



FINANCIAL STATEMENTS

June 30, 2020



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

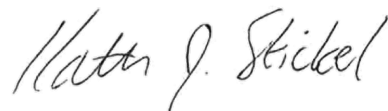
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of proportionate share of net pension asset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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2020, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 14, 2020

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2020

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2020, with comparative information presented for the fiscal year ended June 30, 2019. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes. These financial statements and the accompanying note disclosures are the responsibility of management.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is “Leading Tennessee Home by creating safe, sound, affordable housing opportunities.” THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2020, THDA has originated over 129,000 single-family mortgage loans in its 47-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 70 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 372 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

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

Overview of the Financial Statements

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

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

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

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

Financial Highlights

Year Ended June 30, 2020

- Total assets increased by \$247.3 million, or 7.5%.
- Total liabilities increased by \$236 million, or 8.5%.
- Net position was \$535.4 million. This is an increase of \$9.3 million, or 1.8%, from fiscal year 2019 net position (as adjusted).
- Cash and cash equivalents decreased by \$182.6 million, or 41.2%.
- Total investments increased by \$36.6 million, or 18.1%.
- Bonds payable increased by \$252.5 million, or 9.6%.
- THDA originated \$675.5 million in new loans, which is an increase of \$7.6 million, or 1.1%, from the prior year.

Financial Analysis of the Agency

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

	2020	2019
Current assets	\$ 436,492	\$ 550,787
Capital assets	5,181	3,890
Other noncurrent assets	3,103,541	2,743,254
Total assets	3,545,214	3,297,931
Deferred outflows of resources	4,513	4,314
Current liabilities	186,312	220,924
Noncurrent liabilities	2,825,109	2,554,495
Total liabilities	3,011,421	2,775,419
Deferred inflows of resources	2,939	746
Investment in capital assets	5,181	3,890
Restricted net position	491,638	453,704
Unrestricted net position	38,548	68,486
Total net position	\$ 535,367	\$ 526,080

2020 to 2019

First and second mortgage loans receivable (net of allowance for forgivable second mortgages) increased by \$376.2 million. During fiscal year 2020, single-family mortgage loan originations increased by \$7.6 million, whereas mortgage loan payoffs increased by \$32.6 million and mortgage loan repayments increased \$9.1 million. In addition, THDA recognized an allowance for future uncollectable forgivable second mortgages of \$28.5 million for fiscal year 2020.

Total liabilities increased \$236 million. The increase is primarily due to a \$252.5 million increase of bonds payable at June 30, 2020, as compared to June 30, 2019.

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

	2020	2019
Operating revenues		
Mortgage interest income	\$ 119,643	\$ 106,949
Investment income	7,363	14,370
Other	27,495	20,376
Total operating revenues	154,501	141,695
Operating expenses		
Interest expense	81,688	69,520
Other	54,825	50,385
Total operating expenses	136,513	119,905
Operating income	17,988	21,790
Nonoperating revenues (expenses)		
Grant revenues	335,395	342,404
Payments from primary govt	311	665
Grant expenses	(344,407)	(348,669)
Total nonoperating revenues (expenses)	(8,701)	(5,600)
Change in net position	\$ 9,287	\$ 16,190

2020 to 2019

Total operating revenues increased \$12.8 million, primarily due to an increase in mortgage interest income of \$12.7 million. Mortgage interest income increased due to an increase in mortgage loan originations.

Total operating expenses increased \$16.6 million. This is primarily due to an increase in bond interest expense. Bond interest expense increased due to an increase in bonds payable which is primarily attributable to a rise in mortgage loan production.

Nonoperating grant revenues decreased \$7.4 million and nonoperating grant expenses decreased \$4.3 million, primarily due to a decrease in spending in the down payment assistance program, principal reduction loan program, and reinstatement only program. During fiscal year 2020, these programs stopped receiving new applications.

Debt Activity

Bonds outstanding as of June 30, 2020 were \$2,880,811 (expressed in thousands) which is a \$252.5 million increase from bonds outstanding of \$2,628,317 (expressed in thousands) as of June 30, 2019. The increase is deemed primarily attributable to an increase in mortgage loan production. During the fiscal year, THDA issued debt totaling \$658.5 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$141.3 million of outstanding bonds into new bond originations with lower interest rates.

Bond Ratings

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

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

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

Debt Limits

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

On July 15, 2020, Public Chapter No.766 was signed by the governor increasing the "debt ceiling" from \$2,930,000,000 to \$4,000,000,000.

Grant Programs

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

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

	2020	2019	2018 and Prior	Total
Funding Sources:				
THDA	\$10,500,000	\$8,500,000	\$82,300,000	\$101,300,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$10,500,000	\$8,500,000	\$86,650,000	\$105,650,000
Approved Uses:				
Rural repair program (USDA)	\$ -	\$ -	\$ 6,300,000	\$ 6,300,000
Ramp Programs & Hsg Modification	-	300,000	1,950,000	2,250,000
Emergency Repairs	2,700,000	2,700,000	23,900,000	29,300,000
Competitive Grants	3,100,000	3,500,000	44,600,000	51,200,000
Rebuild & Recover	500,000	500,000	4,300,000	5,300,000
Challenge Grant Program	500,000	1,000,000	-	1,500,000
Creating Homes Initiative – 2 Program	2,500,000	-	-	2,500,000
COVID-19 Supplemental	500,000	-	-	500,000
Other Grants	700,000	500,000	5,600,000	6,800,000
Totals	\$10,500,000	\$8,500,000	\$86,650,000	\$105,650,000

Current Mortgage Products and Environment

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

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

All first mortgage loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages, interest-only mortgages,

“buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), or with other similar mortgage terms. THDA does not make or purchase “sub-prime” mortgage loans. Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

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

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

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

As of June 30, 2020, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount Outstanding	Percentage ¹
60 – 89 Days Past Due	28,357	730	\$ 81,114,729	2.57%
90+ Days Past Due	28,357	1,675	175,519,216	5.91%
In Foreclosure	28,357	118	10,353,119	0.42%

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

Economic Factors

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

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

Single Family Mortgage Secondary Market Program

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

Contacting THDA's Financial Management

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2020
(Expressed in Thousands)

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	\$ 205,975
Investments (Note 2)	76,876
Receivables:	
Accounts	17,500
Interest	15,546
Loans held for resale	1,914
First mortgage loans	78,442
Due from federal government	40,239
Total current assets	436,492
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (Note 2)	54,437
Investments (Note 2)	133,674
Investment interest receivable	296
Investments (Note 2)	28,493
First mortgage loans receivable	2,809,434
Second mortgage loans receivable	77,879
Allowance for uncollectable second mortgages	(28,511)
Other receivables (Note 1)	24,421
Unearned service release premium	13
Advance to local government	3,144
Net pension asset (Note 5)	261
Capital assets:	
Furniture and equipment	9,180
Less accumulated depreciation	(3,999)
Total noncurrent assets	3,108,722
Total assets	3,545,214

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings	197
Deferred outflows related to pensions (Note 5)	2,983
Deferred outflows related to OPEB (Note 9)	233
Deferred outflows related to defeased bonds (Note 3?)	1,100
Total deferred outflows of resources	4,513

LIABILITIES

Current liabilities:	
Accounts payable	19,722
Accrued payroll and related liabilities	816
Compensated absences	827
Due to primary government	79
Interest payable	44,259
Escrow deposits	25,539
Prepayments on mortgage loans	1,620
Line of credit payable	1,915
Due to federal government	14,760
Bonds payable (Note 3)	76,775
Total current liabilities	186,312
Noncurrent liabilities:	
Bonds payable (Note 3)	2,804,036
Compensated absences	858
Net pension liability (Note 5)	6,288
Total OPEB liability (Note 9)	1,653
Escrow deposits	12,251
Arbitrage rebate payable	23
Total noncurrent liabilities	2,825,109
Total liabilities	3,011,421

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 5)	1,097
Deferred inflows related to OPEB (Note 9)	1,842
Total deferred inflows of resources	2,939

NET POSITION

Investment in capital assets	5,181
Restricted for single family bond programs (Note 4 and Note 7)	465,198
Restricted for grant programs (Note 4)	23,026
Restricted for Homebuyers Revolving Loan Program (Note 4)	3,153
Restricted for net pension asset (Note 5)	261
Unrestricted (Note 7)	38,548
Total net position	\$ 535,367

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)

OPERATING REVENUES	
Mortgage interest income	\$ 119,643
Investment income:	
Interest	5,976
Net increase in the fair value of investments	1,387
Federal grant administration fees	15,540
Fees and other income	<u>11,955</u>
Total operating revenues	<u>154,501</u>
OPERATING EXPENSES	
Salaries and benefits	24,415
Contractual services	7,309
Materials and supplies	1,468
Rentals and insurance	110
Other administrative expenses	567
Other program expenses	14,720
Interest expense	81,688
Issuance costs	4,996
Depreciation	<u>1,240</u>
Total operating expenses	<u>136,513</u>
Operating income	<u>17,988</u>
NONOPERATING REVENUES (EXPENSES)	
Federal grants revenue	335,395
Payment from primary government (Note 10)	311
Federal grants expenses	(335,325)
Local grants expenses	<u>(9,082)</u>
Total nonoperating revenues (expenses)	<u>(8,701)</u>
Change in net position	<u>9,287</u>
Total net position, July 1	526,080
Total net position, June 30	<u>\$ <u>535,367</u></u>

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 397,316
Receipts from federal government	15,357
Other miscellaneous receipts	11,955
Acquisition of mortgage loans	(675,523)
Payments to suppliers	(29,102)
Payments to or for employees	<u>(24,149)</u>
Net cash used by operating activities	<u>(304,146)</u>
Cash flows from non-capital financing activities:	
Operating grants received	328,634
Payment from primary government	311
Proceeds from sale of bonds	679,842
Operating grants paid	(345,730)
Call premium paid	(1,201)
Cost of issuance paid	(4,996)
Principal payments	(418,185)
Interest paid	<u>(85,844)</u>
Net cash provided by non-capital financing activities	<u>152,831</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(2,529)</u>
Net cash used by capital and related financing activities	<u>(2,529)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	370,833
Purchases of investments	(406,943)
Investment interest received	6,520
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	<u>850</u>
Net cash used by investing activities	<u>(28,740)</u>
Net decrease in cash and cash equivalents	(182,584)
Cash and cash equivalents, July 1	<u>442,996</u>
Cash and cash equivalents, June 30	<u>\$ 260,412</u>

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)

Reconciliation of operating income to	
net cash used by operating activities:	
Operating income	\$ <u>17,988</u>
Adjustments to reconcile operating income to	
net cash used by operating activities:	
Depreciation	1,240
Changes in assets and liabilities:	
(Increase) in accounts receivable	(8,694)
(Increase) in mortgage interest receivable	(929)
(Increase) in other receivables	(3,511)
(Increase) in unearned service release premium	(13)
(Increase) in pension asset	(184)
Decrease in deferred pension outflows	652
Decrease in deferred OPEB outflows	123
(Increase) in loans held for resale	(1,914)
(Increase) in mortgage loans receivable	(376,195)
(Increase) in due from federal government	(183)
(Decrease) in accounts payable	(13,420)
Increase in accrued payroll /	
compensated absences	247
(Decrease) in due to primary government	(19)
Increase in line of credit payable	1,915
(Decrease) in arbitrage rebate liability	(356)
(Decrease) in pension liability	(709)
(Decrease) in OPEB liability	(1,698)
Increase in deferred pension inflows	858
Increase in deferred OPEB inflows	1,335
Investment income included as operating revenue	(7,363)
Interest expense included as operating expense	81,688
Issuance cost included as operating expense	<u>4,996</u>
Total adjustments	<u>(322,134)</u>
Net cash used by operating activities	\$ <u><u>(304,146)</u></u>
Noncash investing, capital, and financing activities:	
Increase in fair value of investments	\$ <u>741</u>
Total noncash investing, capital, and financing activities	\$ <u><u>741</u></u>

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
Notes to the Financial Statements
June 30, 2020

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

Basis of Presentation

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

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds

Notes to the Financial Statements (Continued)

and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

Basis of Accounting and Measurement Focus

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

Capital Assets

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

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

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

Restricted Assets

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

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

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

Deferred Amount on Refundings and Bond Premiums and Discounts

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

Notes to the Financial Statements (Continued)

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

Cash and Cash Equivalents

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

Other Receivables

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

Investments

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

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

Accrual of Interest Income

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

Notes to the Financial Statements (Continued)

Mortgages

Mortgages are carried at their original amount less collected principal.

Secondary Market Mortgage Program

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

Loans Held for Resale

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

Operating Revenues and Expenses

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

Allowance for Forgivable Second Mortgages

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

Because of the likelihood that some amount of the original amount will be forgiven in the course of time, or not recovered due to foreclosure, an allowance account has been established for those

Notes to the Financial Statements (Continued)

loans that may enter the forgivable period or for loss due to foreclosure. During the fiscal year 2020, the agency determined that an amount of second mortgage down payment assistance loans are not expected to be recovered due to forgiveness or foreclosure. This amount was recorded as an allowance.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Note 2. Deposits and Investments

Deposits

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

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

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

Notes to the Financial Statements (Continued)

At June 30, 2020, the bank balance was \$54,270,335. This amount includes \$28,932,536.98; which is held in a taxes and insurance escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf related to THDA serviced loans, and \$11,178.91; which is held in a taxes and insurance escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf related to Freddie Mac serviced loans. All bank balances at June 30, 2020, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2020, \$14,566,790 was in the BNYM. Of this amount, \$14,316,790 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at www.treasury.tn.gov.

Investments

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

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

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

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

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

Notes to the Financial Statements (Continued)

	June 30, 2020	
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$101,363,209	0.537
U.S. Treasury Coupon	6,568,600	2.851
U.S. Agency Discount	213,816,146	0.218
Total	<u>\$321,747,955</u>	0.373

Fair Value Measurements – THDA implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB No. 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2020, (expressed in thousands):

	June 30, 2020			
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	\$101,363	\$ -	\$101,363	\$ -
U.S. Treasury Coupon	6,569	6,569	-	-
U.S. Agency Discount	213,816	-	213,816	-
Total debt securities	<u>\$321,748</u>	<u>\$ 6,569</u>	<u>\$315,179</u>	<u>\$ -</u>

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

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency’s permitted investments. Credit quality ratings for the agency’s investments as of June 30, 2020, 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.

Notes to the Financial Statements (Continued)

June 30, 2020					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$101,363,209	\$ -	\$ -	\$ 101,363,209	\$ -
U.S. Treasury Coupon	6,568,600	6,568,600	-	-	-
U.S. Agency Discount	213,816,146	-	-	-	213,816,146
Total	\$321,747,955	\$6,568,600	\$ -	\$ 101,363,209	\$213,816,146

In addition to these investments, the agency has \$124,757,340 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poor's rating of AAA. **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 5% of the agency's investments are invested in the following single issuers:

June 30, 2020		
Issuer	Fair Value (Thousands)	% of Portfolio
Federal Home Loan Bank	\$232,422	72.24
Federal Home Loan Mortgage Corp.	\$80,010	24.87

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

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds			
Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65
2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00
Total Homeownership Program Bonds		\$492,690	-
Plus: Unamortized Bond Premiums			74,975
			668

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.

Notes to the Financial Statements (Continued)

Net Homeownership Program Bonds

\$ 75,643

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2020 (Thousands)
2009-A	1/1/2011 – 1/1/2040	\$100,000	0.90 to 4.625	\$ -
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	-
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	-
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	6,600
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	-
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	-
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	75,015

Total Housing Finance Program Bonds

\$810,000

\$81,615

Plus: Unamortized Bond Premiums

1,620

Net Housing Finance Program Bonds

\$83,235

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2020 (Thousands)
2013-1	1/1/2014 – 7/1/2043	\$ 215,905	0.40 to 4.00	\$ 63,665
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	46,615
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	63,120
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	79,035
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	85,710
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	104,480
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	89,405
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	90,030
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	29,480
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	71,315
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	138,405
2017-3	7/1/2018 – 1/1/2048	99,900	0.80 to 3.65	88,885
2017-4	7/1/2018 – 7/1/2048	99,900	0.95 to 4.00	89,235
2018-1	1/1/2019 – 1/1/2043	99,900	1.40 to 4.00	90,350
2018-2	1/1/2019 – 1/1/2049	160,000	1.75 to 4.00	148,545
2018-3	7/1/2019 – 7/1/2049	149,900	1.50 to 4.25	142,630
2018-4	7/1/2019 – 7/1/2049	225,000	1.875 to 4.50	212,465
2019-1	1/1/2020 – 1/1/2050	175,000	1.60 to 4.25	171,540
2019-2	1/1/2020 – 1/1/2048	200,000	1.40 to 4.00	196,040
2019-3	7/1/2020 – 1/1/2050	150,000	1.10 to 3.75	150,000
2019-4	7/1/2020 – 1/1/2050	200,000	1.20 to 3.50	200,000
2020-1	1/1/2021 – 7/1/2050	200,000	0.80 to 3.75	200,000
2020-2	1/1/2021 – 7/1/2040	108,500	1.08 to 4.00	108,500

Total Residential Finance Program Bonds

\$3,417,305

\$2,659,450

Plus: Unamortized Bond Premiums

62,511

Subtract: Unamortized Bond Discount

(28)

Net Residential Finance Program Bonds

\$2,721,933

Net Total All Bonds

\$2,880,811

Notes to the Financial Statements (Continued)

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

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

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

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

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

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

Debt Service Requirements

Debt service requirements to maturity at June 30, 2020, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2021	\$ 55,185	\$ 90,488	\$ 145,673
2022	88,695	91,121	179,816
2023	90,945	89,200	180,145
2024	93,095	87,064	180,159
2025	95,235	84,725	179,960
2026 – 2030	497,450	383,186	880,636
2031 – 2035	523,720	302,773	826,493
2036 – 2040	556,455	209,057	765,512
2041 – 2045	476,090	111,988	588,078
2046 – 2050	335,820	30,822	366,642
2051	3,350	61	3,411
Total	\$2,816,040	\$1,480,485	\$4,296,525

Notes to the Financial Statements (Continued)

The agency's bond resolutions govern the outstanding bonds payable for all bond programs in the amount of \$2,816,040 (expressed in thousands). The bond resolutions contain a provision that in an event of default, the trustee can declare all bonds due and payable and can sell program loans and investment securities for payments to bondholders.

The outstanding bonds payable of \$2,816,040 (expressed in thousands) are secured by a pledge of all assets in each of the respective bond resolutions.

The Agency has a line of credit in the amount of \$75,000,000. The unused portion as of June 30, 2020 is \$73,084,661.

Redemption of Bonds and Notes

During the year ended June 30, 2020, bonds were retired at par before maturity in the Homeownership Program in the amount of \$34,715,000, in the Housing Finance Program in the amount of \$24,975,000, and in the Residential Finance Program in the amount of \$150,780,000. The respective carrying values of the bonds were \$35,130,720, \$25,345,472 and \$156,494,345. This resulted in revenue to the Homeownership Program of \$415,720, to the Housing Finance Program of \$370,472, and to the Residential Finance Program of \$5,714,345.

On June 27, 2019 the agency issued \$200,000,000 in Residential Finance Program Bonds, Issue 2019-2. On July 1, 2019, the agency used \$7,520,000 of these bonds to refund bonds previously issued in the Housing Finance Program (this amount consists of \$7,520,000 early redemption). The carrying amount of these bonds was \$7,520,000. The refunding reduced the agency's debt service by \$801,953 over the next 20.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$543,000.

On September 30, 2019 the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2019-3.

On December 11, 2019, the agency issued \$200,000,000 in Residential Finance Program Bonds, Issue 2019-4. On January 1, 2020, the agency used \$31,850,000 of these bonds to refund bonds previously issued in the Housing Finance Program (this amount consists of \$31,850,000 early redemption). The carrying amount of these bonds was \$31,850,000. The refunding reduced the agency's debt service by \$1,694,804 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 \$3,533,187.

On March 25, 2020, the agency issued \$200,000,000 in Residential Finance Program Bonds, Issue 2020-1.

On May 28, 2020, the agency issued \$108,500,000 in Residential Finance Program Bonds, Issue 2020-2. On June 1, 2020, the agency used \$36,390,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$36,390,000 early redemption)

Notes to the Financial Statements (Continued)

and the agency used \$65,510,000 of these bonds to refund bonds previously issued in the Housing Finance Program (this amount consists of \$65,510,000 early redemption). The carrying amount of these bonds was \$101,999,244. On July 1, 2020 the Agency will use \$6,600,000 to refund in bonds in Housing Finance Program. The refunding increased the agency's debt service by \$305,924 over the next 20-20.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$6,460,552. Some of these bonds were defeased May 28, 2020 and the bond holders will be paid July 1, 2020 or January 1, 2021 per the certificate of defeasement.

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2020 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2019	Additions	Reductions	Ending Balance June 30, 2020	Amounts Due Within One Year³
Bonds Payable	\$2,575,725	\$658,505	(\$418,190)	\$2,816,040	\$76,775
Plus: Unamortized Bond Premiums	52,622	21,409	(9,232)	64,799	-
Less: Unamortized Bond Discounts	(30)	-	2	(28)	-
Compensated Absences	1,500	1,345	(1,160)	1,685	827
Escrow Deposits	39,188	55,153	(56,551)	37,790	25,539
Arbitrage Rebate Payable	379	-	(356)	23	-
Total	\$2,669,384	\$736,412	(\$485,487)	\$2,920,309	\$103,141

Note 4. Restricted Net Position

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

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

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

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

Notes to the Financial Statements (Continued)

Note 5. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

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

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

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

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

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

Notes to the Financial Statements (Continued)

half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2020, to the Closed State and Higher Education Employee Pension Plan were \$1,891,824, which is 19.66 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2020, THDA reported a liability of \$6,288,060 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2019, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2019, measurement date, THDA's proportion was 0.445278 percent. The proportion measured as of June 30, 2018, was 0.433148 percent.

Pension expense – For the year ended June 30, 2020, THDA recognized a pension expense of \$2,571,320. Allocated pension expense was \$2,518,415 before being increased by \$52,905 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2020, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 296	\$ 99
Net difference between projected and actual earnings on pension plan investments	-	827
Change in proportionate share of net asset or liability	186	-
Changes in assumptions	452	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2019	1,892	-
	1,892	-

Notes to the Financial Statements (Continued)

Total	\$2,826	\$926
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Deferred outflows of resources, resulting from THDA's employer contributions of \$1,892 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows: (expressed in thousands):

Year Ended June 30:	
2021	674
2022	(488)
2023	(152)
2024	(26)
2025	-
Thereafter	-

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

Actuarial assumptions – The total pension liability as of the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2019, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of

Notes to the Financial Statements (Continued)

pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%.

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

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

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency’s proportionate share of the net pension liability (asset)	\$15,174,662	\$6,288,060	\$(941,265)

Notes to the Financial Statements (Continued)

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/Explore-Your-TN-Treasury/About-theTreasury/Department-Reports..

Payable to the Pension Plan

At June 30, 2020, THDA reported a payable of \$151,327 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2020.

State and Higher Education Employee Retirement Plan **General Information about the Pension Plan**

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

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

Benefits provided – *Tennessee Code Annotated* Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member’s age and years of service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member’s highest five consecutive year average compensation by 1.0 percent multiplied by member’s years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member’s age and years of service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the

Notes to the Financial Statements (Continued)

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

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The THDA makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2020, to the State and Higher Education Employee Retirement Plan were \$129,315, which is 1.73 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2020, THDA reported an asset of \$260,604 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA’s proportion of the net pension asset was based on a projection of THDA’s contributions during the year ended June 30, 2019, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2019, measurement date, THDA’s proportion was 0.628303 percent. The proportion measured as of June 30, 2018, was 0.198493 percent.

Pension expense – For the year ended June 30, 2020, THDA recognized a pension expense of \$68,176. Allocated pension expense was \$85,037 before being decreased by \$16,861 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2020, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6	\$8
Net difference between projected and actual earnings on pension plan investments	-	11

Notes to the Financial Statements (Continued)

Changes in proportion of share of net asset or liability	15	152
Changes in assumptions	7	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2019	129	-
Total	\$157	\$171

Deferred outflows of resources, resulting from THDA's employer contributions of \$129,315 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:	
2021	(20)
2022	(21)
2023	(18)
2024	(17)
2025	(16)
Thereafter	(51)

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

Actuarial assumptions – The total pension liability as of the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2019, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return

Notes to the Financial Statements (Continued)

was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%

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

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

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

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

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

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)

Notes to the Financial Statements (Continued)

Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$42,692	\$(260,604)	\$(488,766)
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Payable to the Pension Plan

At June 30, 2020, THDA reported a payable of \$11,324 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2020, for both defined benefit pension plans was \$2,639,496.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (IRC), Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The THDA provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

The THDA recognized a pension expense of \$506,286 for employer contributions.

The THDA recognized a pension payable of \$22,027 for employer contributions.

Note 7. Provisions for Mortgage Loan Losses

Notes to the Financial Statements (Continued)

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

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

Note 8. Insurance-Related Activities

Commercial Insurance

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

Risk Management Fund

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

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation

Notes to the Financial Statements (Continued)

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, 2020, is presented in the *Tennessee Comprehensive Annual Financial Report (CAFR)*. The CAFR is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2020, the Risk Management Fund held \$231 million in cash designated for payment of claims.

Employee Group Insurance Fund

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

Note 9. Other-Postemployment Benefits OPEB

Closed State Employee Group OPEB Plan

General information about the OPEB plan

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

Benefits provided - The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65

Notes to the Financial Statements (Continued)

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

Contributions - Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*, establishes the required contributions to the plan by member employees through the premiums established to approximate claims cost for the year. Pre-age 65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. Therefore, retirees pay either 20 percent, 30 percent, 40 percent, or 100 percent of the appropriate premium rate. These payments are deposited into the OPEB Trust. Employers contribute to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. The total ADC rate for plan employers for the fiscal year ended June 30, 2020 was \$145.4 million. The Tennessee Housing Development Agency share of the ADC was \$415 thousand. During the fiscal year the Tennessee Housing Development Agency contributed \$142 thousand to the OPEB Trust. The state general assembly has the authority to change the contribution requirements for the employers participating in the EGOP.

Net OPEB Liability

Proportionate share - The Tennessee Housing Development Agency's proportionate share of the collective net OPEB liability, related to the EGOP, was \$1.7 million. At the June 30, 2019, measurement date, the Tennessee Housing Development Agency's proportion of the collective net OPEB liability was 0.173646%. The proportion existing at the prior measurement date was 0.241928%. This resulted in a change in proportion of (0.068282%) between the current and prior measurements dates. Tennessee Housing Development Agency's proportion of the collective net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective net OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2019, and measurement date of June 30, 2019.

Actuarial assumptions - The collective total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Notes to the Financial Statements (Continued)

Inflation	2.20%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	6.03% for 2020, decreasing annually to an ultimate rate of 4.5% for 2029 and later years.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2019, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

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

Notes to the Financial Statements (Continued)

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

The best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2019 are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.75%
Developed market international equity	5.63%
Emerging market international equity	5.95%
Private equity and strategic lending	4.60%
U.S. fixed income	0.63%
Real estate	4.28%

Discount rate - The discount rate used to measure the total OPEB liability was 6.00%. This rate reflects an increase of 2.38% over the 3.62% used at the prior measurement date. The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made at rates equal to the ADC rates pursuant to an actuarial valuation in accordance with the state's funding goals. Inactive plan members are assumed to contribute their share of the premium rate for the coverage option in which they are enrolled. Based on those assumptions, the OPEB Trust fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability the change in discount rate used is due to the transition of the EGOP from a pay-as-you-go arrangement to a prefunding arrangement through a qualified trust.

Changes in assumptions – The discount rate was changed from 3.62% as of the beginning of the measurement period to 6% as of June 30, 2019. This change in assumption decreased the total OPEB liability. Other minor changes in assumptions were made, however, the impact on the net OPEB liability was considered to be insignificant.

Notes to the Financial Statements (Continued)

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

	1% Decrease (5.00%)	Discount Rate (6.00%)	1% Increase (7.00%)
Proportionate share of the collective net OPEB liability	\$ 1,829	\$ 1,653	\$ 1,491

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate - The following presents Tennessee Housing Development Agency's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.03% decreasing to 3.5%) or 1-percentage-point higher (7.03% decreasing to 5.5%) than the current healthcare cost trend rate (expressed in thousands).

	1% Decrease (5.03% decreasing to 3.5%)	Healthcare Cost Trend Rates (6.03% decreasing to 4.5%)	1% Increase (7.03% decreasing to 5.5%)
Proportionate share of the collective net OPEB liability	\$ 1,423	\$ 1,653	\$ 1,921

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB Expense - For the fiscal year ended June 30, 2020, the Tennessee Housing Development Agency recognized negative OPEB expense of \$99 thousand.

Deferred outflows of resources and deferred inflows of resources - For the fiscal year ended June, 30, 2020, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 105
Changes of assumptions	90	395
Net difference between actual and projected investment earnings	1	-

Notes to the Financial Statements (Continued)

Changes in proportion and differences between benefits paid and proportionate share of benefits paid.	-	1,342
Payments subsequent to the measurement date	142	
Total	\$ 233	\$ 1,842

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

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

For the year ended June 30:

2021	\$ (291)
2022	(291)
2023	(291)
2024	(291)
2025	(291)
Thereafter	(296)

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

Closed Tennessee OPEB Plan

General information about the OPEB plan

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

Benefits provided - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, benefits are established and amended by

Notes to the Financial Statements (Continued)

cooperation of insurance committees created by Title 8, Chapter 27, Parts 201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost, however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25. Tennessee Housing Development Agency does not provide any subsidies for retirees in the TNP. The primary government paid \$8,250 for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, the state insurance committees established by Title 8, Chapter 27, Parts 201, 301, and 701 determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the Closed TN OPEB Plan liability associated with the Tennessee Housing Development Agency’s employees. The primary government’s proportion and proportionate share of the total OPEB liability associated with the Tennessee Housing Development Agency was \$345 thousand. At the June 30, 2019, measurement date, the proportion of the collective total OPEB liability associated with the Tennessee Housing Development Agency was 0.000197%. This represents a change of 0.000017% from the prior proportion of 0.000180%. The proportion of the collective total OPEB liability associated with the Tennessee Housing Development Agency was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2019, and a measurement date of June 30, 2019.

Actuarial assumptions – The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.20%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%

Notes to the Financial Statements (Continued)

Healthcare cost trend rates The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2019, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2 percent load for males and a -3 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.51 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA as shown on the Bond Buyer GO 20-Bond Municipal Bond Index.

Changes in assumptions – The discount rate was changed from 3.62% as of the beginning of the measurement period to 3.51% as of June 30, 2019. This change in assumption decreased the total OPEB liability.

Sensitivity of proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary government’s proportionate share of the Tennessee Housing Development Agency’s related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.51%) or 1-percentage-point higher (4.51%) than the current discount rate. The Tennessee Housing Development Agency does not report a proportionate share of the OPEB liability for the employees in the TNP (expressed in thousands).

	1% Decrease (2.51%)	Discount Rate (3.51%)	1% Increase (4.51%)
Primary government’s share of the collective total OPEB liability	\$ 400	\$ 345	\$ 301

Notes to the Financial Statements (Continued)

OPEB expense – For the fiscal year ended June 30, 2020, the primary government recognized OPEB expense of \$13 thousand for employees of the Tennessee Housing Development Agency participating in the TNP.

Total OPEB Expense – The total negative OPEB expense for the year ended June 30, 2020 was \$86 thousand, which consisted of negative OPEB expense of \$99 thousand for the EGOP and \$13 thousand paid by the primary government for the TNP.

Note 10. On-Behalf Payments

During the year ended June 30, 2020, the State of Tennessee made payments of \$8,250 on behalf of THDA for retirees participating in the Closed Tennessee OPEB Plan and payments of \$302,535 on behalf of THDA for retirees participating in the Closed State Employee Group OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*.

Note 11. Payments to Primary Government

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

Note 12. Subsequent Events

Residential Finance Program Bonds, Issue 2020-3, were sold on July 16, 2020. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2020-3	1/1/2021 – 7/1/2050	\$145,000,000	0.350 – 3.500

Residential Finance Program Bonds, Issue 2020-4, were authorized by the board of directors on July 29, 2020, not to exceed \$200,000,000. The sale of the bonds will occur no later than December 30, 2020.

Notes to the Financial Statements (Continued)

Residential Finance Program Bonds, Issue 2020-4, were sold on October 28, 2020. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2020-4	7/1/2021 – 1/1/2051	\$145,000,000	0.150 – 3.000

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of THDA's Contribution
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.445278%	\$ 6,288	\$ 10,040	62.63%	91.67%
2019	0.433148	6,997	10,024	69.80%	90.26%
2018	0.427994%	7,659	10,268	74.60%	88.88%
2017	0.419391%	7,652	10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

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

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

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

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.628303%	\$ 261	\$ 5,893	-4.42%	122.36%
2019	0.198493%	77	4,410	-1.74%	132.39%
2018	0.170803%	35	3,068	1.15%	131.51%
2017	0.391715%	33	1,661	1.99%	130.56%
2016	0.457171%	13	498	2.60%	142.55%

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of THDA's Contribution
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2020	\$ 1,892	\$ 1,892	\$ -	\$ 9,623	19.66%
2019	1,931	1,931	-	10,040	19.23%
2018	1,891	1,891	-	10,024	18.87%
2017	1,542	1,542	-	10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%

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

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2020	\$ 129	\$ 129	\$ -	\$ 7,475	1.73%
2019	98	98	-	5,893	1.66%
2018	57	57	-	4,410	1.29%
2017	35	35	-	3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

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

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

(Expressed in Thousands)

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Employer proportion of the collective total/net OPEB liability	0.266480%	0.241928%	0.173646%
Employer proportionate share of the collective total/net OPEB liability	\$ 3,578	\$ 3,351	\$ 1,653
Covered-employee payroll	\$ 9,720	\$ 8,999	\$ 9,903
Employer proportionate share of the collective total/net OPEB liability as a percentage of covered-employee payroll	36.81%	37.24%	16.69%
OPEB plan fiduciary net position as a percentage of the total OPEB liability			18.00%

Notes to the Schedule

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

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

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

The OPEB liability measured as of June 30, 2019 was measured with a 6% discount rate. This was a significant increase from the rate used in prior years and was due to the OPEB plan's transition from pay-as-you-go funding to a prefunding arrangement through a qualifying trust.

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

	<i>(Expressed in Thousands)</i>		
	2018	2019	2020
Employer proportion of the collective total OPEB liability	0.00%	0.00%	0.00%
Primary government proportionate share of the collective total OPEB liability related to THDA	\$ 339	\$ 311	\$ 345
Collective total OPEB liability	\$ 339	\$ 311	\$ 345
Covered-employee payroll	\$ 10,005	\$ 9,529	\$ 10,457

Notes to the Schedule

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

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

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

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

(Expressed in Thousands)

	2019	2020
Actuarially determined contribution	\$ 373	\$ 415
Contributions in relation to the actuarially determined contribution	209	142
Contribution deficiency (excess)	\$ 164	\$ 273
Covered-employee payroll	\$ 8,999	\$ 9,903
Contributions as a percentage of covered-employee payroll	2.32%	1.43%

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

Notes to the Schedule

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2020
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 10,263	\$ 10,128	\$ 4,610	\$ 9,651	\$ 171,323	\$ 205,975
Investments	-	714	-	-	76,162	76,876
Receivables:						
Accounts	8,290	-	600	536	8,074	17,500
Interest	-	-	683	776	14,087	15,546
Loans held for resale	1,912	-	-	-	2	1,914
First mortgage loans	96	2,319	5,268	2,622	68,137	78,442
Due from federal government	40,239	-	-	-	-	40,239
Due from other funds	-	-	68	-	32,861	32,929
Total current assets	<u>60,800</u>	<u>13,161</u>	<u>11,229</u>	<u>13,585</u>	<u>370,646</u>	<u>469,421</u>
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	43,810	-	9,793	38	796	54,437
Investments	-	-	15,560	6,576	111,538	133,674
Investment Interest receivable	-	-	130	1	165	296
Investments	-	1,026	-	-	27,467	28,493
First mortgage loans receivable	584	47,317	89,746	75,402	2,596,385	2,809,434
Second mortgage loans receivable	-	-	77,879	-	-	77,879
Allowance for uncollectable second mortgages	-	-	(28,511)	-	-	(28,511)
Other receivables	11,955	-	-	-	12,466	24,421
Unearned service release premium	13	-	-	-	-	13
Advance to local government	3,144	-	-	-	-	3,144
Net pension asset	261	-	-	-	-	261
Capital assets:						
Furniture and equipment	9,180	-	-	-	-	9,180
Less accumulated depreciation	(3,999)	-	-	-	-	(3,999)
Total noncurrent assets	<u>64,948</u>	<u>48,343</u>	<u>164,597</u>	<u>82,017</u>	<u>2,748,817</u>	<u>3,108,722</u>
Total assets	<u>125,748</u>	<u>61,504</u>	<u>175,826</u>	<u>95,602</u>	<u>3,119,463</u>	<u>3,578,143</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	197	197
Deferred outflows related to pensions	2,983	-	-	-	-	2,983
Deferred outflows related to OPEB	233	-	-	-	-	233
Deferred outflows related to defeased bonds	-	-	-	-	1,100	1,100
Total deferred outflows of resources	<u>3,216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,297</u>	<u>4,513</u>
LIABILITIES						
Current liabilities:						
Accounts payable	19,565	32	-	6	119	19,722
Accrued payroll and related liabilities	816	-	-	-	-	816
Compensated absences	827	-	-	-	-	827
Due to primary government	79	-	-	-	-	79
Interest payable	-	-	1,341	1,401	41,517	44,259
Escrow deposits	25,539	-	-	-	-	25,539
Prepayments on mortgage loans	-	-	53	40	1,527	1,620
Line of credit payable	1,915	-	-	-	-	1,915
Due to federal government	14,760	-	-	-	-	14,760
Due to other funds	32,929	-	-	-	-	32,929
Bonds payable	-	-	2,755	8,500	65,520	76,775
Total current liabilities	<u>96,430</u>	<u>32</u>	<u>4,149</u>	<u>9,947</u>	<u>108,683</u>	<u>219,241</u>
Noncurrent liabilities:						
Bonds payable	-	-	72,888	74,735	2,656,413	2,804,036
Compensated absences	858	-	-	-	-	858
Net pension liability	6,288	-	-	-	-	6,288
Total OPEB liability	1,653	-	-	-	-	1,653
Escrow deposits	11,865	234	-	-	152	12,251
Arbitrage rebate payable	-	-	23	-	-	23
Total noncurrent liabilities	<u>20,664</u>	<u>234</u>	<u>72,911</u>	<u>74,735</u>	<u>2,656,565</u>	<u>2,825,109</u>
Total liabilities	<u>117,094</u>	<u>266</u>	<u>77,060</u>	<u>84,682</u>	<u>2,765,248</u>	<u>3,044,350</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	1,097	-	-	-	-	1,097
Deferred inflows related to OPEB	1,842	-	-	-	-	1,842
Total deferred inflows of resources	<u>2,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,939</u>
NET POSITION						
Investment in capital assets	5,181	-	-	-	-	5,181
Restricted for single family bond programs	-	-	98,766	10,920	355,512	465,198
Restricted for grant programs	-	23,026	-	-	-	23,026
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for net pension asset	261	-	-	-	-	261
Unrestricted	336	38,212	-	-	-	38,548
Total net position	<u>\$ 8,931</u>	<u>\$ 61,238</u>	<u>\$ 98,766</u>	<u>\$ 10,920</u>	<u>\$ 355,512</u>	<u>\$ 535,367</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 6	\$ 60	\$ 8,145	\$ 7,001	\$ 104,431	\$ 119,643
Investment income:						
Interest	337	156	1,046	270	4,167	5,976
Net increase (decrease) in the fair value of investments	-	44	(128)	94	1,377	1,387
Federal grant administration fees	15,540	-	-	-	-	15,540
Fees and other income	11,850	1	-	1	103	11,955
Total operating revenues	<u>27,733</u>	<u>261</u>	<u>9,063</u>	<u>7,366</u>	<u>110,078</u>	<u>154,501</u>
OPERATING EXPENSES						
Salaries and benefits	24,415	-	-	-	-	24,415
Contractual services	7,307	-	-	-	2	7,309
Materials and supplies	1,468	-	-	-	-	1,468
Rentals and insurance	110	-	-	-	-	110
Other administrative expenses	567	-	-	-	-	567
Other program expenses	3,956	222	9,165	48	1,329	14,720
Interest expense	-	-	4,215	5,186	72,287	81,688
Issuance costs	-	-	-	-	4,996	4,996
Depreciation	1,240	-	-	-	-	1,240
Total operating expenses	<u>39,063</u>	<u>222</u>	<u>13,380</u>	<u>5,234</u>	<u>78,614</u>	<u>136,513</u>
Operating income (loss)	<u>(11,330)</u>	<u>39</u>	<u>(4,317)</u>	<u>2,132</u>	<u>31,464</u>	<u>17,988</u>
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	335,395	-	-	-	-	335,395
Payment from primary government	311	-	-	-	-	311
Federal grants expenses	(335,325)	-	-	-	-	(335,325)
Local grants expenses	(9,082)	-	-	-	-	(9,082)
Total nonoperating revenues (expenses)	<u>(8,701)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,701)</u>
Income (loss) before transfers	<u>(20,031)</u>	<u>39</u>	<u>(4,317)</u>	<u>2,132</u>	<u>31,464</u>	<u>9,287</u>
Transfers (to) other funds	-	(6,739)	(53,058)	(21,401)	-	(81,198)
Transfers from other funds	5,713	-	-	-	75,485	81,198
Change in net position	<u>(14,318)</u>	<u>(6,700)</u>	<u>(57,375)</u>	<u>(19,269)</u>	<u>106,949</u>	<u>9,287</u>
Total net position, July 1	23,249	67,938	156,141	30,189	248,563	526,080
Total net position, June 30	<u>\$ 8,931</u>	<u>\$ 61,238</u>	<u>\$ 98,766</u>	<u>\$ 10,920</u>	<u>\$ 355,512</u>	<u>\$ 535,367</u>

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 6,255	\$ 4,019	\$ 55,082	\$ 38,226	\$ 293,734	\$ 397,316
Receipts from federal government	15,357	-	-	-	-	15,357
Receipts from other funds	3,899	-	-	-	-	3,899
Other miscellaneous receipts	11,850	1	-	1	103	11,955
Acquisition of mortgage loans	-	(3,489)	(30,246)	-	(641,788)	(675,523)
Payments to suppliers	(14,542)	(202)	(370)	(52)	(13,936)	(29,102)
Payments to other funds	-	-	(1,199)	-	(2,700)	(3,899)
Payments to or for employees	(24,149)	-	-	-	-	(24,149)
Net cash provided (used) by operating activities	(1,330)	329	23,267	38,175	(364,587)	(304,146)
Cash flows from non-capital financing activities:						
Operating grants received	328,634	-	-	-	-	328,634
Payment from primary government	311	-	-	-	-	311
Transfers in (out)	5,713	(6,739)	11,189	82,161	(92,324)	-
Proceeds from sale of bonds	-	-	-	-	679,842	679,842
Operating grants paid	(345,730)	-	-	-	-	(345,730)
Call premium paid	-	-	(79)	(22)	(1,100)	(1,201)
Cost of issuance paid	-	-	-	-	(4,996)	(4,996)
Principal payments	-	-	(80,475)	(133,860)	(203,850)	(418,185)
Interest paid	-	-	(6,314)	(7,868)	(71,662)	(85,844)
Net cash provided (used) by non-capital financing activities	(11,072)	(6,739)	(75,679)	(59,589)	305,910	152,831
Cash flows from capital and related financing activities:						
Purchases of capital assets	(2,529)	-	-	-	-	(2,529)
Net cash used by capital and related financing activities	(2,529)	-	-	-	-	(2,529)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	3,885	54,299	30,089	306,583	394,856
Purchases of investments	-	(3,814)	(21,965)	(20,504)	(384,683)	(430,966)
Investment interest received	337	157	1,406	302	4,318	6,520
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	21	109	72	648	850
Net cash provided (used) by investing activities	337	249	33,849	9,959	(73,134)	(28,740)
Net decrease in cash and cash equivalents	(14,594)	(6,161)	(18,563)	(11,455)	(131,811)	(182,584)
Cash and cash equivalents, July 1	68,667	16,289	32,966	21,144	303,930	442,996
Cash and cash equivalents, June 30	\$ 54,073	\$ 10,128	\$ 14,403	\$ 9,889	\$ 172,119	\$ 260,412

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2020
(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)	\$ (11,330)	\$ 39	\$ (4,317)	\$ 2,132	\$ 31,464	\$ 17,988
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	1,240	-	-	-	-	1,240
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(1,365)	78	(109)	(455)	(6,843)	(8,694)
(Increase) decrease in mortgage interest receivable	-	-	547	1,101	(2,577)	(929)
(Increase) decrease in other receivables	8,955	-	-	-	(12,466)	(3,511)
(Increase) in unearned service release premium	(13)	-	-	-	-	(13)
(Increase) in pension asset	(184)	-	-	-	-	(184)
Decrease in deferred pension outflows	652	-	-	-	-	652
Decrease in deferred OPEB outflows	123	-	-	-	-	123
(Increase) in loans held for resale	(1,912)	-	-	-	(2)	(1,914)
(Increase) decrease in mortgage loans receivable	-	381	25,446	30,626	(432,648)	(376,195)
(Increase) in due from federal government	(183)	-	-	-	-	(183)
Decrease in interfund receivables	3,899	-	-	-	-	3,899
(Decrease) in interfund payables	-	-	(1,199)	-	(2,700)	(3,899)
Increase (decrease) in accounts payable	(2,804)	31	(42)	(51)	(10,554)	(13,420)
Increase in accrued payroll / compensated absences	247	-	-	-	-	247
(Decrease) in due to primary government	(19)	-	-	-	-	(19)
Increase in line of credit payable	1,915	-	-	-	-	1,915
(Decrease) in arbitrage rebate liability	-	-	(356)	-	-	(356)
(Decrease) in pension liability	(709)	-	-	-	-	(709)
(Decrease) in OPEB liability	(1,698)	-	-	-	-	(1,698)
Increase in deferred pension inflows	858	-	-	-	-	858
Increase in deferred OPEB inflows	1,335	-	-	-	-	1,335
Investment income included as operating revenue	(337)	(200)	(918)	(364)	(5,544)	(7,363)
Interest expense included as operating expense	-	-	4,215	5,186	72,287	81,688
Issuance cost included as operating expense	-	-	-	-	4,996	4,996
Total adjustments	<u>10,000</u>	<u>290</u>	<u>27,584</u>	<u>36,043</u>	<u>(396,051)</u>	<u>(322,134)</u>
Net cash provided (used) by operating activities	\$ (1,330)	\$ 329	\$ 23,267	\$ 38,175	\$ (364,587)	\$ (304,146)
Noncash investing, capital, and financing activities:						
Increase in fair value of investments	\$ -	\$ 21	\$ 59	\$ 2	\$ 659	\$ 741
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 59</u>	<u>\$ 2</u>	<u>\$ 659</u>	<u>\$ 741</u>