7,601
Issuance costs	742	730
Depreciation	144	93
Total operating expenses	127,632	127,206
Operating income	18,068	15,397
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	260,371	355,754
Payment from primary government (Note 12)	34,500	-
Federal grants expenses	(260,587)	(355,862)
Local grants expenses	(14,390)	(14,095)
Total nonoperating revenues (expenses)	19,894	(14,203)
Change in net assets	37,962	1,194
Total net assets, July 1	519,956	518,762
Total net assets, June 30	$ 557,918	$ 519,956

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011
(Expressed in Thousands)

	2012	2011
Cash flows from operating activities:		
Receipts from customers	$ 378,193	$ 352,565
Receipts from federal government	15,243	14,241
Other miscellaneous receipts	3,218	3,125
Acquisition of mortgage loans	(235,740)	(231,061)
Payments to service mortgages	(7,539)	(7,601)
Payments to suppliers	(17,439)	(21,317)
Payments to federal government	(1,216)	(3,331)
Payments to employees	(15,644)	(15,266)
Net cash provided by operating activities	119,076	91,355
Cash flows from non-capital financing activities:		
Operating grants received	308,398	363,397
Negative cash balance implicitly financed (repaid)	(10,913)	2,616
Proceeds from sale of bonds	248,382	201,856
Operating grants paid	(278,480)	(370,436)
Cost of issuance paid	(2,243)	(1,907)
Principal payments	(372,940)	(371,942)
Interest paid	(89,283)	(90,953)
Net cash used by non-capital financing activities	(197,079)	(267,369)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(100)	(172)
Net cash used by capital and related financing activities	(100)	(172)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	409,752	282,923
Purchases of investments	(400,926)	(311,750)
Investment interest received	12,311	11,000
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	8	130
Net cash provided (used) by investing activities	21,145	(17,697)
Net decrease in cash and cash equivalents	(56,958)	(193,883)
Cash and cash equivalents, July 1	310,573	504,456
Cash and cash equivalents, June 30	$ 253,615	$ 310,573

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011
(Expressed in Thousands)

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 18,068	$ 15,397
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	886	823
Changes in assets and liabilities:		
Decrease in accounts receivable	4,758	4,716
Decrease in mortgage interest receivable	183	352
(Increase) decrease in first mortgage loans receivable	22,790	(3,854)
Decrease in due from federal government	768	325
(Increase) in deferred charges	(1,912)	(4,076)
(Decrease) in accounts payable	(1,460)	(1,420)
Increase in accrued payroll / compensated absences	368	278
(Decrease) in arbitrage rebate liability	(1,216)	(3,331)
Investment income included as operating revenue	(11,992)	(6,156)
Interest expense included as operating expense	87,835	88,301
Total adjustments	101,008	75,958
Net cash provided by operating activities	$ 119,076	$ 91,355
Noncash investing, capital, and financing activities:		
Increase (decrease) in fair value of investments	$ 12,603	$ (3,643)
Total noncash investing, capital, and financing activities	$ 12,603	$ (3,643)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency generally follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The agency also has the option of following subsequent private-sector guidance subject to this same limitation. The agency has elected not to follow subsequent private-sector guidance. Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, and Housing Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

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

d. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds and the New Issue Bond Program (NIBP) 2009-B escrowed bond investments.

The bond resolutions require the agency to establish a Debt Service 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 to cover any deficiency.

The NIBP 2009-B escrowed bond investments are restricted for use in the 2009 resolution. These invested funds are restricted to be released, converted and blended with market rate bonds.

f. Bond Issuance Costs and Refunding Costs

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the interest method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.

2. Bond Refunding Costs: The agency amortizes bond refunding costs using the straight-line method. Bonds payable is reported net of the deferred amount on refundings.

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

g. Cash and Cash Equivalents

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

h. Investments

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

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

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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, 2012, the bank balance was $12,042,605. At June 30, 2011, the bank balance was $6,806,625. All bank balances at June 30, 2012 and June 30, 2011 were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury required 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, 2012, $11,588,423 was in the BNYM. Of this amount, $11,338,423 was above the FDIC insurance coverage. Of the bank balance at June 30, 2011, $4,304,256 was in the BNYM. Of this amount, $4,054,256 was above the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report.* That report is available on the state's website at www.treasury.tn.gov.

b. Investments

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

The agency's investment policy states that the agency portfolios will be diversified in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest one hundred percent (100%) of its portfolio in U.S. government securities. A minimum of five percent (5%) of the par value of total investments must mature within five years. No more than fifty percent (50%) of the par value of the combined portfolios can be invested in maturities greater than fifteen (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, 2012		**June 30, 2011**	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$135,888,316	2.153	$146,532,606	2.052
U.S. Treasury Coupon	91,381,418	4.673	89,252,190	5.248
U.S. Treasury Discount	0	N/A	94,789,957	0.073
Total	$227,269,734	1.851	$330,574,753	1.803

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

Variable Rate Bonds.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.55 of par on August 4, 2010. Although these securities were scheduled to mature on August 4, 2025, these bonds were called on February 4, 2012. The fair value of these securities on June 30, 2011, was $1,971,350, which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,500,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.75 of par on August 26, 2010. Although these securities were scheduled to mature on August 26, 2022, these bonds were called on August 26, 2011. The fair value of these securities on June 30, 2011, was $1,490,622 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at par on September 29, 2010. Although these securities were scheduled to mature on September 29, 2025, these bonds were called on September 29, 2011. The fair value of these securities on June 30, 2011, was $1,998,572 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.73 of par on September 30, 2010. Although these securities were scheduled to mature on September 30, 2015, these bonds were called on September 30, 2011. The fair value of these securities on June 30, 2011, was $2,004,608 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on September 30, 2010. Although these securities were scheduled to mature on September 30, 2020, these bonds were called on September 30, 2011. The fair value of these securities on June 30, 2011, was $2,007,976 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on October 15, 2010. Although these securities were scheduled to mature on October 15, 2025, these bonds were called on October 15, 2011. The fair value of these securities on June 30, 2011, was $2,000,916 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 28, 2011. Although these securities were scheduled to mature on January 28, 2026, these bonds were called on October 28, 2011. The fair value of these securities on June 30, 2011, was $2,996,115 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 28, 2011. Although these securities were scheduled to mature on July 28, 2016, these bonds were called on July 28, 2011. The fair value of these securities on June 30, 2011, was $1,001,257 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on February 9, 2011. Although these securities were scheduled to mature on February 9, 2021, these bonds were called on August 9, 2011. The fair value of these securities on June 30, 2011, was $3,003,411 which is included in U.S. Agency Coupon in the table above.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on February 16, 2011. Although these securities were scheduled to mature on February 16, 2021, these bonds were called on August 16, 2011. The fair value of these securities on June 30, 2011, was $4,004,460 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,150,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.95 of par on April 27, 2011. Although these securities were scheduled to mature on April 27, 2026, these bonds were called on April 27, 2012. The fair value of these securities on June 30, 2011, was $2,166,542 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.92 of par on May 6, 2011. Although these securities were scheduled to mature on July 14, 2015, these bonds were called on July 14, 2011. The fair value of these securities on June 30, 2011, was $3,500,522 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.75 of par on May 18, 2011. Although these securities were scheduled to mature on May 18, 2026, these bonds were called on May 18, 2012. The fair value of these securities on June 30, 2011, was $2,005,234 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.60 of par on June 17, 2011. Although these securities were scheduled to mature on December 17, 2025, these bonds were called on September 17, 2011. The fair value of these securities on June 30, 2011, was $977,172 which is included in U.S. Agency Coupon in the table above.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on June 30, 2011. Although these securities were scheduled to mature on June 30, 2016, these bonds were called on September 30, 2011. The fair value of these securities on June 30, 2011, was $3,965,880 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 30, 2012 and mature on January 30, 2017. The fair value of these securities on June 30, 2012, is $3,007,326 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 0.625% with a step-up option to 1.5% on January 30, 2013. This investment is callable on January 30, 2013.

The agency purchased $4,280,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.93 of par on February 24, 2012 and mature on December 28, 2026. The fair value of these securities on June 30, 2012, is $4,297,377 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.5% with a step-up option to 4.0% on December 28, 2012, to 5.0% on December 28, 2017, and to 6.0% on December 28, 2022. This investment is callable quarterly beginning on December 28, 2012 and ending on September 28, 2013.

The agency purchased $2,140,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.875 of par on April 30, 2012 and mature on October 30, 2019. The fair value of these securities on June 30, 2012, is $2,135,998 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.25% with a step-up option to 1.5% on October 30, 2015, to 1.75% on October 30, 2016, to 2.0% on October 30, 2017, to 3.0% on April 30, 2018, to 4.0% on October 30, 2018, and to 6.0% on April 30, 2019. This investment is callable on July 30, 2012.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on May 24, 2012 and mature on November 24, 2017. The fair value of these securities on June 30, 2012, is $1,000,179 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 0.75% with a step-up option to 1.0% on May 24, 2014, to 1.25% on May 24, 2015, to 1.5% on May 24, 2016, to 1.75% on November 24, 2016, and to 2.0% on May 24, 2017. This investment is callable on August 24, 2012.

The agency purchased $2,350,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on June 11, 2012 and mature on June 11, 2027. The fair value of these securities on June 30, 2012, is $2,335,775 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016, to 3.0% on June 11, 2020, to 4.0% on June 11, 2022, to 6.0% on June 11, 2023, to 7.0% on June 11, 2024, to 8.0% on December 11, 2024, to 10.0% on June 11, 2025, to 12.0% on December 11, 2025, to 14.0% on June 11, 2026, and to 16.0% on December 11, 2026. This investment is callable on July 11, 2012.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on June 14, 2012 and mature on June 14, 2027. The fair value of these securities on June 30, 2012, is $5,001,205 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.0% with a step-up option to 3.0% on December 14, 2012, to 4.0% on December 14, 2017, to 5.0% on June 14, 2022, and to 6.0% on June 14, 2024. This investment is callable on December 14, 2012.

The agency purchased $3,210,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on June 28, 2012 and mature on June 27, 2027. The fair value of these securities on June 30, 2012, is $3,190,002 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 28, 2015, to 3.0% on June 28, 2018, to 4.0% on June 28, 2021, to 5.0% on June 28, 2023, and to 6.5% on June 28, 2025. This investment is callable on June 28, 2013.

The agency purchased $6,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on June 28, 2012 and mature on June 28, 2027. The fair value of these securities on June 30, 2012, is $5,995,374 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.0% with a step-up option to 3.0% on December 28, 2012, to 4.0% on June 28, 2018, to 5.0% on June 28, 2022, and to 6.0% on December 28, 2025. This investment is callable quarterly beginning on December 28, 2012 and ending on December 28, 2015.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2012 and June 30, 2011 are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2012

			Credit Quality Rating		
Investment Type	**Fair Value**	**U.S. Treasury**[1]	**AA+**	**AA-2**	**Not Rated**[2]
U.S. Agency Coupon	$135,888,316		$118,089,513	$5,237,564	$12,561,239
U.S. Treasury Coupon	91,381,418	$91,381,418			
Repurchase Agreements	110,000,000				110,000,000
Total	$337,269,734	$91,381,418	$118,089,513	$5,237,564	$122,561,239

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

[2]Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

June 30, 2011					
			Credit Quality Rating		
Investment Type	**Fair Value**	**U.S. Treasury[1]**	**AAA**	**AA-2**	**Not Rated[2]**
U.S. Agency Coupon	$146,532,606		$140,738,006	$5,176,721	$617,879
U.S. Treasury Coupon	89,252,190	$89,252,190			
U.S. Treasury Discount	94,789,957	94,789,957			
Repurchase Agreements	100,000,000				100,000,000
Total	$430,574,753	$184,042,147	$140,738,006	$5,176,721	$100,617,879

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

More than five percent of the agency's investments are invested in the following single issuers:

	June 30, 2012		June 30, 2011	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$20,608,842	6.11	$24,769,777	5.75
Federal Home Loan Mortgage Corp	$22,155,470	6.57	$32,375,496	7.52
Federal National Mortgage Assoc	$73,997,504	21.94	$75,255,894	17.48
Repurchase Agreements – Morgan Stanley Dean Witter	$0	N/A	$60,000,000	13.93
Repurchase Agreements – UBS	$110,000,000	32.61	$40,000,000	9.29

NOTE 3. WARRANTS / WIRES PAYABLE

This amount includes the sum of warrants and wires initiated by the agency at year-end in excess of the agency's balance in the State Pooled Investment Fund that have not completely processed through the banking system. These warrants and wires are primarily for grant

[1]This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.
[2]Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

payments for the Section 8 grant programs and will be reimbursed by the U. S. Department of Housing and Urban Development.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2012	Ending Balance 6/30/2011
MORTGAGE FINANCE PROGRAM BONDS					
2003A	7/1/2004-7/1/2034	$191,885	1.70 to 5.35	$61,400	$75,280
Less: Deferred Amount on Refundings				(2,427)	(2,579)
Net Mortgage Finance Program Bonds				$58,973	$72,701

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2012	Ending Balance 6/30/2011
HOMEOWNERSHIP PROGRAM BONDS					
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	$ -0-	$56,585
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	-0-	17,840
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	-0-	16,145
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	-0-	24,950
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	-0-	28,420
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	17,550	19,965
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	25,210	28,265
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	28,115	32,995
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	34,125	39,750
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	44,830	51,950
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	47,545	55,070
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	55,550	63,655
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	54,970	62,830
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	55,975	66,840
2006-2	7/1/2007-1/1/2037	100,000	3.90 to 5.75	53,450	62,950
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	62,075	70,720
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	64,530	75,135
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	83,880	94,160
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	97,925	114,055
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	102,995	118,230
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	41,610	47,050
2008-2	7/1/2009-1/1/2027	50,000	3.25 to 5.75	28,175	37,405
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	58,695	68,525
2008-4	1/1/2010-7/1/2028	30,000	3.125 to 6.125	8,105	21,185
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	43,490	46,795

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2012	Ending Balance 6/30/2011
HOMEOWNERSHIP PROGRAM BONDS (CONT.)					
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	65,220	70,085
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	100,050	115,295
2011-1	7/1/2012-7/1/2042	141,255	0.60 to 4.65	138,915	-0-
Total Homeownership Program Bonds		$2,531,925		$1,312,985	$1,506,850
Plus: Unamortized Bond Premiums				12,119	15,315
Less: Deferred Amount on Refundings				(2,867)	(3,387)
Net Homeownership Program Bonds				$1,322,237	$1,518,778

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2012	Ending Balance 6/30/2011
HOUSING FINANCE PROGRAM BONDS					
2009-A	1/1/2011-1/1/2040	$100,000	0.900 to 4.625	$91,845	$97,540
2009-B	7/1/2041	300,000	Variable	-0-	94,710
2010-A	1/1/2011-7/1/2041	74,710	0.600 to 5.0	146,225	155,435
2010-B	7/1/2011–7/1/2041	40,000	0.45 to 4.50	96,795	99,625
2011-A	7/1/2011-7/1/2041	40,000	0.45 to 4.50	97,475	100,000
2011-B	7/1/2012-7/1/2041	40,000	0.25 to 4.50	99,575	-0-
2011-C	7/1/2012-7/1/2041	65,290	0.40 to 4.30	99,995	-0-
Total Housing Finance Program Bonds		$660,000		$631,910	$547,310
Plus: Unamortized Bond Premiums				2,161	1,805
Less: Deferred Amount on Refundings				(100)	(108)
Net Housing Finance Program Bonds				$633,971	$549,007
Net Total All Issues				$2,015,181	$2,140,486

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

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

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

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.

The interest rate on the 2009-B bonds is tied to the investment rate on proceeds of the bonds. Proceeds are required to be invested in U.S. Treasury securities maturing in 28 days or less.

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2012, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2013	$202,479	$83,456	$285,935
2014	53,213	76,706	129,919
2015	53,718	75,200	128,918
2016	52,728	73,590	126,318
2017	54,358	71,869	126,227
2018 – 2022	220,266	332,017	552,283
2023 – 2027	309,448	279,007	588,455
2028 – 2032	236,731	213,838	450,569
2033 – 2037	264,630	160,831	425,461
2038 – 2042	570,449	65,557	636,006
2043	2,555	59	2,614
Total	$2,020,575	$1,432,130	$3,452,705

The debt principal in the preceding table is $5,394,000 greater than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the year ended June 30, 2012, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $11,200,000, in the Homeownership Program in the amount of $316,065,000 and in the Housing Finance Program in the amount of $17,055,000. The respective carrying values of the bonds were $11,157,769, $317,935,960 and $17,099,460. This resulted in an expense to the Mortgage Finance Program of $42,231 and in income to the Homeownership Program of $1,870,960 and to the Housing Finance Program of $44,460.

On December 1, 2011, the agency issued $141,255,000 in Homeownership Program Bonds, Issue 2011-1. On January 1, 2012, the agency used $135,095,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $135,095,000 early redemption). The carrying amount of these bonds was $134,393,628. The refunding resulted in a difference of $701,372 between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency’s debt service by $37,847,406 over the next 18 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $17,103,985.

During the year ended June 30, 2011, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $12,260,000, in the Homeownership Program in the amount of $317,390,000 and in the Housing Finance Program in the amount of $5,780,000. The respective carrying values of the bonds were $12,214,245, $321,059,321 and $5,768,558. This resulted in an expense to the Mortgage Finance Program of $45,755 and to the Housing Finance Program of $11,442 and in income to the Homeownership Program of $3,669,321.

On October 13, 2010, the agency issued $120,700,000 in Homeownership Program Bonds, Issue 2010-1. On November 1, 2010, the agency used $99,835,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $99,835,000 early redemption). The carrying amount of these bonds was $99,371,651. The refunding resulted in a difference of $463,349 between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency’s debt service by $22,227,781 over the next 15 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $10,476,679.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2012.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2011	Additions	Reductions	Ending Balance June 30, 2012	Amounts Due Within One Year
Notes Payable	$3,250	$-0-	($3,250)	$-0-	$-0-
Bonds Payable	2,129,440	246,545	(369,690)	2,006,295	149,235
Plus: Unamortized Bond Premiums	17,120	1,837	(4,677)	14,280	-0-
Less: Deferred Amount on Refundings	(6,074)	(710)	1,390	(5,394)	-0-
Compensated Absences	994	162	(-0-)	1,156	555
Escrow Deposits	4,776	1,484	(2,529)	3,731	433
Arbitrage Rebate Payable	1,217	418	(1,635)	-0-	-0-
Total	$2,150,723	$249,736	($380,391)	$2,020,068	$150,223

The following table is a summary of the long-term liability activity for the year ended June 30, 2011.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2010	Additions	Reductions	Ending Balance June 30, 2011	Amounts Due Within One Year
Notes Payable	$3,672	$-0-	($422)	$3,250	$3,250
Bonds Payable	2,300,260	200,700	(371,520)	2,129,440	83,035
Plus: Unamortized Bond Premiums	22,419	1,156	(6,455)	17,120	-0-
Less: Deferred Amount on Refundings	(5,931)	(1,099)	956	(6,074)	-0-
Compensated Absences	945	66	(17)	994	477
Escrow Deposits	4,978	903	(1,105)	4,776	528
Arbitrage Rebate Payable	4,547	2,552	(5,882)	1,217	-0-
Total	$2,330,890	$204,278	($384,445)	$2,150,723	$87,290

e. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provided for the issuance of agency drawdown notes with a maximum aggregate principal amount of $65,000,000. On April 1, 1999, the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be $200,000,000. On December 1, 2002, the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be $450,000,000.

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

In October 2008, the Internal Revenue Service issued Notice 2008-88, amending Notice 2008-41. With an effective date of March 28, 2008, this notice provided temporary relief to issuers by allowing them to purchase their own bonds and commercial paper without causing an extinguishment of the debt for tax purposes. Therefore, on October 9, 2008, due to unstable credit markets, the Tennessee Housing Development Agency purchased at par $83,050,000 of its Single Family Mortgage Notes Trust Indenture from Morgan Keegan. The agency was allowed to hold the outstanding notes through December 31, 2009, after which the notes were to be available to reissue. Due to continuing unstable credit markets, on December 31, 2009, the Internal Revenue Service extended the amount of time the agency was allowed to hold its outstanding notes purchased from Morgan Keegan. The agency was allowed to hold the outstanding notes through December 31, 2010; however, the notes matured on August 12, 2010. In accordance with the Financial Accounting Standards Board Statement 76 (as amended), Paragraph 3, the outstanding notes were not recorded for financial reporting purposes.

<u>Promissory Note</u>. On December 22, 2008, the agency borrowed $3,250,000 for the Preserve Loan Program, which is part of the Housing Trust Fund. Interest was charged quarterly at 3%. The principal matured and was paid off on December 22, 2011. On August 3, 2009, the agency borrowed $500,000 at 3% for the Preserve Loan Program, which is part of the Housing Trust Fund. Principal and interest were paid monthly with the principal maturing on August 4, 2012; however, the note was paid off on June 17, 2011.

The activity of the promissory note is also included in the summary of long-term liability activity in part d. of this note.

NOTE 5. RESTRICTED NET ASSETS

The amount shown on the Statement of Net Assets 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 assets that are restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of these net assets is restricted under legislation enacted in fiscal year 1986.

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

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

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 14.91% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2012, 2011, and 2010, were $1,632,095, $1,585,654, and $1,295,272. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has established a loan loss reserve of $750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional

$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered under 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 assets restricted for single family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net assets for this purpose.

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. 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 each 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 years ended June 30, 2012, and June 30, 2011, are presented in the *Tennessee Comprehensive Annual Financial Report*. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

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

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (*TCA*) Section 8-27-101. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed, and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

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

<u>Funding Policy.</u> The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan

participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 but less than 30 years of service, $37.50; and retirees with 15 but less than 20 years of service, $25.

THDA Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan
(Thousands)

	June 30, 2012	June 30, 2011
Annual Required Contribution (ARC)	$393	$358
Interest on the Net OPEB Obligation	41	36
Adjustment to the ARC	(44)	(34)
Annual OPEB cost	390	360
Amount of contribution	(227)	(160)
Increase in Net OPEB Obligation	163	200
Net OPEB obligation-beginning of year	994	794
Net OPEB obligation-end of year	$1,157	$994

Year End	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At Year End (Thousands)
6/30/2010	State Employee Group Plan	$ 352	45%	$ 794
6/30/2011	State Employee Group Plan	$ 360	44%	$ 994
6/30/2012	State Employee Group Plan	$ 390	58%	$ 1,157

Funded Status and Funding Progress. The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2011, was as follows (thousands):

Actuarial valuation date	7/01/2011
Actuarial accrued liability (AAL)	$ 2,919
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	$ 2,919
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 9,818
UAAL as a percentage of covered payroll	30%

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

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

In the July 1, 2011, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012. The rate decreases to 8.75 percent in fiscal year 2013, and then reduces by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 10. ON-BEHALF PAYMENTS

During the year ended June 30, 2012, the State of Tennessee made payments of $2,980 on behalf of THDA for retirees participating in the Medicare Supplement Plan, and during the year ended June 30, 2011, made payments of $3,525. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 11. PAYMENTS TO PRIMARY GOVERNMENT

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

NOTE 12. NATIONAL MORTGAGE SETTLEMENT FUNDS

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

NOTE 13. SUBSEQUENT EVENTS

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

July 1, 2012	Mortgage Finance Program	$ 4,000,000
	Homeownership Program	60,030,000
	Housing Finance Program	11,420,000
	Total	$75,450,000

b. Homeownership Program Bonds, Issue 2012-2, were authorized by the Board of directors on July 24, 2012, not to exceed $125,000,000.

c. Housing Finance Program Bonds, Issue 2012-1, were sold on July 27, 2012. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2012-1	1/1/2013-7/1/2042	$133,110	0.800 to 4.500

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

September 1, 2012	Homeownership Program	$43,865,000

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

October 1, 2012	Mortgage Finance Program	$ 3,015,000
	Homeownership Program	56,055,000
	Housing Finance Program	9,350,000
	Total	$68,420,000

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2009	State Employee Group Plan	$ -0-	$ 3,629	$ 3,629	0%	$ 9,238	39%
7/1/2010	State Employee Group Plan	$ -0-	$ 3,316	$ 3,316	0%	$ 8,640	38%
7/1/2011	State Employee Group Plan	$ -0-	$ 2,919	$ 2,919	0%	$ 9,818	30%

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2012
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 24,068	$ 25,278	$ 133,100	$ 36,951	$ 219,397
Investments	-	578	-	-	578
Receivables:					
Accounts	-	643	15,123	3,223	18,989
Interest	15	798	8,888	2,910	12,611
First mortgage loans	155	4,936	35,269	11,342	51,702
Due from federal government	10,991	-	-	-	10,991
Due from other funds	6,574	1	-	-	6,575
Total current assets	41,803	32,234	192,380	54,426	320,843
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	11,557	32	17,283	5,346	34,218
Investments	-	13,684	156,866	16,012	186,562
Investment Interest receivable	-	118	1,481	84	1,683
Investments	-	6,419	23,148	10,563	40,130
First mortgage loans receivable	1,400	135,372	1,306,636	601,498	2,044,906
Deferred charges	1	280	8,161	3,299	11,741
Advance to local government	3,007	-	-	-	3,007
Capital assets:					
Furniture and equipment	556	-	-	-	556
Less accumulated depreciation	(443)	-	-	-	(443)
Total noncurrent assets	16,078	155,905	1,513,575	636,802	2,322,360
Total assets	57,881	188,139	1,705,955	691,228	2,643,203
LIABILITIES					
Current liabilities:					
Accounts payable	1,171	192	55	33	1,451
Accrued payroll and related liabilities	515	-	-	-	515
Compensated absences	555	-	-	-	555
Due to primary government	71	-	-	-	71
Interest payable		1,553	30,731	11,342	43,626
Escrow deposits	-	433	-	-	433
Prepayments on mortgage loans		71	961	382	1,414
Deferred revenue - Treasury	10,408	-			10,408
Due to other funds	-	-	6,575	-	6,575
Bonds payable	-	6,070	125,125	18,040	149,235
Total current liabilities	12,720	8,319	163,447	29,797	214,283
Noncurrent liabilities:					
Bonds payable	-	52,903	1,197,112	615,931	1,865,946
Compensated absences	601	-	-	-	601
Net OPEB obligation	1,157	-	-	-	1,157
Escrow deposits	312	2,986	-	-	3,298
Total noncurrent liabilities	2,070	55,889	1,197,112	615,931	1,871,002
Total liabilities	14,790	64,208	1,360,559	645,728	2,085,285
NET ASSETS					
Invested in capital assets	114	-	-	-	114
Restricted for single family bond programs	-	117,791	345,396	45,500	508,687
Restricted for grant programs	-	6,140	-	-	6,140
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	3,153
Unrestricted	39,824	-	-	-	39,824
Total net assets	$ 43,091	$ 123,931	$ 345,396	$ 45,500	$ 557,918

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Totals
OPERATING REVENUES					
Mortgage interest income	$ -	$ 6,262	$ 82,569	$ 27,184	$ 116,015
Investment income:					
Interest	6	1,324	9,122	1,220	11,672
Net (decrease) in the fair value of investments	-	(242)	868	(306)	320
Federal grant administration fees	14,475	-	-	-	14,475
Fees and other income	2,803	415	-	-	3,218
Total operating revenues	17,284	7,759	92,559	28,098	145,700
OPERATING EXPENSES					
Salaries and benefits	15,671	-	-	-	15,671
Contractual services	3,208	-	-	-	3,208
Materials and supplies	184	-	-	-	184
Rentals and insurance	100	-	-	-	100
Other administrative expenses	482	-	-	-	482
Other program expenses	1,360	4,277	5,833	257	11,727
Interest expense	50	3,568	63,866	20,351	87,835
Mortgage service fees	-	427	5,205	1,907	7,539
Issuance costs	-	32	574	136	742
Depreciation	144	-	-	-	144
Total operating expenses	21,199	8,304	75,478	22,651	127,632
Operating income (loss)	(3,915)	(545)	17,081	5,447	18,068
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	259,454	917	-	-	260,371
Payment from primary government	34,500	-	-	-	34,500
Federal grants expenses	(259,504)	(1,083)	-	-	(260,587)
Local grants expenses	(66)	(5,979)	(8,345)	-	(14,390)
Total nonoperating revenues (expenses)	34,384	(6,145)	(8,345)	-	19,894
Income (loss) before transfers	30,469	(6,690)	8,736	5,447	37,962
Transfers (to) other funds	-	(457)	(12,268)	-	(12,725)
Transfers from other funds	7,083	-	-	5,642	12,725
Change in net assets	37,552	(7,147)	(3,532)	11,089	37,962
Total net assets, July 1	5,539	131,078	348,928	34,411	519,956
Total net assets, June 30	$ 43,091	$ 123,931	$ 345,396	$ 45,500	$ 557,918

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Totals
Cash flows from operating activities:					
Receipts from customers	$ 59	$ 22,685	$ 298,420	$ 57,029	$ 378,193
Receipts from federal government	15,243	-	-	-	15,243
Receipts from other funds	-	-	5,518	-	5,518
Other miscellaneous receipts	2,803	415	-	-	3,218
Acquisition of mortgage loans	-	(10,400)	(22,949)	(202,391)	(235,740)
Payments to service mortgages	-	(427)	(5,205)	(1,907)	(7,539)
Payments to suppliers	(5,342)	(4,050)	(7,757)	(290)	(17,439)
Payments to federal government	-	-	(1,216)	-	(1,216)
Payments to other funds	(4,865)	(653)	-	-	(5,518)
Payments to employees	(15,644)	-	-	-	(15,644)
Net cash provided (used) by operating activities	(7,746)	7,570	266,811	(147,559)	119,076
Cash flows from non-capital financing activities:					
Operating grants received	307,481	917	-	-	308,398
Transfers in (out)	7,083	(457)	(12,268)	5,642	-
Negative cash balance implicitly financed (repaid)	(10,913)	-	-	-	(10,913)
Proceeds from sale of bonds	-	-	142,494	105,888	248,382
Operating grants paid	(263,073)	(7,062)	(8,345)	-	(278,480)
Cost of issuance paid	-	-	(1,098)	(1,145)	(2,243)
Principal payments	(3,250)	(13,880)	(335,120)	(20,690)	(372,940)
Interest paid	(50)	(3,750)	(69,250)	(16,233)	(89,283)
Net cash provided (used) by non-capital financing activities	37,278	(24,232)	(283,587)	73,462	(197,079)
Cash flows from capital and related financing activities:					
Purchases of capital assets	(100)	-	-	-	(100)
Net cash (used) by capital and related financing activities	(100)	-	-	-	(100)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	61,681	235,303	124,840	421,824
Purchases of investments	-	(49,729)	(231,015)	(132,254)	(412,998)
Investment interest received	6	1,441	9,606	1,258	12,311
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	5	3	8
Net cash provided (used) by investing activities	6	13,393	13,899	(6,153)	21,145
Net increase (decrease) in cash and cash equivalents	29,438	(3,269)	(2,877)	(80,250)	(56,958)
Cash and cash equivalents, July 1	6,187	28,579	153,260	122,547	310,573
Cash and cash equivalents, June 30	$ 35,625	$ 25,310	$ 150,383	$ 42,297	$ 253,615

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2012
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Totals
Reconciliation of operating income to					
net cash provided (used) by operating activities:					
Operating income (loss)	$ (3,915)	$ (545)	$ 17,081	$ 5,447	$ 18,068
Adjustments to reconcile operating income to					
net cash provided (used) by operating activities:					
Depreciation and amortization	144	32	574	136	886
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	-	267	6,626	(2,135)	4,758
(Increase) decrease in mortgage interest receivable	59	127	783	(786)	183
(Increase) decrease in first mortgage loans receivable	(41)	6,736	185,722	(169,627)	22,790
Decrease in due from federal government	768	-	-	-	768
(Increase) decrease in deferred charges	1	42	(1,912)	(43)	(1,912)
Decrease in interfund receivables	-	-	5,518	-	5,518
(Decrease) in interfund payables	(4,865)	(653)	-	-	(5,518)
Increase (decrease) in accounts payable	(309)	(922)	(241)	12	(1,460)
Increase in accrued payroll / compensated absences	368	-	-	-	368
(Decrease) in arbitrage rebate liability	-	-	(1,216)	-	(1,216)
Investment income included as operating revenue	(6)	(1,082)	(9,990)	(914)	(11,992)
Interest expense included as operating expense	50	3,568	63,866	20,351	87,835
Total adjustments	(3,831)	8,115	249,730	(153,006)	101,008
Net cash provided (used) by operating activities	$ (7,746)	$ 7,570	$ 266,811	$ (147,559)	$ 119,076
Noncash investing, capital, and financing activities:					
Increase in fair value of investments	$ -	$ 60	$ 12,450	$ 93	$ 12,603
Total noncash investing, capital, and financing activities	$ -	$ 60	$ 12,450	$ 93	$ 12,603

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2012
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 10,700	$ 12,778	$ 23,478	$ 1,800	$ 25,278
Investments	-	578	578	-	578
Receivables:					
Accounts	336	302	638	5	643
Interest	694	103	797	1	798
First mortgage loans	4,505	431	4,936	-	4,936
Due from other funds	-	1	1	-	1
Total current assets	16,235	14,193	30,428	1,806	32,234
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	32	-	32	-	32
Investments	13,684	-	13,684	-	13,684
Investment interest receivable	118	-	118	-	118
Investments	284	5,784	6,068	351	6,419
First mortgage loans receivable	129,258	6,114	135,372	-	135,372
Deferred charges	280	-	280	-	280
Total noncurrent assets	143,656	11,898	155,554	351	155,905
Total assets	159,891	26,091	185,982	2,157	188,139
LIABILITIES					
Current liabilities:					
Accounts payable	3	189	192	-	192
Interest payable	1,553	-	1,553	-	1,553
Escrow deposits	-	-	-	433	433
Prepayments on mortgage loans	64	7	71	-	71
Bonds payable	6,070	-	6,070	-	6,070
Total current liabilities	7,690	196	7,886	433	8,319
Noncurrent liabilities:					
Bonds payable	52,903	-	52,903	-	52,903
Escrow deposits	-	1,407	1,407	1,579	2,986
Total noncurrent liabilities	52,903	1,407	54,310	1,579	55,889
Total liabilities	60,593	1,603	62,196	2,012	64,208
NET ASSETS					
Restricted for single family bond programs	99,298	18,348	117,646	145	117,791
Restricted for grant programs	-	6,140	6,140	-	6,140
Total net assets	$ 99,298	$ 24,488	$ 123,786	$ 145	$ 123,931

* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.
** The Escrow Funds can only be used for escrow payments.