AUDIT REPORT

Tennessee Housing Development Agency

For the Year Ended
June 30, 2013

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

Deborah V. Loveless, CPA, CGFM
Director

Edward Burr, CPA, CGFM
Assistant Director

Teresa L. Hensley, CPA, CGFM
Audit Manager

Donald Vanatta, CFE
In-Charge Auditor

Sharon Crowell
Benjamin Wright, CPA, CFE
Staff Auditors

Gerry C. Boaz, CPA, CGFM
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

Financial/compliance audits of state departments and agencies are available online at www.comptroller.tn.gov/sa/AuditReportCategories.asp.
For more information about the Comptroller of the Treasury, please visit our website at www.comptroller.tn.gov.

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

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

November 21, 2013

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Housing Development Agency for the year ended June 30, 2013. You will note from the independent auditor's report that an unmodified 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, CPA
Director

13/075

Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 2013

TABLE OF CONTENTS

State of Tennessee

A u d i t   H i g h l i g h t s

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit

Tennessee Housing Development Agency

For the Year Ended June 30, 2013

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

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

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the years ended June 30, 2013, and June 30, 2012, and the related notes to the financial statements, which collectively comprise the agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2013, and June 30, 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 5 through 15 and the schedule of funding progress on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency’s basic financial statements. The accompanying financial information on pages 44 through 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2013, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
October 1, 2013

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2013 and June 30, 2012. 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 (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2013, THDA has originated over 110,000 single-family mortgage loans in its 40-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 position, statements of revenues, expenses and changes in net position, statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year. 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.

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

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2013

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

- THDA originated \$212.2 million in new loans, which is a decrease of \$23.6 million, or 10.0%, from the prior year.

Year Ended June 30, 2012

- Total assets decreased by \$97.7 million, or 3.6%.
- Deferred outflows of resources decreased \$0.9 million, or 26.9%.
- Total liabilities decreased by \$136.8 million, or 6.2%.
- Net position was \$543.5 million. This is an increase of \$38.3 million, or 7.5%, 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 \$123.4 million, or 5.8%.
- THDA originated \$235.7 million in new loans, which is an increase of \$4.6 million, or 2.0%, from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

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

	2013	2012	2011
Current assets	\$ 495,605	\$ 314,268	\$ 304,429
Capital assets	194	113	157
Other noncurrent assets	2,231,487	2,310,506	2,418,006
Total assets	2,727,286	2,624,887	2,722,592
Deferred outflows of resources	2,287	2,445	3,346
Current liabilities	303,224	207,708	150,534
Noncurrent liabilities	1,899,882	1,876,123	2,070,179
Total liabilities	2,203,106	2,083,831	2,220,713
Invested in capital assets	194	114	157
Restricted net position	489,105	503,563	502,856
Unrestricted net position	37,168	39,824	2,212
Total net position	\$ 526,467	\$ 543,501	\$ 505,225

2013 to 2012

- THDA's total net position decreased by $17.0 million, or 3.1%, from $543.5 million at June 30, 2012 to $526.5 million at June 30, 2013. While various factors accounted for this change, the most significant factors include a decrease in mortgage interest income, a decrease in the net increase/decrease in the fair value of investments, and an increase in bonds payable.

- Mortgage loans receivable decreased by $109.3 million, or 5.2% from $2,096.6 million on June 30, 2012 to $1,987.3 million on June 30, 2013. During FY 2013, single-family mortgage loan originations decreased by $23.6 million, or 10.0% from $235.7 million at June 30, 2012 to $212.2 million at June 30, 2013. Conversely, mortgage loan prepayments and repayments increased by $58.3 million, or 28.0% from $209.0 million at June 30, 2012 to $267.3 million on June 30, 2013.

- Total liabilities increased $119.3 million, or 5.7% from $2,083.8 million at June 30, 2012 to $2,203.1 million on June 30, 2013. The increase is primarily due to an increase in the amount of bonds issued during fiscal year 2013 as compared to fiscal year 2012, as well as a small decrease in the redemption of bonds as compared to fiscal year 2012.

2012 to 2011

- THDA's total net position increased $38.3 million, or 7.6%, from $505.2 million at June 30, 2011 to $543.5 million at June 30, 2012. The net position of $505.2 million at June 30, 2011 was reduced by $14.7 million from the amount previously reported, due to the effect of implementing GASB 65. 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. In addition, THDA's total net position as of July 1, 2011 was revised downward by $14.7 million due to the implementation of GASB Statement 65.

- 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 $136.9 million, or 6.2%, from $2,220.7 million at June 30, 2011 to $2,083.8 million at June 30, 2012. As noted above, the implementation of GASB 65 was applied retroactively, therefore requiring a minor revision to the amount of liabilities as previously reported. 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.

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

	2013	2012	2011
Operating revenues			
Mortgage interest income	$ 109,158	$ 116,015	$ 119,406
Investment income	(4,346)	11,992	6,156
Other	17,865	17,693	17,041
Total operating revenues	122,677	145,700	142,603
Operating expenses			
Interest expense	78,643	86,020	84,137
Other	41,982	41,298	40,082
Total operating expenses	120,625	127,318	124,219
Operating income	2,052	18,382	18,384
Nonoperating revenues (expenses)			
Grant revenues	237,638	260,371	355,754
Payment from primary government	-	34,500	-
Grant expenses	(256,724)	(274,977)	(369,957)
Total nonoperating revenues (expenses)	(19,086)	19,894	(14,203)
Change in net position	$ (17,034)	$ 38,276	$ 4,181

2013 to 2012

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

- Investment income decreased $16.3 million, or 136.2% from $12.0 million in 2012 to a net loss of $4.3 million in 2013. While interest income from investments decreased marginally, THDA experienced a net decrease in the fair value of investments of $15.2 million in fiscal year 2013, as compared to a net increase in the fair value of investments of $0.3 million in fiscal year 2012.

- Mortgage interest income decreased $6.9 million, or 5.9%, from $116.0 million in 2012 to $109.1 million in 2013. This is due to mortgage loan prepayments exceeding the amount of mortgage loan originations. Likewise, new mortgage loan originations typically have lower interest rates than those associated with mortgage loan repayments.

- Total operating expenses decreased $6.7 million, or 5.3%, from $127.3 million in fiscal year 2012 to $120.6 million in fiscal year 2013. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

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 94.8%, 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 $3.1 million, or 2.5%, from $124.2 million in 2011 to $127.3 million in 2012. The increase is not significant.

DEBT ACTIVITY

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

	2013	2012	2011
Bonds payable	$ 2,136,806	$ 2,020,302	$ 2,140,486
Notes payable	-	-	3,250
Total bonds and notes payable	$ 2,136,806	$ 2,020,302	$ 2,143,736

Year Ended June 30, 2013
Total bonds and notes payable increased $116.5 million, or 5.8% due primarily to an increase in the amount of bonds issued as well as a decrease in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $456.7 million, with activity arising from three bond issues. With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded $66.5 million of outstanding bonds into new bond originations with lower interest rates.

Year Ended June 30, 2012
Total bonds and notes payable decreased $123.4 million, or 5.8%, 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.

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

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

Bond Ratings

For bonds issued under the Mortgage Finance Program, Moody's Investors Service, Inc. ("Moody's") has assigned THDA's bonds a rating of Aa2 and Standard & Poor's Ratings Services, 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.

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

There were no revisions to THDA's bond ratings during FY 2013 or FY 2012.

Debt Limits

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

GRANT PROGRAMS

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

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

	FY 2013	FY 2012	FY 2011	FY 2010 and Prior	Total
Funding Sources:					
THDA	$ 6,500,000	$ 6,500,000	$ 6,000,000	$ 24,000,000	$ 43,000,000
State Appropriation	-	-	-	4,350,000	4,350,000
Totals	**$ 6,500,000**	**$ 6,500,000**	**$ 6,000,000**	**$ 28,350,000**	**$ 47,350,000**
Approved Uses:					
Rural repair program (USDA)	$ 700,000	$ 700,000	$ 700,000	$ 2,800,000	$ 4,900,000
Ramp Program (UCP)	-	-	-	50,000	50,000
Ramp Program	-	-	-	400,000	400,000
Hsg Modification & Ramp Prg	150,000	150,000	150,000	150,000	600,000
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	4,426,409	3,150,000	3,150,000	16,650,000	27,376,409
Pilot Program Manufactured Hsg	500,000	500,000	-	-	1,000,000
Pending Allocations	723,591	-	-	-	723,591
Totals	**$ 6,500,000**	**$ 6,500,000**	**$ 6,000,000**	**$ 28,350,000**	**$ 47,350,000**

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, 2013, 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, 2013, 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, 2013, 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	25,265	554	40,491,422	2.19%
90+ Days Past Due	25,265	1,181	89,505,286	4.67%
In Foreclosure	25,265	550	45,013,301	2.18%

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%

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

ECONOMIC FACTORS

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

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

CONTACTING THDA's FINANCIAL MANAGEMENT

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND JUNE 30, 2012
(Expressed in Thousands)

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 382,434	$ 219,397
Investments (Note 2)	15,310	578
Receivables:		
Accounts	18,155	18,989
Interest	13,435	12,611
First mortgage loans	51,350	51,702
Due from federal government	14,921	10,991
Total current assets	495,605	314,268
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	21,897	34,218
Investments (Note 2)	200,346	186,562
Investment interest receivable	1,753	1,683
Investments (Note 2)	68,533	40,130
First mortgage loans receivable	1,935,924	2,044,906
Advance to local government	3,034	3,007
Capital assets:		
Furniture and equipment	697	556
Less accumulated depreciation	(503)	(443)
Total noncurrent assets	2,231,681	2,310,619
Total assets	2,727,286	2,624,887
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refundings	2,287	2,445
Total deferred outflows of resources	2,287	2,445
LIABILITIES		
Current liabilities:		
Accounts payable	1,642	1,451
Accrued payroll and related liabilities	535	515
Compensated absences	600	555
Due to primary government	71	71
Interest payable	40,279	43,626
Escrow deposits	172	433
Prepayments on mortgage loans	986	1,414
Due to federal government	17,619	10,408
Bonds payable (Note 4)	241,320	149,235
Total current liabilities	303,224	207,708
Noncurrent liabilities:		
Bonds payable (Note 4)	1,895,486	1,871,067
Compensated absences	630	601
Net OPEB obligation (Note 9)	1,303	1,157
Escrow deposits	2,463	3,298
Total noncurrent liabilities	1,899,882	1,876,123
Total liabilities	2,203,106	2,083,831
NET POSITION		
Net investment in capital assets	194	114
Restricted for single family bond programs (Note 5 and Note 7)	472,570	494,270
Restricted for grant programs (Note 5)	13,382	6,140
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,153	3,153
Unrestricted (Note 7)	37,168	39,824
Total net position	$ 526,467	$ 543,501

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012
(Expressed in Thousands)

	2013	2012
OPERATING REVENUES		
Mortgage interest income	$ 109,158	$ 116,015
Investment income:		
Interest	10,881	11,672
Net increase (decrease) in the fair value of investments	(15,227)	320
Federal grant administration fees	15,586	14,475
Fees and other income	2,279	3,218
Total operating revenues	122,677	145,700
OPERATING EXPENSES		
Salaries and benefits	16,083	15,671
Contractual services	3,930	3,208
Materials and supplies	493	184
Rentals and insurance	115	100
Other administrative expenses	445	482
Other program expenses	9,926	11,727
Interest expense	78,643	86,020
Mortgage service fees	7,291	7,539
Issuance costs	3,639	2,243
Depreciation	60	144
Total operating expenses	120,625	127,318
Operating income	2,052	18,382
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	237,638	260,371
Payment from primary government (Note 12)	-	34,500
Federal grants expenses	(237,352)	(260,587)
Local grants expenses	(19,372)	(14,390)
Total nonoperating revenues (expenses)	(19,086)	19,894
Change in net position	(17,034)	38,276
Total net position, July 1	543,501	519,956
Cumulative effect of a change in accounting principle (Note 3)	-	(14,731)
Total net position, July 1, as restated	543,501	505,225
Total net position, June 30	$ 526,467	$ 543,501

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, 2013 AND JUNE 30, 2012
(Expressed in Thousands)

	2013	2012
Cash flows from operating activities:		
Receipts from customers	$ 429,234	$ 378,193
Receipts from federal government	15,344	15,243
Other miscellaneous receipts	2,279	3,218
Acquisition of mortgage loans	(212,166)	(235,740)
Payments to service mortgages	(7,291)	(7,539)
Payments to suppliers	(14,366)	(15,527)
Payments to federal government	-	(1,216)
Payments to employees	(16,123)	(15,644)
Net cash provided by operating activities	196,911	120,988
Cash flows from non-capital financing activities:		
Operating grants received	241,162	308,398
Negative cash balance implicitly financed (repaid)	-	(10,913)
Proceeds from sale of bonds	456,741	248,382
Operating grants paid	(256,797)	(278,480)
Cost of issuance paid	(3,639)	(2,243)
Principal payments	(336,030)	(372,940)
Interest paid	(86,039)	(91,195)
Net cash provided (used) by non-capital financing activities	15,398	(198,991)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(141)	(100)
Net cash used by capital and related financing activities	(141)	(100)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	287,825	409,752
Purchases of investments	(359,985)	(400,926)
Investment interest received	10,694	12,311
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	14	8
Net cash provided (used) by investing activities	(61,452)	21,145
Net increase (decrease) in cash and cash equivalents	150,716	(56,958)
Cash and cash equivalents, July 1	253,615	310,573
Cash and cash equivalents, June 30	$ 404,331	$ 253,615

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, 2013 AND JUNE 30, 2012
(Expressed in Thousands)

	2013	2012
Reconciliation of operating income to		
net cash provided by operating activities:		
Operating income	$ 2,052	$ 18,382
Adjustments to reconcile operating income to		
net cash provided by operating activities:		
Depreciation	60	144
Changes in assets and liabilities:		
Decrease in accounts receivable	834	4,758
(increase) decrease in mortgage interest receivable	(709)	183
Decrease in first mortgage loans receivable	109,306	22,790
(Increase) decrease in due from federal government	(242)	768
(Decrease) in accounts payable	(1,258)	(1,460)
Increase in accrued payroll / compensated absences	240	368
(Decrease) in arbitrage rebate liability	-	(1,216)
Investment income included as operating revenue	4,346	(11,992)
Interest expense included as operating expense	78,643	86,020
Issuance cost included as operating expense	3,639	2,243
Total adjustments	194,859	102,606
Net cash provided by operating activities	$ 196,911	$ 120,988
Noncash investing, capital, and financing activities:		
Increase (decrease) in fair value of investments	$ (14,037)	$ 12,603
Total noncash investing, capital, and financing activities	$ (14,037)	$ 12,603

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, or home building industries; the mortgage profession, local governments, or one of 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).

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, 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.

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.

f. Deferred Amount on Refundings and Bond Premiums and Discounts

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

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

g. Cash and Cash Equivalents

In addition to demand deposits, 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 collected principal.

k. Operating Revenues and Expenses

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

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

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

At June 30, 2013, the bank balance was $18,982,252. At June 30, 2012, the bank balance was $12,042,605. All bank balances at June 30, 2013 and June 30, 2012 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, 2013, $18,490,778 was in the BNYM. Of this amount, $18,240,778 exceeded the FDIC insurance coverage. Of the bank balance at June 30, 2012, $11,588,423 was in the BNYM. Of this amount, $11,338,423 exceeded 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 his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 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, 2013		June 30, 2012	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$183,618,170	2.660	$135,888,316	2.153
U.S. Treasury Coupon	85,574,572	3.899	91,381,418	4.673
U.S. Agency Discount	151,647,000	0.051	0	N/A
Total	$420,839,742	1.972	$227,269,734	1.851

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

Variable Rate Bonds

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 30, 2012. Although these securities were scheduled to mature on January 30, 2017, these bonds were called January 30, 2013. The fair value of these securities on June 30, 2012 was $3,007,326, which is included in U.S. Agency Coupon in the table above.

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. Although these securities were scheduled to mature on December 28, 2026, these bonds were called December 28, 2012. The fair value of these securities on June 30, 2012 was $4,297,377, which is included in U.S. Agency Coupon in the table above.

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. Although these securities were scheduled to mature on October 30, 2019, these bonds were called July 30, 2012. The fair value of these securities on June 30, 2012 was $2,135,998, 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 par on May 24, 2012. Although these securities were scheduled to mature on November 24, 2017, these bonds were called on November 24, 2012. The fair value of these securities on June 30, 2012 was $1,000,179, which is included in U.S. Agency Coupon in the table above.

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. Although these securities were scheduled to mature on June 14, 2027, these bonds were called December 14, 2012. The fair value of these securities on June 30, 2012 was $5,001,205, which is included in U.S. Agency Coupon in the table above.

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. Although these securities were scheduled to mature on June 28, 2027, these bonds were called December 28, 2012. The fair value of these securities on June 30, 2012 was $5,995,374, which is included in U.S. Agency Coupon in the table above.

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, 2013 is $2,186,370, and on June 30, 2012 was $2,335,775, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016, to 3.0% on June 11, 2020, to 4.0% on June 11, 2022, to 6.0% on June 11, 2023, to 7.0% on June 11, 2024, to 8.0% on December 11, 2024, to 10.0% on June 11, 2025, to 12.0% on December 11, 2025, to 14.0% on June 11, 2026, and to 16.0% on December 11, 2026.

The agency purchased $3,210,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on June 28, 2012 and mature on June 27, 2027. The fair value of these securities on June 30, 2013 is $2,990,898, and on June 30, 2012 was $3,190,002, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 28, 2015, to 3.0% on June 28, 2018, to 4.0% on June 28, 2021, to 5.0% on June 28, 2023, and to 6.5% on June 28, 2025.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 100.12 of par on November 15, 2012 and mature on June 11, 2027. The fair value of these securities on June 30, 2013, is $2,791,110 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.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on November 8, 2012 and mature on November 8, 2027. The fair value of these securities on June 30, 2013, is $3,678,796 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 3.0% on November 8, 2017, and to 4.0% on November 8, 2022. This investment is callable quarterly beginning February 8, 2013, and ending November 8, 2016.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.45 of par on November 23, 2012 and mature on November 23, 2027. The fair value of these securities on June 30, 2013, is $2,746,311 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 2.125% on November 23, 2017, to 2.25% on November 23, 2020, to 2.5% on November 23, 2023, to 3.0% on November 23, 2024, to 4.0% on May 23, 2025, to 6.0% on November 23, 2025, to 8.0% on May 23, 2026, to 11.0% on November 23, 2026, and to 14% on May 23, 2027. This investment is callable quarterly beginning May 23, 2013, and ending November 23, 2015.

The agency purchased $2,400,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.65 of par on December 21, 2012 and mature on December 21, 2027. The fair value of these securities on June 30, 2013, is $2,231,131 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 2.25% on December 21, 2017, to 2.5% on December 21, 2020, to 3.0% on December 21, 2022, to 4.0% on December 21, 2023, to 5.0% on December 21, 2024, to 6.0% on December 21, 2025, to 8.0% on June 21, 2026, to 10.0% on December 21, 2026, and to 12.0% on June 21, 2027. This investment is callable quarterly beginning June 21, 2013, and ending December 21, 2018.

The agency purchased $2,750,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.90 of par on January 30, 2013 and mature on January 30, 2025. The fair value of these securities on June 30, 2013, is $2,612,555 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 2.25% on January 30, 2018, to 2.5% on January 30, 2021, to 3.0% on January 30, 2022, to 5.0% on January 30, 2023, to 7.0% on July 30, 2023, and to 9.0% on January 30, 2024. This investment is callable quarterly beginning July 30, 2013, and ending October 30, 2016.

The agency purchased $650,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 101.55 of par on September 6, 2012 and mature on August 26, 2025. The fair value of these securities on June 30, 2013, is $651,348 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 4.0% on August 26, 2013, to 5.0% on August 26, 2016, to 6.0% on August 26, 2019, and to 7.0% on

August 26, 2022. This investment is callable August 26, 2013, August 26, 2016, August 26, 2019, and August 26, 2022.

The agency purchased $1,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.18 of par on November 7, 2012 and mature on June 28, 2027. The fair value of these securities on June 30, 2013, is $1,426,929 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 4.0% on June 28, 2017, to 5.0% on June 28, 2024, and to 6.5% on June 28, 2026. This investment is callable quarterly beginning December 28, 2012, and ending December 28, 2015.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on August 27, 2012 and mature on August 27, 2027. The fair value of these securities on June 30, 2013, is $1,919,370 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 2.5% on August 27, 2015, to 3.5% on August 27, 2018, to 4.5% on August 27, 2021, and to 5.5% on August 27, 2024. This investment is callable quarterly beginning August 27, 2012, and ending November 27, 2015.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012 and mature on December 27, 2027. The fair value of these securities on June 30, 2013, is $4,694,220 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 2.0% on June 27, 2013, and to 3.15% on December 27, 2013. This investment is callable quarterly beginning June 27, 2013, and ending December 27, 2016.

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

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 28, 2012 and mature on December 28, 2027. The fair value of these securities on June 30, 2013, is $2,813,145 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 3.0% on December 28, 2017, to 4.0% on December 28, 2020, to 5.0% on December 28, 2024, and to 6.0% on December 28, 2025. This investment is callable quarterly beginning June 28, 2013, and ending December 28, 2017.

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2013 and June 30, 2012 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, 2013

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

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

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, 2013		June 30, 2012	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$173,049,950	41.12	$20,608,842	6.11
Federal Home Loan Mortgage Corp	$42,892,295	10.19	$22,155,470	6.57
Federal National Mortgage Assoc.	$95,869,861	22.78	$73,997,504	21.94
Repurchase Agreements – UBS	$0	N/A	$110,000,000	32.61

NOTE 3. ACCOUNTING CHANGE

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

Implementation of GASB 62 did not have any financial reporting impact to the agency. Implementation of GASB 63 required the reclassification of net assets to net position, and it also required the deferred amount on refundings to be classified as a deferred outflow of resources.

Implementation of GASB 65 recognizes bond cost of issuance as an expense; therefore the adoption of this statement resulted in the write-off of unamortized cost of issuance as of July 1, 2011. Cost of issuance incurred by the agency is reported as expense in the fiscal years ending June 30, 2012 and June 30, 2013. The cumulative effect of this change in accounting principle decreased the net position at July 1, 2011 by $14,730,999. The financial statements for the fiscal year ending June 30, 2012 have been restated.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2013	Ending Balance 6/30/2012
MORTGAGE FINANCE PROGRAM BONDS					
2003A	7/1/2004-7/1/2034	$191,885	1.70 to 5.35	$48,965	$61,400

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2013	Ending Balance 6/30/2012
HOMEOWNERSHIP PROGRAM BONDS					
2003-1	7/1/2004-7/1/2033	$50,000	1.20 to 5.10	$ -0-	$17,550
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	-0-	25,210
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	-0-	28,115
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	28,185	34,125
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	38,435	44,830
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	39,070	47,545
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	46,605	55,550
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	43,960	54,970
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	44,500	55,975
2006-2	7/1/2007-1/1/2037	100,000	3.90 to 5.75	41,175	53,450
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	49,935	62,075
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	53,755	64,530
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	71,385	83,880
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	81,950	97,925
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	90,360	102,995
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	33,675	41,610
2008-2	7/1/2009-1/1/2027	50,000	3.25 to 5.75	11,915	28,175
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	47,790	58,695
2008-4	1/1/2010-7/1/2028	30,000	3.125 to 6.125	2,975	8,105
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	36,870	43,490
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	59,395	65,220
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	87,655	100,050
2011-1	7/1/2012-7/1/2042	141,255	0.60 to 4.65	125,005	138,915
2012-1	1/1/2013-7/1/2042	133,110	0.80 to 4.50	127,265	-0-
2012-2	7/1/2013-7/1/2043	97,625	0.50 to 4.00	96,960	-0-
Total Homeownership Program Bonds		$2,332,690		$1,258,820	$1,312,985
Plus: Unamortized Bond Premiums				14,419	12,119
Less: Unamortized Bond Discount				(218)	(273)
Net Homeownership Program Bonds				$1,273,021	$1,324,831

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2013	Ending Balance 6/30/2012
HOUSING FINANCE PROGRAM BONDS					
2009-A	1/1/2011-1/1/2040	$100,000	0.90 to 4.625	$83,295	$91,845
2010-A	1/1/2011-7/1/2041	160,000	0.60 to 5.00	133,945	146,225
2010-B	7/1/2011–7/1/2041	100,000	0.45 to 4.50	91,245	96,795
2011-A	7/1/2011-7/1/2041	100,000	0.45 to 4.50	90,730	97,475
2011-B	7/1/2012-7/1/2041	100,000	0.25 to 4.50	96,980	99,575
2011-C	7/1/2012-7/1/2041	100,000	0.40 to 4.30	97,020	99,995
Total Housing Finance Program Bonds		$660,000		$593,215	$631,910
Plus: Unamortized Bond Premiums				1,829	2,161
Net Housing Finance Program Bonds				$595,044	$634,071

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2013	Ending Balance 6/30/2012
RESIDENTIAL FINANCE PROGRAM BONDS					
2013-1	1/1/2014-7/1/2043	$215,905	0.40 to 4.00	$215,905	$ -0-
Plus: Unamortized Bond Premiums				3,871	-0-
Net Residential Finance Program Bonds				$219,776	$ -0-
Net Total All Issues				$2,136,806	$2,020,302

<u>Housing Finance Program Bonds</u> The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (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.

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2013, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2014	$238,985	$78,133	$317,118
2015	53,630	74,673	128,303
2016	52,575	73,392	125,967
2017	53,870	71,970	125,840
2018	55,030	70,361	125,391
2019 – 2023	230,070	325,553	555,623
2024 – 2028	302,590	273,929	576,519
2029 – 2033	228,440	214,564	443,004
2034 – 2038	289,200	166,610	455,810
2039 – 2043	544,490	58,617	603,107
2044	68,025	1,342	69,367
Total	$2,116,905	$1,409,144	$3,526,049

c. Redemption of Bonds and Notes

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

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

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

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 $180,970,000 and in the Housing Finance Program in the amount of $17,055,000. The respective carrying values of the bonds were $11,157,769, $183,542,332 and $17,099,460. This resulted in an expense to the Mortgage Finance Program of $42,231 and revenue to the Homeownership Program of $2,572,332 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.

d. Long-term Liability Activity

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

Long-term Liabilities
(Thousands)

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

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: Unamortized Bond Discounts	(322)	-0-	49	(273)	-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	$2,156,475	$250,446	($381,732)	$2,025,189	$150,223

e. Notes Issued and Outstanding

Promissory Note 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 on December 22, 2011. The activity of the promissory note is included in the summary of long-term liability activity in part d. of this note.

NOTE 5. RESTRICTED NET POSITION

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the 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 15.03% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2013, 2012, and 2011, were $1,692,847, $1,632,095, and $1,585,654. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

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

NOTE 8. INSURANCE-RELATED ACTIVITIES

a. Commercial Insurance

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

b. Risk Management Fund

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

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

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

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-101. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, 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.

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

Funding Policy 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 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 but less than 30 years of service, $37.50; and retirees with 15, but less than 20 years of service, $25.

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

	June 30, 2013	June 30, 2012
Annual Required Contribution (ARC)	$362	$393
Interest on the Net OPEB Obligation	46	41
Adjustment to the ARC	(49)	(44)
Annual OPEB cost	359	390
Amount of contribution	(213)	(227)
Increase in Net OPEB Obligation	146	163
Net OPEB obligation-beginning of year	1,157	994
Net OPEB obligation-end of year	$1,303	$1,157

Year End	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At Year End (Thousands)
6/30/2013	State Employee Group Plan	$ 359	60%	$ 1,303
6/30/2012	State Employee Group Plan	$ 390	58%	$ 1,157
6/30/2011	State Employee Group Plan	$ 360	44%	$ 994

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

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

In the July 1, 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 8.75 percent in fiscal year 2013. The rate decreases to 8.25 percent in fiscal year 2014, 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, 2013, the State of Tennessee made payments of $4,715 on behalf of THDA for retirees participating in the Medicare Supplement Plan, and during the year ended June 30, 2012, made payments of $2,980. 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, 2013	Mortgage Finance Program		$ 48,965,000
	Homeownership Program		110,810,000
	Housing Finance Program		24,060,000
		Total	$183,835,000

b. Residential Finance Program Bonds, Issue 2013-2, were authorized by the Board of directors on July 23, 2013, not to exceed $125,000,000.

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

August 1, 2013	Homeownership Program		$ 21,110,000
	Housing Finance Program		5,795,000
	Residential Finance Program		5,620,000
		Total	$ 32,525,000

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

October 1, 2013	Homeownership Program		$ 38,165,000
	Housing Finance Program		10,820,000
	Residential Finance Program		2,935,000
		Total	$ 51,920,000

e. *Tennessee Code Annotated,* Section 13-23-101 et seq., was amended to revise the composition of the Board of Directors, effective July 1, 2013.

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 POSITION
JUNE 30, 2013
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	$ 16,407	$ 71,109	$ 172,570	$ 52,682	$ 69,666	$ 382,434
Investments	-	236	76	-	14,998	15,310
Receivables:						
Accounts	1	889	13,953	3,297	15	18,155
Interest	14	702	9,170	3,466	83	13,435
First mortgage loans	155	4,568	34,612	11,073	942	51,350
Due from federal government	14,921	-	-	-	-	14,921
Due from other funds	9,335	30	-	-	-	9,365
Total current assets	40,833	77,534	230,381	70,518	85,704	504,970
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	17,827	32	167	51	3,820	21,897
Investments	-	13,048	163,796	20,472	3,030	200,346
Investment Interest receivable	-	118	1,522	111	2	1,753
Investments	-	19,755	29,119	15,040	4,619	68,533
First mortgage loans receivable	1,218	126,080	1,208,420	545,288	54,918	1,935,924
Advance to local government	3,034	-	-	-	-	3,034
Capital assets:						
Furniture and equipment	697	-	-	-	-	697
Less accumulated depreciation	(503)	-	-	-	-	(503)
Total noncurrent assets	22,273	159,033	1,403,024	580,962	66,389	2,231,681
Total assets	63,106	236,567	1,633,405	651,480	152,093	2,736,651
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	1,850	437	-	-	2,287
Total deferred outflows of resources	-	1,850	437	-	-	2,287
LIABILITIES						
Current liabilities:						
Accounts payable	1,552	4	57	27	2	1,642
Accrued payroll and related liabilities	535	-	-	-	-	535
Compensated absences	600	-	-	-	-	600
Due to primary government	71	-	-	-	-	71
Interest payable		1,249	28,037	10,430	563	40,279
Escrow deposits	-	172	-	-	-	172
Prepayments on mortgage loans		49	661	245	31	986
Due to federal government	17,619	-			-	17,619
Due to other funds	-	-	9,365	-	-	9,365
Bonds payable	-	48,965	149,535	35,165	7,655	241,320
Total current liabilities	20,377	50,439	187,655	45,867	8,251	312,589
Noncurrent liabilities:						
Bonds payable	-	-	1,123,487	559,878	212,121	1,895,486
Compensated absences	630	-	-	-	-	630
Net OPEB obligation	1,303	-	-	-	-	1,303
Escrow deposits	281	2,182	-	-	-	2,463
Total noncurrent liabilities	2,214	2,182	1,123,487	559,878	212,121	1,899,882
Total liabilities	22,591	52,621	1,311,142	605,745	220,372	2,212,471
NET POSITION						
Net investment in capital assets	194	-	-	-	-	194
Restricted for single family bond programs	-	172,414	322,700	45,735	(68,279)	472,570
Restricted for grant programs	-	13,382	-	-	-	13,382
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	37,168	-	-	-	-	37,168
Total net position	$ 40,515	$ 185,796	$ 322,700	$ 45,735	$ (68,279)	$ 526,467

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	$ 56	$ 5,406	$ 74,057	$ 29,417	$ 222	$ 109,158
Investment income:						
Interest	46	1,309	8,704	812	10	10,881
Net (decrease) in the fair value of investments	-	(1,812)	(11,724)	(1,608)	(83)	(15,227)
Federal grant administration fees	15,586	-	-	-	-	15,586
Fees and other income	1,845	358	-	-	76	2,279
Total operating revenues	17,533	5,261	71,037	28,621	225	122,677
OPERATING EXPENSES						
Salaries and benefits	16,083	-	-	-	-	16,083
Contractual services	3,930	-	-	-	-	3,930
Materials and supplies	493	-	-	-	-	493
Rentals and insurance	115	-	-	-	-	115
Other administrative expenses	445	-	-	-	-	445
Other program expenses	3,557	3,074	3,008	286	1	9,926
Interest expense	-	2,819	54,352	20,921	551	78,643
Mortgage service fees	-	396	4,750	2,127	18	7,291
Issuance costs	-	-	1,960	-	1,679	3,639
Depreciation	60	-	-	-	-	60
Total operating expenses	24,683	6,289	64,070	23,334	2,249	120,625
Operating income (loss)	(7,150)	(1,028)	6,967	5,287	(2,024)	2,052
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	237,636	2	-	-	-	237,638
Payment from primary government	-	-	-	-	-	-
Federal grants expenses	(237,333)	(19)	-	-	-	(237,352)
Local grants expenses	(11,417)	-	(7,955)	-	-	(19,372)
Total nonoperating revenues (expenses)	(11,114)	(17)	(7,955)	-	-	(19,086)
Income (loss) before transfers	(18,264)	(1,045)	(988)	5,287	(2,024)	(17,034)
Transfers (to) other funds	-	-	(11,424)	(1,652)	(66,255)	(79,331)
Transfers from other funds	15,688	63,643	-	-	-	79,331
Change in net position	(2,576)	62,598	(12,412)	3,635	(68,279)	(17,034)
Total net position, July 1	43,091	123,198	335,112	42,100	-	543,501
Total net position, June 30	$ 40,515	$ 185,796	$ 322,700	$ 45,735	$ (68,279)	$ 526,467

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	$ 180	$ 20,876	$ 322,786	$ 85,147	$ 245	$ 429,234
Receipts from federal government	15,344	-	-	-	-	15,344
Receipts from other funds	-	-	2,790	-	-	2,790
Other miscellaneous receipts	1,845	358	-	-	76	2,279
Acquisition of mortgage loans	-	(7,058)	(149,162)	-	(55,946)	(212,166)
Payments to service mortgages	-	(396)	(4,750)	(2,127)	(18)	(7,291)
Payments to suppliers	(7,806)	(3,262)	(3,006)	(292)	-	(14,366)
Payments to other funds	(2,761)	(29)	-	-	-	(2,790)
Payments to employees	(16,123)	-	-	-	-	(16,123)
Net cash provided (used) by operating activities	(9,321)	10,489	168,658	82,728	(55,643)	196,911
Cash flows from non-capital financing activities:						
Operating grants received	241,160	2	-	-	-	241,162
Transfers in (out)	15,688	63,643	(11,424)	(1,652)	(66,255)	-
Proceeds from sale of bonds	-	-	236,952	-	219,789	456,741
Operating grants paid	(248,823)	(19)	(7,955)	-	-	(256,797)
Cost of issuance paid	-	-	(1,960)	-	(1,679)	(3,639)
Principal payments	-	(12,435)	(284,900)	(38,695)	-	(336,030)
Interest paid	-	(3,000)	(60,872)	(22,166)	(1)	(86,039)
Net cash provided (used) by non-capital financing activities	8,025	48,191	(130,159)	(62,513)	151,854	15,398
Cash flows from capital and related financing activities:						
Purchases of capital assets	(141)	-	-	-	-	(141)
Net cash used by capital and related financing activities	(141)	-	-	-	-	(141)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	48,776	186,776	63,704	-	299,256
Purchases of investments	-	(62,946)	(211,487)	(74,250)	(22,733)	(371,416)
Investment interest received	46	1,321	8,556	766	5	10,694
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	10	1	3	14
Net cash provided (used) by investing activities	46	(12,849)	(16,145)	(9,779)	(22,725)	(61,452)
Net increase (decrease) in cash and cash equivalents	(1,391)	45,831	22,354	10,436	73,486	150,716
Cash and cash equivalents, July 1	35,625	25,310	150,383	42,297	-	253,615
Cash and cash equivalents, June 30	$ 34,234	$ 71,141	$ 172,737	$ 52,733	$ 73,486	$ 404,331

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	$ (7,150)	$ (1,028)	$ 6,967	$ 5,287	$ (2,024)	$ 2,052
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	60	-	-	-	-	60
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(1)	(246)	1,170	(74)	(15)	834
(Increase) decrease in mortgage interest receivable	1	84	(176)	(538)	(80)	(709)
(Increase) decrease in first mortgage loans receivable	154	9,660	98,873	56,479	(55,860)	109,306
Decrease in due from federal government	(242)	-	-	-	-	(242)
Decrease in interfund receivables	-	-	2,790	-	-	2,790
(Decrease) in interfund payables	(2,761)	(29)	-	-	-	(2,790)
Increase (decrease) in accounts payable	424	(1,274)	(298)	(143)	33	(1,258)
Increase in accrued payroll / compensated absences	240	-	-	-	-	240
Investment income included as operating revenue	(46)	503	3,020	796	73	4,346
Interest expense included as operating expense	-	2,819	54,352	20,921	551	78,643
Issuance cost included as operating expense	-	-	1,960	-	1,679	3,639
Total adjustments	(2,171)	11,517	161,691	77,441	(53,619)	194,859
Net cash provided (used) by operating activities	$ (9,321)	$ 10,489	$ 168,658	$ 82,728	$ (55,643)	$ 196,911
Noncash investing, capital, and financing activities:						
Increase in fair value of investments	$ -	$ (1,560)	$ (11,008)	$ (1,385)	(84)	$ (14,037)
Total noncash investing, capital, and financing activities	$ -	$ (1,560)	$ (11,008)	$ (1,385)	$ (84)	$ (14,037)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION - MORTGAGE FINANCE PROGRAM
JUNE 30, 2013
(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	$ 62,838	$ 8,062	$ 70,900	$ 209	$ 71,109
Investments	95	122	217	19	236
Receivables:					
Accounts	585	299	884	5	889
Interest	643	57	700	2	702
First mortgage loans	4,283	285	4,568	-	4,568
Due from other funds	-	30	30	-	30
Total current assets	68,444	8,855	77,299	235	77,534
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	32	-	32	-	32
Investments	13,048	-	13,048	-	13,048
Investment interest receivable	118	-	118	-	118
Investments	2,781	16,177	18,958	797	19,755
First mortgage loans receivable	120,720	5,360	126,080	-	126,080
Total noncurrent assets	136,699	21,537	158,236	797	159,033
Total assets	205,143	30,392	235,535	1,032	236,567
DEFERRED OUTFLOWS OF RESOURCES					
Deferred amount on refundings	1,850	-	1,850	-	1,850
Total deferred outflows of resources	1,850	-	1,850	-	1,850
LIABILITIES					
Current liabilities:					
Accounts payable	2	2	4	-	4
Interest payable	1,249	-	1,249	-	1,249
Escrow deposits	-	-	-	172	172
Prepayments on mortgage loans	46	3	49	-	49
Bonds payable	48,965	-	48,965	-	48,965
Total current liabilities	50,262	5	50,267	172	50,439
Noncurrent liabilities:					
Escrow deposits	-	1,436	1,436	746	2,182
Total noncurrent liabilities	-	1,436	1,436	746	2,182
Total liabilities	50,262	1,441	51,703	918	52,621
NET POSITION					
Restricted for single family bond programs	156,731	15,569	172,300	114	172,414
Restricted for grant programs	-	13,382	13,382	-	13,382
Total net position	$ 156,731	$ 28,951	$ 185,682	$ 114	$ 185,796

* 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.

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

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

Independent Auditor's 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*

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

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, 2013, and the related notes to the financial statements, which collectively comprise the agency's basic financial statements, and have issued our report thereon dated October 1, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
October 1, 2013