Tennessee Housing Development Agency

Leading Tennessee Home

FINANCIAL STATEMENTS

June 30, 2011

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

September 30, 2011

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

Ladies and Gentlemen:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2011, and June 30, 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2011, and June 30, 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the schedule of funding progress are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, following the schedule of funding progress, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we will issue a report dated September 30, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/tlh

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2011 and June 30, 2010. This information is being presented to provide additional information regarding the activities of THDA and to meet the reporting and disclosure requirements of the Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2011, THDA has originated over 106,000 single-family mortgage loans in its 38-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, other supplementary information is included.

THDA is also considered to be a "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at http://tennessee.gov/finance/act/cafr.html.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2011

- Total assets decreased by $180.0 million, or 6.2 %.
- Total liabilities decreased by $181.2 million, or 7.6%.
- Net assets (the amount that total assets exceeds total liabilities) were $520.0 million. This is an increase of $1.2 million, or 0.2%, from fiscal year 2010.
- Cash and cash equivalents decreased $193.9 million, or 38.4%.
- Total investments increased $23.8 million, or 11.2%.
- Bonds and notes payable decreased $176.7 million, or 7.6%.
- THDA originated $231.1 million in new loans, which is a decrease of $113.0 million, or 32.8%, from the prior year.

Year Ended June 30, 2010

- Total assets increased by $354.8 million, or 13.9 %.
- Total liabilities increased by $346.0 million, or 16.9%.
- Net assets (the amount that total assets exceeds total liabilities) were $518.8 million. This is an increase of $8.8 million, or 1.7%, from fiscal year 2009.
- Cash and cash equivalents increased $361.0 million, or 251.8%.
- Total investments decreased $139.2 million, or 39.7%.
- Bonds and notes payable increased $344.6 million, or 17.4%.
- THDA originated $344.0 million in new loans, which is an increase of $129.5 million, or 60.4%, from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

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

	2011	2010	2009
Current assets	$ 304,429	$ 397,864	$ 313,017
Capital assets	157	79	29
Other noncurrent assets	2,430,331	2,516,989	2,247,094
Total assets	2,734,917	2,914,932	2,560,140
Current liabilities	150,534	193,765	145,096
Noncurrent liabilities	2,064,427	2,202,405	1,905,071
Total liabilities	2,214,961	2,396,170	2,050,167
Invested in capital assets	157	79	29
Restricted net assets	517,587	514,383	508,036
Unrestricted net assets	2,212	4,300	1,908
Total net assets	$ 519,956	$ 518,762	$ 509,973

2011to 2010

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

- Mortgage loans receivable increased $3.8 million, or 0.2%, from $2,115.6 million at June 30, 2010 to $2,119.4 million at June 30, 2011. During FY 2011, single-family mortgage loan originations decreased $113.0 million, or 32.8% from $344.1 million in FY 2010 to $231.1 million in FY 2011. Conversely, mortgage loan prepayments (which includes loans in which a foreclosure sale has occurred) increased $0.9 million, or 0.5%, from $179.3 million in FY 2010 to $180.2 million in FY 2011.

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

2010 to 2009

- THDA's total net assets increased $8.8 million, or 1.7%, from $510.0 million at June 30, 2009 to $518.8 million at June 30, 2010. This resulted from operating revenues that exceeded operating expenses.

- Mortgage loans receivable increased $116.2 million, or 5.8%, from $1,999.4 million at June 30, 2009 to $2,115.6 million at June 30, 2010. This increase resulted from mortgage loan originations that exceeded mortgage loan prepayments and repayments.

- Total liabilities increased $346.0 million, or 16.9%, from $2,050.2 million at June 30, 2009 to $2,396.2 million at June 30, 2010. The increase is primarily due to a increase in the amount of bonds issued during fiscal year 2010 as compared to fiscal year 2009, primarily, the issuance of bonds in the Housing Finance Program Bonds Resolution.

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

	2011	2010	2009
Operating revenues			
Mortgage interest income	$ 119,406	$ 118,572	$ 119,500
Investment income	6,156	14,517	17,905
Other	17,041	17,588	14,186
Total operating revenues	142,603	150,677	151,591
Operating expenses			
Interest expense	88,301	93,154	93,103
Other	38,905	32,677	29,931
Total operating expenses	127,206	125,831	123,034
Operating income	15,397	24,846	28,557
Nonoperating revenues (expenses)			
Grant revenues	355,754	254,417	186,800
Grant expenses	(369,957)	(270,474)	(199,132)
Total nonoperating revenues (expenses)	(14,203)	(16,057)	(12,332)
Change in net assets	$ 1,194	$ 8,789	$ 16,225

2011 to 2010

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

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

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

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

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

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

2010 to 2009
For the year ended June 30, 2010, total operating revenues decreased $.9 million from $151.6 million for the year ended June 30, 2009, to $150.7 million for the year ended June 30, 2010.

For the year ended June 30, 2010, total operating expenses increased $2.8 million, or 2.3%, from $123.0 million in 2009 to $125.8 million for the year ended June 30, 2010.

While the total net assets for fiscal year 2010 increased $8.8 million from the previous year, the non-monetary change in the fair value of investments contributed $3.8 million toward this increase. When considered without these non-monetary components, net assets would have increased $5.0 million.

DEBT ACTIVITY

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

	2011	2010	2009
Bonds payable	$ 2,140,486	$ 2,316,748	$ 1,972,561
Notes payable	3,250	3,672	3,250
Total bonds and notes payable	$ 2,143,736	$ 2,320,420	$ 1,975,811

Year Ended June 30, 2011
Total bonds and notes payable decreased $176.7 million, or 7.6%, due primarily to a decrease in the amount of bonds issued as well as an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $201.9 million, with activity arising from three bond issues.

Year Ended June 30, 2010
Total bonds and notes payable increased $344.6 million, or 17.4%, due primarily to an increase in the issuance of THDA's bonds. During the fiscal year, THDA issued debt totaling

$551.0 million, with activity arising from four bond issues. During FY 2010, THDA participated in the New Issue Bond Program (NIBP) as established by the United States Treasury Department. Principal redemptions during FY 2010 totaled $203.6 million.

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

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

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

Date	Amount	New Bond Issue
June 17, 2010	$ 85,290,000	Bond Issue 2009-B, Subseries B-1
October 27, 2010	60,000,000	Bond Issue 2009-B, Subseries B-2
March 24, 2011	60,000,000	Bond Issue 2009-B, Subseries B-3

As of June 30, 2011, the amount of bonds remaining in the Issue 2009-B1 escrowed bonds was $94,710.000.

Considering the investment requirements for the NIBP escrowed bonds as established by the United States Treasury Department, the proceeds of these escrowed bonds are presented on the Statements of Net Assets as Non-Current Assets, Restricted Assets, Cash and Cash Equivalents. Bonds issued under the NIBP have been placed in the Housing Finance Program Bonds resolution.

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

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

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

There were no revisions to THDA's bond ratings during FY 2011 or FY 2010.

Debt Limits

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

GRANT PROGRAMS

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

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

	FY 2011	FY 2010	FY 2009 and Prior	Total
Funding Sources:				
THDA	$ 6,000,000	$ 6,000,000	$ 18,000,000	$ 30,000,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	**$ 6,000,000**	**$ 6,000,000**	**$ 22,350,000**	**$ 34,350,000**
Approved Uses:				
Rural repair program (USDA)	$ 700,000	$ 700,000	$ 2,100,000	$ 3,500,000
Ramp Program (UCP)	-	-	50,000	50,000
Ramp Program	-	-	400,000	400,000
Hsg Modification & Ramp Prg	150,000	150,000	-	300,000
Homebuyer Education Initiative	-	-	300,000	300,000
Emergency Repairs for Elderly	2,000,000	2,000,000	6,000,000	10,000,000
Competitive Grants	3,150,000	3,150,000	13,500,000	19,800,000
Totals	**$ 6,000,000**	**$ 6,000,000**	**$ 22,350,000**	**$ 34,350,000**

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

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

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

THDA offers three primary choices for single-family mortgages. The *Great Rate* mortgage product offers an attractive interest rate loan secured by a first mortgage. The *Great Start* program offers a loan with an interest rate that is, as of June 30, 2011, 60 basis points higher than the Great Rate product, but provides 4% of the loan amount as down payment and closing cost assistance. In addition, THDA introduced the *Great Advantage* product during fiscal year 2006, which offers a loan with an interest rate that is, as of June 30, 2011, 30 basis points higher than the Great Rate product, and 2% of the loan amount as down payment and closing cost assistance.

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

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

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

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

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

A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at http://www.thda.org/singlefamily/hochoices.html.

More recently, media attention has focused on mortgage loan delinquencies and foreclosures. For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Rate, Great Start, and Great Advantage), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2011, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount	Percentage
60-89 Days Past Due	26,725	521	39,122,105	1.95%
90+ Days Past Due	26,725	1,085	81,167,263	4.06%
In Foreclosure	26,725	308	24,127,169	1.15%

As of June 30, 2010, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount	Percentage
60-89 Days Past Due	26,756	657	46,015,708	2.46%
90+ Days Past Due	26,756	1,293	95,704,596	4.83%
In Foreclosure	26,756	136	10,466,566	0.51%

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

ECONOMIC FACTORS

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

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

CONTACTING THDA's FINANCIAL MANAGEMENT

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND JUNE 30, 2010
(Expressed in Thousands)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 203,071	$ 270,188
Investments (Note 2)	-	14,579
Receivables:		
Accounts	23,750	28,463
Interest	12,854	13,258
First mortgage loans	49,947	48,601
Due from federal government	14,807	22,775
Total current assets	304,429	397,864
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	107,502	234,268
Investments (Note 2)	196,928	181,751
Investment interest receivable	2,261	2,169
Investments (Note 2)	38,857	15,643
First mortgage loans receivable	2,069,473	2,066,997
Deferred charges	12,327	13,209
Advance to local government	2,983	2,952
Capital assets:		
Furniture and equipment	517	346
Less accumulated depreciation	(360)	(267)
Total noncurrent assets	2,430,488	2,517,068
Total assets	2,734,917	2,914,932
LIABILITIES		
Current liabilities:		
Warrants / wires payable (Note 3)	10,913	8,297
Accounts payable	5,121	6,617
Accrued payroll and related liabilities	472	443
Compensated absences	477	494
Interest payable	45,076	47,267
Escrow deposits	528	585
Prepayments on mortgage loans	1,662	1,862
Notes payable (Note 4)	3,250	-
Bonds payable (Note 4)	83,035	128,200
Total current liabilities	150,534	193,765
Noncurrent liabilities:		
Notes payable (Note 4)	-	3,672
Bonds payable (Note 4)	2,057,451	2,188,548
Compensated absences	517	451
Net OPEB obligation (Note 9)	994	794
Escrow deposits	4,248	4,393
Arbitrage rebate payable	1,217	4,547
Total noncurrent liabilities	2,064,427	2,202,405
Total liabilities	2,214,961	2,396,170
NET ASSETS		
Invested in capital assets	157	79
Restricted for single family bond programs (Note 5 and Note 7)	504,874	504,955
Restricted for grant programs (Note 5)	9,560	6,274
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,153	3,154
Unrestricted (Note 7)	2,212	4,300
Total net assets	$ 519,956	$ 518,762

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010
(Expressed in Thousands)

	2011	2010
OPERATING REVENUES		
Mortgage interest income	$ 119,406	$ 118,572
Investment income:		
Interest	11,042	12,846
Net increase (decrease) in the fair value of investments	(4,886)	1,671
Federal grant administration fees	13,916	15,136
Fees and other income	3,125	2,452
Total operating revenues	142,603	150,677
OPERATING EXPENSES		
Salaries and benefits	15,190	13,841
Contractual services	2,625	3,315
Materials and supplies	226	321
Rentals and insurance	97	90
Other administrative expenses	465	502
Other program expenses	11,878	6,433
Interest expense	88,301	93,154
Mortgage service fees	7,601	7,394
Issuance costs	730	723
Depreciation	93	58
Total operating expenses	127,206	125,831
Operating income	15,397	24,846
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	355,754	253,712
Other grants revenue	-	705
Federal grants expenses	(355,862)	(253,605)
Local grants expenses	(14,095)	(16,869)
Total nonoperating revenues (expenses)	(14,203)	(16,057)
Change in net assets	1,194	8,789
Total net assets, July 1	518,762	509,973
Total net assets, June 30	$ 519,956	$ 518,762

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010
(Expressed in Thousands)

	2011	2010
Cash flows from operating activities:		
Receipts from customers	$ 352,565	$ 338,749
Receipts from federal government	14,241	15,117
Other miscellaneous receipts	3,125	2,575
Acquisition of mortgage loans	(231,061)	(344,054)
Payments to service mortgages	(7,601)	(7,394)
Payments to suppliers	(21,317)	(11,543)
Payments to federal government	(3,331)	128
Payments to employees	(15,266)	(13,422)
Net cash provided (used) by operating activities	91,355	(19,844)
Cash flows from non-capital financing activities:		
Operating grants received	363,397	245,158
Negative cash balance implicitly financed (repaid)	2,616	(4,153)
Proceeds from sale of bonds	201,856	550,973
Proceeds from issuance of notes	-	500
Operating grants paid	(370,436)	(266,217)
Cost of issuance paid	(1,907)	(2,237)
Principal payments	(371,942)	(203,603)
Interest paid	(90,953)	(93,775)
Net cash provided (used) by non-capital financing activities	(267,369)	226,646
Cash flows from capital and related financing activities:		
Purchases of capital assets	(172)	(108)
Net cash (used) by capital and related financing activities	(172)	(108)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	282,923	450,136
Purchases of investments	(311,750)	(309,431)
Investment interest received	11,000	13,557
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	130	91
Net cash provided (used) by investing activities	(17,697)	154,353
Net increase (decrease) in cash and cash equivalents	(193,883)	361,047
Cash and cash equivalents, July 1	504,456	143,409
Cash and cash equivalents, June 30	$ 310,573	$ 504,456

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010
(Expressed in Thousands)

	2011	2010
Reconciliation of operating income to		
net cash provided (used) by operating activities:		
Operating income	$ 15,397	$ 24,846
Adjustments to reconcile operating income to		
net cash provided (used) by operating activities:		
Depreciation and amortization	823	781
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	4,716	(7,506)
(Increase) decrease in mortgage interest receivable	352	(269)
(Increase) in first mortgage loans receivable	(3,854)	(116,213)
(Increase) decrease in due from federal government	325	(19)
(Increase) in deferred charges	(4,076)	(2,237)
Decrease in other receivables	-	123
Increase (decrease) in accounts payable	(1,420)	533
Increase in accrued payroll / compensated absences	278	116
(Decrease) in deferred revenue	-	(37)
Increase (decrease) in arbitrage rebate liability	(3,331)	1,401
Investment income included as operating revenue	(6,156)	(14,517)
Interest expense included as operating expense	88,301	93,154
Total adjustments	75,958	(44,690)
Net cash provided (used) by operating activities	$ 91,355	$ (19,844)
Noncash investing, capital, and financing activities:		
Increase (decrease) in fair value of investments	$ (3,643)	$ 3,789
Total noncash investing, capital, and financing activities	$ (3,643)	$ 3,789

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

c. Basis of Accounting and Measurement Focus

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

d. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

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

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

f. Bond Issuance Costs and Refunding Costs

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

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

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

g. Cash and Cash Equivalents

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

h. Investments

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

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

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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 to it.

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

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

At June 30, 2011, the bank balance was $6,806,625. At June 30, 2010, the bank balance was $4,327,770. All bank balances at June 30, 2011 were insured, except the Bank of New York Mellon (BNYM) accounts. All bank balances at June 30, 2010 were insured. U.S. Department of the Treasury required the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of $250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2011, $4,304,256 was in the BNYM. Of this amount, $4,054,256 was above the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report.* That report is available on the state's website at www.tn.gov/treasury.

b. Investments

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

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

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

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

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

	June 30, 2011		**June 30, 2010**	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$146,532,606	2.052	$110,758,327	1.464
U.S. Agency Discount	0	N/A	40,000,000	0.000
U.S. Treasury Coupon	89,252,190	5.248	91,214,027	5.898
U.S. Treasury Discount	94,789,957	0.073	214,769,030	0.000
Total	$330,574,753	1.803	$456,741,384	1.030

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

Variable Rate Bonds.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.6875 of par on April 17, 2009. Although these securities were scheduled to mature on April 17, 2024, these bonds were called on July 17, 2010. The fair value of these securities on June 30, 2010, was $2,001,594 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,865,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.95 of par on November 12, 2009. Although these securities were scheduled to mature on November 12, 2024, these bonds were called on August 12, 2010. The fair value of these securities on June 30, 2010, was $1,871,995 which is included in U.S. Agency Coupon in the table above.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 6, 2010. Although these securities were scheduled to mature on January 6, 2025, these bonds were called on July 6, 2010. The fair value of these securities on June 30, 2010, was $5,001,563 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,500,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.50 of par on January 28, 2010. Although these securities were scheduled to mature on January 28, 2025, these bonds were called on January 28, 2011. The fair value of these securities on June 30, 2010, was $2,532,933 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on May 27, 2010. Although these securities were scheduled to mature on November 27, 2015, these bonds were called on December 23, 2010. The fair value of these securities on June 30, 2010, was $1,011,875 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,500,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.75 of par on August 26, 2010, and mature on August 26, 2022. The fair value of these securities on June 30, 2011, is $1,490,622 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 3.0% with a step-up option to 3.25% on August 26, 2013, to 3.5% on August 26, 2016, to 4.0% on August 26, 2019, to 6.0% on August 26, 2020, and to 8.0% on August 26, 2021. This investment is callable quarterly beginning on August 26, 2011, and ending on November 26, 2013.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.73 of par on September 30, 2010, and mature on September 30, 2015. The fair value of these securities on June 30, 2011, is $2,004,608 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.125% with a step-up option to 2.5% on September 30, 2012. This investment is callable quarterly beginning on March 30, 2011, and ending on September 30, 2012.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at par on September 29, 2010, and mature on September 29, 2025. The fair value of these securities on June 30, 2011, is $1,998,572 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.00% with a step-up option to 2.0% on September 29, 2011, to 3.0% on September 29, 2012 and to 6.0% on September 29, 2013. This investment is callable quarterly beginning on December 29, 2010, and ending on December 29, 2013.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.55 of par on August 4, 2010, and mature on August 4, 2025. The fair value of these securities on June 30, 2011, is $1,971,350 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 3.0% with a step-up option to 3.5% on August 4, 2013, to 4.0% on August 4, 2016, to 5.0% on August 4, 2019, to 6.0% on August 4, 2021, to 7.0% on August 4, 2023, and to 8.0% on August 4, 2024. This investment is callable quarterly beginning on February 4, 2011 and ending on February 4, 2013.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on September 30, 2010, and mature on September 30, 2020. The fair value of these securities on June 30, 2011, is $2,007,976 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.0% with a step-up option to 2.5% on March 31, 2011, and to 4.0% on September 30, 2011. This investment is callable quarterly beginning on March 30, 2011 and ending on December 20, 2013.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on October 15, 2010, and mature on October 15, 2025. The fair value of these securities on June 30, 2011, is $2,000,916 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on October 15, 2011, to 5.0% on October 15, 2015, and to 6.0% on October 15, 2020. This investment is callable quarterly beginning on April 15, 2011 and ending on July 15, 2025.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 28, 2011, and mature on January 28, 2026. The fair value of these securities on June 30, 2011, is $2,996,115 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.25% with a step-up option to 5.0% on January 28, 2013, and to 6.0% on January 28, 2016. This investment is callable quarterly beginning on July 28, 2011 and ending on January 28, 2014.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on February 9, 2011, and mature on February 9, 2021. The fair value of these securities on June 30, 2011, is $3,003,411 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 6.0% on February 9, 2013. This investment is callable quarterly beginning on August 9, 2011 and ending on November 9, 2013.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 28, 2011, and mature on July 28, 2016. The fair value of these securities on June 30, 2011, is $1,001,257 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on January 28, 2014. This investment is callable quarterly beginning on July 28, 2011 and ending on January 28, 2014.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on February 16, 2011, and mature on February 16, 2021. The fair value of these securities on June 30, 2011, is $4,004,460 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.5% with a step-up option to 4.0% on August 16, 2011, and to 6.0% on February 16, 2016. This investment is callable quarterly beginning on August 16, 2011 and ending on February 16, 2014.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.60 of par on June 17, 2011, and mature on December 17, 2025. The fair value of these securities on June 30, 2011, is $977,172 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 3.75% with a step-up option to 4.0% on December 17, 2015, to 4.25% on December 17, 2019, to 4.5% on December 17, 2021, to 5.0% on December 17, 2022, to 6.0% on December 17, 2023, and to 8.0% on December 17, 2024. This investment is callable quarterly beginning on September 17, 2011 and ending on December 17, 2013.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on June 30, 2011, and mature on June 30, 2016. The fair value of these securities on June 30, 2011, is $3,965,880 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.375% with a step-up option to 1.75% on June 30, 2013, to 2.0% on June 30, 2014, to 2.5% on December 30, 2014, to 3.0% on June 30, 2015, to 4.0% on September 30, 2015, to 5.0% on December 30, 2015, and to 6.0% on March 30, 2016. This investment is callable quarterly beginning on September 30, 2011 and ending on December 30, 2013.

The agency purchased $3,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.92 of par on May 6, 2011, and mature on July 14, 2015. The fair value of these securities on June 30, 2011, is $3,500,522 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.00% with a step-up option to 2.0% on July 14, 2011, to 3.0% on July 14, 2012, to 4.0% on July 14, 2013, and to 5.0% on July 14, 2014. This investment is callable quarterly beginning on July 14, 2011 and ending on July 14, 2014.

The agency purchased $2,150,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.95 of par on April 27, 2011, and mature on April 27, 2026. The fair value of these securities on June 30, 2011, is $2,166,542 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.5% with a step-up option to 6.0% on April 27, 2013. This investment is callable quarterly beginning on July 27, 2011 and ending on October 27, 2015.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.75 of par on May 18, 2011, and mature on May 18, 2026. The fair value of these securities on June 30, 2011, is $2,005,234 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 6.0% on May 18, 2013. This investment is callable quarterly beginning on May 18, 2012 and ending on November 18, 2014.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2011 and June 30, 2010 are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2011

		U.S.	Credit Quality Rating		
Investment Type	**Fair Value**	**Treasury / Agency[1]**	**AAA**	**AA-2**	**Not Rated[3]**
U.S. Agency Coupon	$146,532,606		$140,738,006	$5,176,721	$617,879
U.S. Treasury Coupon	89,252,190	$89,252,190			
U.S. Treasury Discount	94,789,957	94,789,957			
Repurchase Agreements	100,000,000				100,000,000
Total	$430,574,753	$184,042,147	$140,738,006	$5,176,721	$100,617,879

June 30, 2010

		U.S.	Credit Quality Rating			
Investment Type	**Fair Value**	**Treasury / Agency[1]**	**AAA**	**AA-2**	**A-1+[2]**	**Not Rated[3]**
U.S. Agency Coupon	$110,758,327		$104,877,194	$5,226,172		$654,961
U.S. Agency Discount	40,000,000				$40,000,000	
U.S. Treasury Coupon	91,214,027	$91,214,027				
U.S. Treasury Discount	214,769,030	214,769,030				
Repurchase Agreements	124,000,000					124,000,000
Total	$580,741,384	$305,983,057	$104,877,194	$5,226,172	$40,000,000	$124,654,961

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

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

	June 30, 2011		June 30, 2010	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$24,769,777	5.75	$51,165,877	8.81
Federal Home Loan Mortgage Corp	$32,375,496	7.52	N/A	N/A
Federal National Mortgage Assoc	$75,255,894	17.48	$73,222,727	12.61
Repurchase Agreements – Morgan Stanley Dean Witter	$60,000,000	13.93	$101,000,000	17.39
Repurchase Agreements – UBS	$40,000,000	9.29	$23,000,000	3.96

[1]This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. As stated in GASB Statement 40, these are not considered to have credit risk.
[2] A-1+ is the highest rating category for short-term debt.
[3] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

NOTE 3. WARRANTS / WIRES PAYABLE

This amount includes the sum of warrants and wires initiated by the agency at year-end in excess of the agency's balance in the State Pooled Investment Fund that have not completely processed through the banking system. These warrants and wires are primarily for grant payments for the Section 8 grant programs and will be reimbursed by the U. S. Department of Housing and Urban Development.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2011	Ending Balance 6/30/2010
MORTGAGE FINANCE PROGRAM BONDS					
2003A	7/1/2004-7/1/2034	$191,885	1.70 to 5.35	$75,280	$93,060
Less: Deferred Amount on Refundings				(2,579)	(2,730)
Net Mortgage Finance Program Bonds				$72,701	$90,330

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2011	Ending Balance 6/30/2010
HOMEOWNERSHIP PROGRAM BONDS					
1996-5	7/1/99-7/1/2028	$60,000	3.85 to 5.75	$ -0-	$17,480
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	-0-	17,285
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	-0-	11,450
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	-0-	11,885
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	-0-	5,625
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	-0-	13,355
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	-0-	5,850
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	-0-	17,150
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	-0-	16,290
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	56,585	61,045
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	17,840	21,255
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	16,145	19,855
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	24,950	29,115
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	28,420	33,865
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	19,965	23,145
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	28,265	32,615
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	32,995	38,555
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	39,750	46,495
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	51,950	60,715
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	55,070	64,665
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	63,655	72,745
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	62,830	75,235
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	66,840	79,910
2006-2	7/1/2007-1/1/2037	100,000	3.90 to 5.75	62,950	76,240
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	70,720	83,515
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	75,135	87,615

BONDS ISSUED AND OUTSTANDING

(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2011	Ending Balance 6/30/2010
HOMEOWNERSHIP PROGRAM BONDS					
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	94,160	107,360
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	114,055	131,330
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	118,230	135,560
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	47,050	53,810
2008-2	7/1/2009-1/1/2027	50,000	3.25 to 5.75	37,405	45,040
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	68,525	82,595
2008-4	1/1/2010-7/1/2028	30,000	3.125 to 6.125	21,185	29,390
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	46,795	49,450
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	70,085	75,000
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	115,295	-0-
Total Homeownership Program Bonds		$3,019,555		$1,506,850	$1,732,490
Plus: Unamortized Bond Premiums				15,315	21,689
Less: Deferred Amount on Refundings				(3,387)	(3,086)
Net Homeownership Program Bonds				$1,518,778	1,751,093

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2011	Ending Balance 6/30/2010
HOUSING FINANCE PROGRAM BONDS					
2009-A	1/1/2011-1/1/2040	$100,000	0.900 to 4.625	$97,540	$100,000
2009-B	7/1/2041	300,000	Variable	94,710	214,710
2010-A	1/1/2011-7/1/2041	74,710	0.600 to 5.0	155,435	160,000
2010-B	7/1/2011–7/1/2041	40,000	0.45 to 4.50	99,625	-0-
2011-A	7/1/2011-7/1/2041	40,000	0.45 to 4.50	100,000	-0-
Total Housing Finance Program Bonds		$554,710		$547,310	$474,710
Plus: Unamortized Bond Premiums				1,805	730
Less: Deferred Amount on Refundings				(108)	(115)
Net Housing Finance Program Bonds				$549,007	$475,325
Net Total All Issues				$2,140,486	$2,316,748

The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA may 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 interest rate on the 2009-B bonds is tied to the investment rate on proceeds of the bonds. Proceeds are required to be invested in U.S. Treasury securities maturing in 28 days or less.

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2011 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2012	$78,021	$90,083	$168,104
2013	50,000	89,091	139,091
2014	50,865	87,530	138,395
2015	51,550	85,803	137,353
2016	53,635	83,911	137,546
2017 – 2021	231,488	389,628	621,116
2022 – 2026	332,608	333,122	665,730
2027 – 2031	245,998	257,470	503,468
2032 – 2036	320,252	196,089	516,341
2037 – 2041	432,373	84,174	516,547
2042	299,770	3,743	303,513
Total	$2,146,560	$1,700,644	$3,847,204

The debt principal in the preceding table is $6,074,000 greater than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

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

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

During the year ended June 30, 2010, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $10,695,000 and in the Homeownership Program in the amount of $168,625,000. The respective carrying values of the bonds were $10,651,667 and

$170,939,715. This resulted in an expense to the Mortgage Finance Program of $43,333 and in income to the Homeownership Program of $2,314,715.

On June 17, 2010, the agency issued $74,710,000 in Housing Finance Program Bonds, Issue 2010-A. On June 17, 2010, the agency used $20,595,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $20,595,000 early redemption). The carrying amount of these bonds was $20,478,986. The refunding resulted in a difference of $116,014 between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by $5,910,703 over the next 15 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,812,047.

d. Long-term Liability Activity

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

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2010	Additions	Reductions	Ending Balance June 30, 2011	Amounts Due Within One Year
Notes Payable	$3,672	$-0-	($422)	$3,250	$3,250
Bonds Payable	2,300,260	200,700	(371,520)	2,129,440	83,035
Plus: Unamortized Bond Premiums	22,419	1,156	(6,455)	17,120	-0-
Less: Deferred Amount on Refundings	(5,931)	(1,099)	956	(6,074)	-0-
Compensated Absences	945	66	(17)	994	477
Net OPEB Obligation	794	200	(-0-)	994	-0-
Escrow Deposits	4,978	903	(1,105)	4,776	528
Arbitrage Rebate Payable	4,547	2,552	(5,882)	1,217	-0-
Deferred Revenue	-0-	1,231	(1,231)	-0-	-0-
Total	$2,331,684	$205,709	($385,676)	$2,151,717	$87,290

The following table is a summary of the long-term liability activity for the year ended June 30, 2010.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2009	Additions	Reductions	Ending Balance June 30, 2010	Amounts Due Within One Year
Notes Payable	$3,250	$500	($78)	$3,672	$-0-
Bonds Payable	1,954,075	549,710	(203,525)	2,300,260	128,200
Plus: Unamortized Bond Premiums	25,377	1,263	(4,221)	22,419	-0-
Less: Deferred Amount on Refundings	(6,891)	(125)	1,085	(5,931)	-0-
Compensated Absences	1,072	117	(244)	945	494
Net OPEB Obligation	602	235	(43)	794	-0-
Escrow Deposits	4,884	4,535	(4,441)	4,978	585
Arbitrage Rebate Payable	3,146	2,043	(642)	4,547	-0-
Deferred Revenue	37	76	(113)	-0-	-0-
Total	$1,985,552	$558,354	($212,222)	$2,331,684	$129,279

e. Notes Issued and Outstanding

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

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

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

Promissory Note. On December 22, 2008, the agency borrowed $3,250,000 for the Preserve Loan Program, which is part of the Housing Trust Fund. Interest is being charged quarterly at 3% with the principal maturing on December 22, 2011. On August 3, 2009, the agency borrowed $500,000 at 3% for the Preserve Loan Program, which is part of the Housing Trust

Fund. Principal and interest are paid monthly with the principal maturing on August 4, 2012, however the note was paid off on June 17, 2011.

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

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

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

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 14.91% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2011, 2010, and 2009, were $1,585,654, $1,295,272, and $1,201,303. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

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

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2011, and June 30, 2010, are presented in the *Tennessee Comprehensive Annual Financial Report*. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

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

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

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

Funding Policy. The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to participants. Retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 25 years, $37.50; and 20 years, $25.

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

	June 30, 2011	June 30, 2010
Annual Required Contribution (ARC)	$358	$351
Interest on the Net OPEB Obligation	36	25
Adjustment to the ARC	(34)	(24)
Annual OPEB cost	360	352
Amount of contribution	(160)	(160)
Increase in Net OPEB Obligation	200	192
Net OPEB obligation-beginning of year	794	602
Net OPEB obligation-end of year	$994	$794

Year End	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At Year End (Thousands)
6/30/2009	State Employee Group Plan	$ 449	29%	$ 602
6/30/2010	State Employee Group Plan	$ 352	45%	$ 794
6/30/2011	State Employee Group Plan	$ 360	44%	$ 994

<u>Funded Status and Funding Progress.</u> The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2010, was as follows (Thousands):

Actuarial valuation date	7/01/2010
Actuarial accrued liability (AAL)	$ 3,316
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	$ 3,316
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 8,640
UAAL as a percentage of covered payroll	38%

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

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

In the July 1, 2010, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent for fiscal year 2011. The rate decreased to 9.5 percent for fiscal year 2012 and then reduced by decrements of .5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

NOTE 10. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of $3,525 on behalf of THDA for retirees participating in the Medicare Supplement Plan, and during the year ended June 30, 2010, made payments of $2,657. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report is available on the state's website at www.tn.gov/finance/act/cafr.html.

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

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

July 1, 2011	Mortgage Finance Program	$ 3,085,000
	Homeownership Program	$46,515,000
	Housing Finance Program	$ 2,580,000
	Total	$52,180,000

b. On August 5, 2011, Standard and Poor's (S&P) downgraded its rating on U.S. long term debt from AAA to AA+. On August 8, 2011, S&P downgraded Fannie Mae, Freddie Mac and the 10 Federal Home Loan Banks (FHLBs) from an AAA rating to AA+.

c. Housing Finance Program Bonds, Issue 2011-B, were sold on August 25, 2011. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2011-B	7/1/2012-1/1/2028	$40,000	0.250 to 4.500
TOTAL ALL ISSUES		$40,000	

d. Housing Finance Program Bonds, Issue 2009-B, Subseries B-4, were sold on August 25, 2011. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2009-B, Subseries B-4	7/1/2041	$60,000	2.92
TOTAL ALL ISSUES		$60,000	

e. Housing Finance Program Bonds, Issue 2011-C, were authorized by the Board of directors on September 27, 2011, not to exceed $65,290,000.

f. Housing Finance Program Bonds, Issue 2009-B, Subseries B-5, were authorized by the Board of directors on September 27, 2011, not to exceed $34,710,000.

g. Homeownership Program Bonds, Issue 2011-1, were authorized by the Board of directors on September 27, 2011, not to exceed $150,000,000.

h. Mortgage prepayments and foreclosure proceeds will be used to redeem bonds as indicated below:

October 1, 2011	Mortgage Finance Program	$ 3,530,000
	Homeownership Program	$49,400,000
	Housing Finance Program	$ 4,420,000
	Total	$57,350,000

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2007	State Employee Group Plan	$ -0-	$ 3,902	$ 3,902	0%	$ 9,595	41%
7/1/2009	State Employee Group Plan	$ -0-	$ 3,629	$ 3,629	0%	$ 9,238	39%
7/1/2010	State Employee Group Plan	$ -0-	$ 3,316	$ 3,316	0%	$ 8,640	38%

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2011
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	$ 1,887	$ 27,904	$ 145,552	$ 27,728	$ -	$ 203,071
Receivables:						
Accounts	3	910	21,749	1,088	-	23,750
Interest	74	1,007	9,670	2,103	-	12,854
First mortgage loans	9	5,274	36,755	7,909	-	49,947
Due from federal government	14,807	-	-	-	-	14,807
Due from other funds	2,180	1,400	-	-	-	3,580
Total current assets	18,960	36,495	213,726	38,828	-	308,009
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	4,300	675	7,708	94,819	-	107,502
Investments	-	16,799	165,177	14,952	-	196,928
Investment Interest receivable	-	152	1,966	143	-	2,261
Investments	-	16,077	18,262	4,518	-	38,857
First mortgage loans receivable	1,527	141,770	1,490,872	435,304	-	2,069,473
Deferred charges	1	354	9,621	2,351	-	12,327
Advance to local government	2,983	-	-	-	-	2,983
Capital assets:						
Furniture and equipment	517	-	-	-	-	517
Less accumulated depreciation	(360)	-	-	-	-	(360)
Total noncurrent assets	8,968	175,827	1,693,606	552,087	-	2,430,488
Total assets	27,928	212,322	1,907,332	590,915	-	2,738,497
LIABILITIES						
Current liabilities:						
Warrants / wires payable	10,913	-	-	-	-	10,913
Accounts payable	5,024	7	67	23	-	5,121
Accrued payroll and related liabilities	472	-	-	-	-	472
Compensated absences	477	-	-	-	-	477
Interest payable	-	1,887	36,096	7,093	-	45,076
Escrow deposits	-	528	-	-	-	528
Prepayments on mortgage loans	-	92	1,190	380	-	1,662
Due to other funds	471	2,052	1,057	-	-	3,580
Notes payable	3,250	-	-	-	-	3,250
Bonds payable	-	5,625	70,245	7,165	-	83,035
Total current liabilities	20,607	10,191	108,655	14,661	-	154,114
Noncurrent liabilities:						
Bonds payable	-	67,076	1,448,532	541,843	-	2,057,451
Compensated absences	517	-	-	-	-	517
Net OPEB obligation	994	-	-	-	-	994
Escrow deposits	271	3,977	-	-	-	4,248
Arbitrage rebate payable	-	-	1,217	-	-	1,217
Total noncurrent liabilities	1,782	71,053	1,449,749	541,843	-	2,064,427
Total liabilities	22,389	81,244	1,558,404	556,504	-	2,218,541
NET ASSETS						
Invested in capital assets	157	-	-	-	-	157
Restricted for single family bond programs	-	121,535	348,928	34,411	-	504,874
Restricted for grant programs	17	9,543	-	-	-	9,560
Restricted for Homebuyers Revolving Loan Prograr	3,153	-	-	-	-	3,153
Unrestricted	2,212	-	-	-	-	2,212
Total net assets	$ 5,539	$ 131,078	$ 348,928	$ 34,411	$ -	$ 519,956

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES						
Mortgage interest income	$ 76	$ 7,073	$ 93,952	$ 18,305	$ -	$ 119,406
Investment income:						
Interest	(81)	1,387	9,235	501	-	11,042
Net (decrease) in the fair value of investments	-	(573)	(4,118)	(195)	-	(4,886)
Federal grant administration fees	13,916	-	-	-	-	13,916
Fees and other income	3,031	94	-	-	-	3,125
Total operating revenues	16,942	7,981	99,069	18,611	-	142,603
OPERATING EXPENSES						
Salaries and benefits	15,190	-	-	-	-	15,190
Contractual services	2,625	-	-	-	-	2,625
Materials and supplies	226	-	-	-	-	226
Rentals and insurance	97	-	-	-	-	97
Other administrative expenses	465	-	-	-	-	465
Other program expenses	1,124	4,460	6,215	81	(2)	11,878
Interest expense	111	4,226	72,065	11,899	-	88,301
Mortgage service fees	-	454	5,918	1,229	-	7,601
Issuance costs	-	38	621	71	-	730
Depreciation	93	-	-	-	-	93
Total operating expenses	19,931	9,178	84,819	13,280	(2)	127,206
Operating income (loss)	(2,989)	(1,197)	14,250	5,331	2	15,397
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	355,482	272	-	-	-	355,754
Federal grants expenses	(355,379)	(483)	-	-	-	(355,862)
Local grants expenses	(485)	(5,733)	(7,877)	-	-	(14,095)
Total nonoperating revenues (expenses)	(382)	(5,944)	(7,877)	-	-	(14,203)
Income (loss) before transfers	(3,371)	(7,141)	6,373	5,331	2	1,194
Transfers (to) other funds	-	-	(15,545)	-	(8)	(15,553)
Transfers from other funds	1,175	7,379	-	6,999	-	15,553
Change in net assets	(2,196)	238	(9,172)	12,330	(6)	1,194
Total net assets, July 1	7,735	130,840	358,100	22,081	6	518,762
Total net assets, June 30	$ 5,539	$ 131,078	$ 348,928	$ 34,411	$ -	$ 519,956

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:						
Receipts from customers	$ -	$ 23,424	$ 300,712	$ 28,429	$ -	$ 352,565
Receipts from federal government	14,241	-	-	-	-	14,241
Receipts from other funds	-	1,972	1,057	-	-	3,029
Other miscellaneous receipts	3,031	94	-	-	-	3,125
Acquisition of mortgage loans	-	(9,315)	(2,150)	(219,596)	-	(231,061)
Payments to service mortgages	-	(454)	(5,918)	(1,229)	-	(7,601)
Payments to suppliers	(6,476)	(4,429)	(10,359)	(55)	2	(21,317)
Payments to federal government	-	-	(3,054)	(199)	(78)	(3,331)
Payments to other funds	(3,029)	-	-	-	-	(3,029)
Payments to employees	(15,266)	-	-	-	-	(15,266)
Net cash provided (used) by operating activities	(7,499)	11,292	280,288	(192,650)	(76)	91,355
Cash flows from non-capital financing activities:						
Operating grants received	363,125	272	-	-	-	363,397
Transfers in (out)	1,175	7,379	(15,545)	6,999	(8)	-
Negative cash balance implicitly financed (repaid)	2,616	-	-	-	-	2,616
Proceeds from sale of bonds	-	-	120,700	81,156	-	201,856
Operating grants paid	(356,343)	(6,216)	(7,877)	-	-	(370,436)
Cost of issuance paid	-	-	(989)	(918)	-	(1,907)
Principal payments	(422)	(17,780)	(346,340)	(7,400)	-	(371,942)
Interest paid	(111)	(4,481)	(79,360)	(7,001)	-	(90,953)
Net cash provided (used) by non-capital financing activities	10,040	(20,826)	(329,411)	72,836	(8)	(267,369)
Cash flows from capital and related financing activities:						
Purchases of capital assets	(172)	-	-	-	-	(172)
Net cash (used) by capital and related financing activities	(172)	-	-	-	-	(172)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	63,883	201,160	25,026	-	290,069
Purchases of investments	-	(63,317)	(218,284)	(37,295)	-	(318,896)
Investment interest received	44	1,408	9,095	453	-	11,000
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	1	16	113	-	130
Net cash provided (used) by investing activities	44	1,975	(8,013)	(11,703)	-	(17,697)
Net increase (decrease) in cash and cash equivalents	2,413	(7,559)	(57,136)	(131,517)	(84)	(193,883)
Cash and cash equivalents, July 1	3,774	36,138	210,396	254,064	84	504,456
Cash and cash equivalents, June 30	$ 6,187	$ 28,579	$ 153,260	$ 122,547	$ -	$ 310,573

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	$ (2,989)	$ (1,197)	$ 14,250	$ 5,331	$ 2	$ 15,397
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	93	38	621	71	-	823
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	587	4,577	(448)	-	4,716
(Increase) decrease in mortgage interest receivable	(74)	179	1,480	(1,233)	-	352
(Increase) decrease in first mortgage loans receivable	(1,307)	6,507	198,892	(207,946)	-	(3,854)
Decrease in due from federal government	325	-	-	-	-	325
(Increase) decrease in deferred charges	-	46	(4,133)	11	-	(4,076)
Decrease in interfund receivables	-	1,972	1,057	-	-	3,029
(Decrease) in interfund payables	(3,029)	-	-	-	-	(3,029)
Increase (decrease) in accounts payable	(988)	(252)	(350)	170	-	(1,420)
Increase in accrued payroll / compensated absences	278	-	-	-	-	278
(Decrease) in arbitrage rebate liability	-	-	(3,054)	(199)	(78)	(3,331)
Investment income included as operating revenue	81	(814)	(5,117)	(306)	-	(6,156)
Interest expense included as operating expense	111	4,226	72,065	11,899	-	88,301
Total adjustments	(4,510)	12,489	266,038	(197,981)	(78)	75,958
Net cash provided (used) by operating activities	$ (7,499)	$ 11,292	$ 280,288	$ (192,650)	$ (76)	$ 91,355
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	-	(303)	(3,135)	(205)	-	(3,643)
Total noncash investing, capital, and financing activities	$ -	$ (303)	$ (3,135)	$ (205)	$ -	$ (3,643)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2011
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 10,162	$ 17,660	$ 27,822	$ 82	$ 27,904
Receivables:					
Accounts	343	562	905	5	910
Interest	825	156	981	26	1,007
First mortgage loans	4,897	377	5,274	-	5,274
Due from other funds	-	1,400	1,400	-	1,400
Total current assets	16,227	20,155	36,382	113	36,495
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	675	-	675	-	675
Investments	16,799	-	16,799	-	16,799
Investment interest receivable	152	-	152	-	152
Investments	617	12,411	13,028	3,049	16,077
First mortgage loans receivable	139,269	2,501	141,770	-	141,770
Deferred charges	354	-	354	-	354
Total noncurrent assets	157,866	14,912	172,778	3,049	175,827
Total assets	174,093	35,067	209,160	3,162	212,322
LIABILITIES					
Current liabilities:					
Accounts payable	-	7	7	-	7
Interest payable	1,887	-	1,887	-	1,887
Escrow deposits	-	-	-	528	528
Prepayments on mortgage loans	89	3	92	-	92
Due to other funds	1,400	652	2,052	-	2,052
Bonds payable	5,625	-	5,625	-	5,625
Total current liabilities	9,001	662	9,663	528	10,191
Noncurrent liabilities:					
Bonds payable	67,076	-	67,076	-	67,076
Escrow deposits	-	1,538	1,538	2,439	3,977
Total noncurrent liabilities	67,076	1,538	68,614	2,439	71,053
Total liabilities	76,077	2,200	78,277	2,967	81,244
NET ASSETS					
Restricted for single family bond programs	98,016	23,324	121,340	195	121,535
Restricted for grant programs	-	9,543	9,543	-	9,543
Total net assets	$ 98,016	$ 32,867	$ 130,883	$ 195	$ 131,078

* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.

** The Escrow Funds can only be used for escrow payments.

Tennessee Housing Development Agency

Leading Tennessee Home

FINANCIAL STATEMENTS

June 30, 2010

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

December 30, 2010

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

Ladies and Gentlemen:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2010, and June 30, 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2010, and June 30, 2009, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the schedule of funding progress are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, following the schedule of funding progress, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 30, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/tlh

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2010 and June 30, 2009. This information is being presented to provide additional information regarding the activities of THDA and to meet the reporting and disclosure requirements of the Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists people is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2010, THDA has originated over 104,000 single-family mortgage loans in its 37-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher program in approximately 74 of Tennessee's 95 counties, as well as project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, other supplementary information is included.

THDA is also considered to be a "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at http://tennessee.gov/finance/act/cafr.html.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2010

- Total assets increased by $354.8 million, or 13.9 %.
- Total liabilities increased by $346.0 million, or 16.9%.
- Net assets (the amount that total assets exceeds total liabilities) were $518.8 million. This is an increase of $8.8 million, or 1.7%, from fiscal year 2009.
- Cash and cash equivalents increased $361.0 million, or 251.8%.
- Total investments decreased $139.2 million, or 39.7%.
- Bonds and notes payable increased $344.6 million, or 17.4%.
- THDA originated $344.0 million in new loans, which is an increase of $129.5 million, or 60.4%, from the prior year.

Year Ended June 30, 2009

- Total assets decreased by $45.5 million, or 1.7 %.
- Total liabilities decreased by $63.0 million, or 3.0%.
- Net assets (the amount that total assets exceeds total liabilities) were $510.0 million. This is an increase of $16.2 million, or 3.3%, from fiscal year 2008.
- Cash and cash equivalents decreased $129.0 million, or 47.4%.
- Total investments increased $55.2 million, or 18.6%.
- Bonds and notes payable decreased $65.2 million, or 3.2%.
- THDA originated $214.5 million in new loans, which is a decrease of $233.7 million, or 52.1%, from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

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

	2010	2009	2008
Current assets	$ 397,864	$ 313,017	$ 376,194
Capital assets	79	29	79
Other noncurrent assets	2,516,989	2,247,094	2,230,603
Total assets	2,914,932	2,560,140	2,606,876
Current liabilities	193,765	145,096	165,375
Noncurrent liabilities	2,202,405	1,905,071	1,947,753
Total liabilities	2,396,170	2,050,167	2,113,128
Invested in capital assets	79	29	79
Restricted net assets	514,383	508,036	492,193
Unrestricted net assets	4,300	1,908	1,476
Total net assets	$ 518,762	$ 509,973	$ 493,748

2010 to 2009

- THDA's total net assets increased $8.8 million, or 1.7%, from $510.0 million at June 30, 2009 to $518.8 million at June 30, 2010. This resulted from operating revenues that exceeded operating expenses.

- Mortgage loans receivable increased $116.2 million, or 5.8%, from $1,999.4 million at June 30, 2009 to $2,115.6 million at June 30, 2010. This increase resulted from mortgage loan originations that exceeded mortgage loan prepayments and repayments.

- Total liabilities increased $346.0 million, or 16.9%, from $2,050.2 million at June 30, 2009 to $2,396.2 million at June 30, 2010. The increase is primarily due to a increase in the amount of bonds issued during fiscal year 2010 as compared to fiscal year 2009, primarily, the issuance of bonds in the Housing Finance Program Bonds Resolution.

2009 to 2008

- THDA's total net assets increased $16.2 million, or 3.3%, from $493.8 million at June 30, 2008 to $510.0 million at June 30, 2009. This primarily resulted from an increase in mortgage interest income, and an increase in the fair value of investments. (The amount of net assets as of June 20, 2008 was revised from the amount previously reported as a result of a Prior Period Adjustment. Note 12 of the Notes to the Financial Statements contains full guidance regarding this adjustment.)

- Mortgage loans receivable increased $13.6 million, or 0.7%, from $1,985.8 million at June 30, 2008 to $1,999.4 million at June 30, 2009. This is not a significant change from the prior year.

- Total liabilities decreased $63.0 million, or 3.0%, from $2,113.1 million at June 30, 2008 to $2,050.2 million at June 30, 2009. The decrease is primarily due to a reduction in the amount of bonds issued during fiscal year 2009 as compared to fiscal year 2008, as well as the redemption of $83.1 million of its Single Family Mortgage Notes (please refer to Note 4 of the Notes to the Financial Statements for more information).

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

	2010	2009	2008
Operating revenues			
Mortgage interest income	$ 118,572	$ 119,500	$ 111,142
Investment income	14,517	17,905	38,756
Other	17,588	14,186	15,751
Total operating revenues	150,677	151,591	165,649
Operating expenses			
Interest expense	93,154	93,103	97,328
Other	32,677	29,931	29,934
Total operating expenses	125,831	123,034	127,262
Operating income	24,846	28,557	38,387
Nonoperating revenues (expenses)			
Grant revenues	254,417	186,800	185,204
Grant expenses	(270,474)	(199,132)	(187,235)
Total nonoperating revenues (expenses)	(16,057)	(12,332)	(2,031)
Change in net assets	$ 8,789	$ 16,225	$ 36,356

2010 to 2009

For the year ended June 30, 2010, total operating revenues decreased $.9 million from $151.6 million for the year ended June 30, 2009, to $150.7 million for the year ended June 30, 2010.

For the year ended June 30, 2010, total operating expenses increased $2.8 million, or 2.3%, from $123.0 million in 2009 to $125.8 million for the year ended June 30, 2010.

While the total net assets for fiscal year 2010 increased $8.8 million from the previous year, the non-monetary change in the fair value of investments contributed $3.8 million toward this increase. When considered without these non-monetary components, net assets would have increased $5.0 million.

2009 to 2008

For the year ended June 30, 2009, total operating revenues decreased $12.8 million from $164.4 million for the year ended June 30, 2008 to $151.6 million for the year ended June 30, 2009. The primary reasons for this decrease are as follows:

- Mortgage interest income increased $8.4 million, or 7.5%, from $111.1 million in 2008 to $119.5 million in 2009. This increase is due to record high origination of new mortgage loans as experienced during FY 2007 and FY 2008.

- Investment income decreased $20.9 million, or 53.8%, from $38.8 million in 2008 to $17.9 million in 2009. This decrease is primarily due to a decrease in the total amount of invested funds during FY 2009 as compared to FY 2008, as well as a decrease in the investment interest rates.

For the year ended June 30, 2009, total operating expenses decreased $4.3 million, or 3.3%, from $127.3 million in 2008 to $123.0 million in 2009. This decrease is primarily due to a decrease in interest expense as a result of debt management practices.

DEBT ACTIVITY

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

	2010	2009	2008
Bonds payable	$ 2,316,748	$ 1,972,561	$ 1,952,295
Notes payable	3,672	3,250	88,720
Total bonds and notes payable	$ 2,320,420	$ 1,975,811	$ 2,041,015

Year Ended June 30, 2010
Total bonds and notes payable increased $344.6 million, or 17.4%, due primarily to an increase in the issuance of THDA's bonds. During the fiscal year, THDA issued debt totaling $551.0 million, with activity arising from four bond issues. During FY 2010, THDA participated in the New Issue Bond Program (NIBP) as established by the United States Treasury Department. Principal redemptions during FY 2010 totaled $203.6 million.

Year Ended June 30, 2009
Total bonds and notes payable decreased $65.2 million, or 3.2%, due primarily to a redemption of THDA's Single Family Mortgage Notes in the amount of $83.1 million. Please see Note 4 (e) for more information regarding this transaction. During the fiscal year, THDA issued debt totaling $267.6 million, with activity arising from four bond issues totaling $220.0 million and one note draw under the single family mortgage note program totaling $44.3 million. In addition, THDA obtained a $3.25 million loan from a local financial institution for the Housing Trust Fund. Principal redemptions decreased $256.1 million, from $584.4 million in FY 2008 to $328.2 million in FY 2009.

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

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

Subsequently, on June 17, 2010, THDA released, re-designed, and converted $85,290,000 of escrowed bonds (Bond Issue 2009-B) into fixed-rate, tax-exempt bonds (Bond Issue 2009-B, Subseries B-1).

Considering the investment requirements for the NIBP escrowed bonds as established by the United States Treasury Department, the proceeds of these escrowed bonds are presented on the Statements of Net Assets as Non-Current Assets, Restricted Assets, Cash and Cash Equivalents. Bonds issued under the NIBP have been placed in the Housing Finance Program Bonds resolution.

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

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

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

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

GRANT PROGRAMS

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

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

	FY 2010	FY 2009	FY 2008 and Prior	Total
Funding Sources:				
THDA	$ 6,000,000	$ 6,000,000	$ 12,000,000	$ 24,000,000
State Appropriation	-	350,000	4,000,000	4,350,000
Totals	**$ 6,000,000**	**$ 6,350,000**	**$ 16,000,000**	**$ 28,350,000**
Approved Uses:				
Rural repair program (USDA)	$ 700,000	$ 700,000	$ 1,400,000	$ 2,800,000
Ramp Program (UCP)	-	-	50,000	50,000
Ramp Program	-	150,000	250,000	400,000
Hsg Modification & Ramp Prg	150,000	-	-	150,000
Homebuyer Education Initiative		-	300,000	300,000
Emergency Repairs for Elderly	2,000,000	2,000,000	4,000,000	8,000,000
Competitive Grants	3,150,000	3,500,000	10,000,000	16,650,000
Totals	**$ 6,000,000**	**$ 6,350,000**	**$ 16,000,000**	**$ 28,350,000**

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

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

During FY 2009, THDA received a loan of $3.25 million from a local financial institution for the Housing Trust Fund. Likewise, in FY 2010 THDA received a similar loan of $500,000. These funds will be used to fund short-term second mortgages for low income Tennesseans for homeowner rehabilitation. As required by these lending financial institutions, this program is limited to residents in geographic areas as specified by these financial institutions. THDA is actively pursuing additional financial institutions to also join this program throughout the state.

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

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

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

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

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

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

Loans with a 78% LTV or lower do not require mortgage insurance. The maximum acceptable LTV is 97%.

A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at http://www.thda.org/singlefamily/hochoices.html.

More recently, media attention has focused on mortgage loan delinquencies and foreclosures. For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Rate, Great Start, and Great Advantage), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2010, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount	Percentage
60-89 Days Past Due	26,756	657	46,015,708	2.46%
90+ Days Past Due	26,756	1,293	95,704,596	4.83%
In Foreclosure	26,756	136	10,466,566	0.51%

As of June 30, 2009, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount	Percentage
60-89 Days Past Due	25,914	778	54,242,587	3.00%
90+ Days Past Due	25,914	1,452	103,219,318	5.60%
In Foreclosure	25,914	154	11,243,068	0.59%

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

ECONOMIC FACTORS

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

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

CONTACTING THDA's FINANCIAL MANAGEMENT

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND JUNE 30, 2009
(Expressed in Thousands)

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 270,188	$ 132,294
Investments (Note 2)	14,579	88,217
Receivables:		
Accounts	28,463	20,957
Interest	13,258	13,794
First mortgage loans	48,601	44,135
Other	-	123
Due from federal government	22,775	13,497
Total current assets	397,864	313,017
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	234,268	11,115
Investments (Note 2)	181,751	183,261
Investment interest receivable	2,169	1,956
Investments (Note 2)	15,643	79,738
First mortgage loans receivable	2,066,997	1,955,274
Deferred charges	13,209	12,822
Advance to local government	2,952	2,928
Capital assets:		
Furniture and equipment	346	238
Less accumulated depreciation	(267)	(209)
Total noncurrent assets	2,517,068	2,247,123
Total assets	2,914,932	2,560,140
LIABILITIES		
Current liabilities:		
Warrants / wires payable (Note 3)	8,297	12,450
Accounts payable	6,617	1,975
Accrued payroll and related liabilities	443	392
Compensated absences	494	515
Interest payable	47,267	47,990
Escrow deposits	585	643
Prepayments on mortgage loans	1,862	1,808
Bonds payable (Note 4)	128,200	79,315
Deferred revenue	-	8
Total current liabilities	193,765	145,096
Noncurrent liabilities:		
Notes payable (Note 4)	3,672	3,250
Bonds payable (Note 4)	2,188,548	1,893,246
Compensated absences	451	557
Net OPEB obligation (Note 9)	794	602
Escrow deposits	4,393	4,241
Arbitrage rebate payable	4,547	3,146
Deferred revenue	-	29
Total noncurrent liabilities	2,202,405	1,905,071
Total liabilities	2,396,170	2,050,167
NET ASSETS		
Invested in capital assets	79	29
Restricted for single family bond programs (Note 5 and Note 7)	504,955	492,973
Restricted for grant programs (Note 5)	6,274	11,909
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154
Unrestricted (Note 7)	4,300	1,908
Total net assets	$ 518,762	$ 509,973

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009
(Expressed in Thousands)

	2010	2009
OPERATING REVENUES		
Mortgage interest income	$ 118,572	$ 119,500
Investment income:		
Interest	12,846	15,344
Net increase in the fair value of investments	1,671	2,561
Federal grant administration fees	15,136	11,770
Fees and other income	2,452	2,416
Total operating revenues	150,677	151,591
OPERATING EXPENSES		
Salaries and benefits	13,841	13,743
Contractual services	3,315	2,624
Materials and supplies	321	527
Rentals and insurance	90	1,212
Other administrative expenses	502	639
Other program expenses	6,433	3,140
Interest expense	93,154	93,103
Mortgage service fees	7,394	7,303
Issuance costs	723	693
Depreciation	58	50
Total operating expenses	125,831	123,034
Operating income	24,846	28,557
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	253,712	185,092
Other grants revenue	705	1,358
Payment from primary government	-	350
Federal grants expenses	(253,605)	(189,042)
Local grants expenses	(16,869)	(10,090)
Total nonoperating revenues (expenses)	(16,057)	(12,332)
Change in net assets	8,789	16,225
Total net assets, July 1	509,973	492,462
Prior period adjustment (Note 12)	-	1,286
Total net assets, July 1, as restated	509,973	493,748
Total net assets, June 30	$ 518,762	$ 509,973

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009
(Expressed in Thousands)

	2010	2009
Cash flows from operating activities:		
Receipts from customers	$ 338,749	$ 303,583
Receipts from federal government	15,117	6,187
Other miscellaneous receipts	2,575	2,406
Acquisition of mortgage loans	(344,054)	(214,506)
Payments to service mortgages	(7,394)	(7,303)
Payments to suppliers	(11,543)	(10,565)
Payments to federal government	128	-
Payments to employees	(13,422)	(12,763)
Net cash provided (used) by operating activities	(19,844)	67,039
Cash flows from non-capital financing activities:		
Operating grants received	245,158	192,088
Negative cash balance implicitly financed (repaid)	(4,153)	4,825
Proceeds from sale of bonds	550,973	219,678
Proceeds from issuance of notes	500	47,580
Operating grants paid	(266,217)	(199,518)
Cost of issuance paid	(2,237)	(2,142)
Principal payments	(203,603)	(328,245)
Interest paid	(93,775)	(93,553)
Net cash provided (used) by non-capital financing activities	226,646	(159,287)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(108)	-
Net cash used by capital and related financing activities	(108)	-
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	450,136	378,527
Purchases of investments	(309,431)	(432,090)
Investment interest received	13,557	15,868
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	91	963
Net cash provided (used) by investing activities	154,353	(36,732)
Net increase (decrease) in cash and cash equivalents	361,047	(128,980)
Cash and cash equivalents, July 1	143,409	272,389
Cash and cash equivalents, June 30	$ 504,456	$ 143,409

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009
(Expressed in Thousands)

	2010	2009
Reconciliation of operating income to net cash used by operating activities:		
Operating income	$ 24,846	$ 28,557
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation and amortization	781	743
Changes in assets and liabilities:		
(Increase) in accounts receivable	(7,506)	(11,196)
(Increase) in mortgage interest receivable	(269)	(1,823)
(Increase) in first mortgage loans receivable	(116,213)	(13,641)
(Increase) in due from federal government	(19)	(5,658)
(Increase) in deferred charges	(2,237)	(2,232)
(Increase) decrease in other receivables	123	(10)
Increase (decrease) in accounts payable	533	(4,085)
Increase in accrued payroll / compensated absences	116	487
(Decrease) in due to primary government	-	(3)
(Decrease) in deferred revenue	(37)	(190)
Increase in arbitrage rebate liability	1,401	892
Investment income included as operating revenue	(14,517)	(17,905)
Interest expense included as operating expense	93,154	93,103
Total adjustments	(44,690)	38,482
Net cash provided (used) by operating activities	$ (19,844)	$ 67,039
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	$ 3,789	$ 1,713
Total noncash investing, capital, and financing activities	$ 3,789	$ 1,713

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

c. Basis of Accounting and Measurement Focus

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

d. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

f. Bond Issuance Costs and Refunding Costs

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

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

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

4. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

g. Cash and Cash Equivalents

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

h. Investments

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

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

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

At June 30, 2010, the bank balance was $533,214. At June 30, 2009, the bank balance was $1,404,893. All bank balances were insured. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report may be obtained by writing to the Tennessee Department of the Treasury, 502 Deaderick Street, Nashville, Tennessee 37243-0225, or by calling (615) 741-2956.

b. Investments

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

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

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

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

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

	June 30, 2010		**June 30, 2009**	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$110,758,327	1.464	$200,097,788	1.369
U.S. Agency Discount	40,000,000	0.000	60,948,600	0.255
U.S. Treasury Coupon	91,214,027	5.898	88,406,383	6.428
U.S. Treasury Discount	214,769,030	0.000	0	N/A
Repurchase Agreements	124,000,000	0.005	80,000,000	0.000
Pass through Securities			1,763,903	0.120
Total	$580,741,384	1.030	$429,452,771	1.753

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

Variable Rate Bonds.
The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on December 30, 2008. Although these securities were scheduled to mature on December 30, 2010, these bonds were called on December 30, 2009. The fair value of

these securities on June 30, 2009, was $3,019,689 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.8125 of par on January 28, 2009. Although these securities were scheduled to mature on July 28, 2014, these bonds were called on April 28, 2010. The fair value of these securities on June 30, 2009, was $1,970,000 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.84375 of par on January 30, 2009. Although these securities were scheduled to mature on January 30, 2014, these bonds were called on October 30, 2009. The fair value of these securities on June 30, 2009, was $2,000,626 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.6875 of par on April 17, 2009, and mature on April 17, 2024. The fair value of these securities on June 30, 2010, was $2,001,594, and on June 30, 2009, was $1,919,972 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 3.0% with a step-up option to 5.0% on April 17, 2012, to 6.0% on April 17, 2015, to 7.0% on April 17, 2018, and to 9.0% on April 17, 2021. This investment is callable quarterly beginning on October 17, 2009, and ending on January 17, 2024.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on May 13, 2009. Although these securities were scheduled to mature on May 13, 2010, these bonds were called on November 13, 2009. The fair value of these securities on June 30, 2009, was $5,000,157 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 100.302 of par on May 20, 2009. Although these securities were scheduled to mature on March 13, 2023, these bonds were called on September 13, 2009. The fair value of these securities on June 30, 2009, was $1,004,756 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at par on May 26, 2009. Although these securities were scheduled to mature on May 26, 2017, these bonds were called on May 26, 2010. The fair value of these securities on June 30, 2009, was $1,975,912 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,720,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.9687538 of par on May 28, 2009. Although these securities were scheduled to mature on May 28, 2014, these bonds were called on November 28, 2009. The fair value of these securities on June 30, 2009, was $3,679,314 which is included in U.S. Agency Coupon in the table above.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on June 19, 2009. Although these securities were scheduled to mature on June 15, 2010, these bonds were called on December 15, 2009. The fair value of these securities on June 30, 2009, was $5,003,125 which is included in U.S. Agency Coupon in the table above.

The agency purchased $425,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 100.96 of par on June 19, 2009. Although these securities were scheduled to mature on October 15, 2013, these bonds were called on October 15, 2009. The fair value of these securities on June 30, 2009, was $429,287 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on June 24, 2009. Although these securities were scheduled to mature on June 24, 2014, these bonds were called on December 24, 2009. The fair value of these securities on June 30, 2009, was $2,000,626 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,865,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.95 of par on November 12, 2009, and mature on November 12, 2024. The fair value of these securities on June 30, 2010, is $1,871,995 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 4.00% with a step-up option to 5.0% on November 12, 2013, to 6.5% on November 12, 2016, to 8.0% on November 12, 2018, to 9.0% on November 12, 2020, and to 10.0% on November 12, 2022. This investment is callable quarterly beginning on May 12, 2010, and ending on August 12, 2024.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 6, 2010, and mature on January 6, 2025. The fair value of these securities on June 30, 2010, is $5,001,563 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.00% with a step-up option to 6.5% on July 6, 2010. This investment is callable quarterly beginning on July 6, 2010, and ending on October 6, 2024.

The agency purchased $2,500,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.50 of par on January 28, 2010, and mature on January 28, 2025. The fair value of these securities on June 30, 2010, is $2,532,933 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 4.25% with a step-up option to 5.0% on January 28, 2015 and to 7.0% on January 28, 2020. This investment is callable quarterly beginning on January 28, 2011, and ending on October 28, 2024.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on May 27, 2010, and mature on November 27, 2015. The fair value of these securities on June 30, 2010, is $1,011,875 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.25% with a step-up option to 3.0% on May 27, 2012, to 4.0% on May 27, 2013, to 5.0% on May 27, 2014, and to 6.0% on May 27, 2015. This investment is callable quarterly beginning on May 27, 2011, and ending on August 27, 2015.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2010 and June 30, 2009 are included in the schedules below. Securities are rated using Standard and Poor's and / or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2010

Investment Type	Fair Value	U.S. Treasury / Agency[1]	Credit Quality Rating AAA	AA-2	A-1+[2]	Not Rated[3]
U.S. Agency Coupon	$110,758,327		$104,877,194	$5,226,172		$654,961
U.S. Agency Discount	40,000,000				$40,000,000	
U.S. Treasury Coupon	91,214,027	$91,214,027				
U.S.Treasury Discount	214,769,030	214,769,030				
Repurchase Agreements	124,000,000					124,000,000
Total	$580,741,384	$305,983,057	$104,877,194	$5,226,172	$40,000,000	$124,654,961

June 30, 2009

Investment Type	Fair Value	U.S. Treasury / Agency[1]	Credit Quality Rating AAAm	AAA	A-1+[2]	AA-2	Not Rated[3]
U.S. Agency Coupon	$200,097,788			$161,726,533		$4,940,625	$33,430,630
U.S. Agency Discount	60,948,600			29,949,000	$30,999,600		
U.S. Treasury Coupon	88,406,383	$88,406,383					
Repurchase Agreements	80,000,000						80,000,000
Pass Through Securities	1,763,903						1,763,903
Money Market Mutual Fund	58,869,923		$58,869,923				
Total	$490,086,597	$88,406,383	$58,869,923	$191,675,533	$30,999,600	$4,940,625	$115,194,533

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

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

Issuer	June 30, 2010 Fair Value	% of Portfolio	June 30, 2009 Fair Value	% of Portfolio
Federal Home Loan Bank	$51,165,877	8.81	$63,689,474	14.72
Federal Home Loan Mortgage Corp	N/A	N/A	$42,228,984	9.77
Federal National Mortgage Assoc	$73,222,727	12.61	$143,051,399	33.33
Repurchase Agreements – U.S. Agency	$124,000,000	21.35	$80,000,000	18.61

[1] Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.
[2] A-1+ is the highest rating category for short-term debt.
[3] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

NOTE 3. WARRANTS / WIRES PAYABLE

This amount includes the sum of warrants and wires initiated by the agency at year-end in excess of the agency's balance in the State Pooled Investment Fund that have not completely processed through the banking system. These warrants and wires are for grant payments for the Section 8 grant programs and will be reimbursed by the U. S. Department of Housing and Urban Development.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2010	Ending Balance 6/30/2009
MORTGAGE FINANCE PROGRAM BONDS					
2003A	7/1/2004-7/1/2034	$191,885	1.70 to 5.35	$93,060	$107,865
Less: Deferred Amount on Refundings				(2,730)	(2,882)
Net Mortgage Finance Program Bonds				$90,330	$104,983

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2010	Ending Balance 6/30/2009
HOMEOWNERSHIP PROGRAM BONDS					
1996-3	7/1/99-7/1/2028	$65,000	4.30 to 6.00	$ -0-	$7,570
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	17,480	19,030
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	17,285	19,320
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	11,450	13,410
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	11,885	13,730
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	5,625	6,335
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	13,355	15,835
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	5,850	6,555
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	17,150	21,565
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	-0-	21,025
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	16,290	20,460
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	61,045	63,830
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	21,255	23,655
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	19,855	22,675
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	29,115	32,240
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	33,865	38,880
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	23,145	26,285
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	32,615	36,285
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	38,555	43,025
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	46,495	51,555
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	60,715	68,135
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	64,665	71,445
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	72,745	80,495
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	75,235	83,990
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	79,910	87,630
2006-2	7/1/2007-1/1/2037	100,000	3.90 to 5.75	76,240	86,720
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	83,515	91,055

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2010	Ending Balance 6/30/2009
HOMEOWNERSHIP PROGRAM BONDS					
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	87,615	93,915
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	107,360	114,185
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	131,330	142,555
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	135,560	143,855
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	53,810	58,965
2008-2	7/1/2009-1/1/2027	50,000	3.25 to 5.75	45,040	50,000
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	82,595	90,000
2008-4	1/1/2010-7/1/2028	30,000	3.125 to 6.125	29,390	30,000
2009-1	1/1/2010-7/1/2029	50,000	.75 to 5.00	49,450	50,000
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	75,000	-0-
Total Homeownership Program Bonds		$3,073,855		$1,732,490	$1,846,210
Plus: Unamortized Bond Premiums				21,689	25,377
Less: Deferred Amount on Refundings				(3,086)	(4,009)
Net Homeownership Program Bonds				$1,751,093	1,867,578

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2010	Ending Balance 6/30/2009
HOUSING FINANCE PROGRAM BONDS					
2009-A	1/1/2011-1/1/2040	$100,000	0.900 to 4.625	$100,000	-0-
2009-B	7/1/2041	300,000	Variable	214,710	-0-
2010-A	1/1/2011-7/1/2041	74,710	0.600 to 5.0	160,000	-0-
Total Housing Finance Program Bonds		$474,710		$474,710	-0-
Plus: Unamortized Bond Premiums				730	-0-
Less: Deferred Amount on Refundings				(115)	-0-
Net Housing Finance Program Bonds				$475,325	-0-
Net Total All Issues				$2,316,748	$1,972,561

The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA may release funds from issue 2009-B up to three times before December 31, 2010.

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 which is in the ending balance at June 30, 2010 column.

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

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2010 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2011	$269,962	$92,960	$362,922
2012	45,635	86,458	132,093
2013	42,210	84,986	127,196
2014	43,245	83,499	126,744
2015	44,640	81,861	126,501
2016 – 2020	197,848	381,358	579,206
2021 – 2025	249,383	336,647	586,030
2026 – 2030	273,457	270,967	544,424
2031 – 2035	270,933	208,491	479,424
2036 – 2040	585,366	97,301	682,667
2041 - 2042	300,000	5,066	305,066
Total	$2,322,679	$1,729,594	$4,052,273

The debt principal in the preceding table is $5,931,000 greater than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the year ended June 30, 2010, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $10,695,000 and in the Homeownership Program in the amount of $168,625,000. The respective carrying values of the bonds were $10,651,667 and $170,939,715. This resulted in an expense to the Mortgage Finance Program of $43,333 and in income to the Homeownership Program of $2,314,715.

On June 17, 2010, the agency issued $74,710,000 in Housing Finance Program Bonds, Issue 2010-A. On June 17, 2010, the agency used $20,595,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $20,595,000 early redemption). The carrying amount of these bonds was $20,478,986. The refunding resulted in a difference of $116,014 between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by $5,910,703 over the next 15 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,812,047.

During the year ended June 30, 2009, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $11,245,000 and in the Homeownership Program in the amount of $107,985,000. The respective carrying values of the bonds were $11,187,700 and $110,279,862. This resulted in an expense to the Mortgage Finance Program of $57,300 and in income to the Homeownership Program of $2,294,862.

On July 1, 2008, a fourth drawdown was made on the Series 2007 CN-1 Notes in the amount of $44,330,000. These proceeds were used on the same day to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $35,785,000 early redemption and $8,545,000 current maturities). The carrying amount of these bonds was $45,277,489. The refunding resulted in a difference of $947,489 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On August 7, 2008, the agency issued $50,000,000 in Homeownership Bonds, Issue 2008-2. On August 14, 2008, the agency used these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used November 1, 2007, January 2, 2008, and July 1, 2008 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $20,171,444 over the next 14 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $1,628,880.

On December 18, 2008, the agency issued $30,000,000 in Homeownership Bonds, Issue 2008-4. On January 2, 2009, the agency used $4,820,000 of these bonds to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $675,000 early redemption and $4,145,000 current maturities). The carrying amount of these bonds was $4,814,144. The refunding resulted in a difference of $5,856 between the reacquisition price and the net carrying amount of the old debt. The refunding increased the agency's debt service by $2,590,125 over the next 10.5 years, and the agency realized an economic loss (the difference between the present values of the old and new debt service payments) of $51,209.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2010.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2009	Additions	Reductions	Ending Balance June 30, 2010	Amounts Due Within One Year
Notes Payable	$3,250	$500	($78)	$3,672	$-0-
Bonds Payable	1,954,075	549,710	(203,525)	2,300,260	128,200
Plus: Unamortized Bond Premiums	25,377	1,263	(4,221)	22,419	-0-
Less: Deferred Amount on Refundings	(6,891)	(125)	1,085	(5,931)	-0-
Compensated Absences	1,072	117	(244)	945	494
Net OPEB Obligation	602	235	(43)	794	-0-
Escrow Deposits	4,884	4,535	(4,441)	4,978	585
Arbitrage Rebate Payable	3,146	2,043	(642)	4,547	-0-
Deferred Revenue	37	76	(113)	-0-	-0-
Total	$1,985,552	$558,354	($212,222)	$2,331,684	$129,279

The following table is a summary of the long-term liability activity for the year ended June 30, 2009.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2008	**Additions**	**Reductions**	**Ending Balance June 30, 2009**	**Amounts Due Within One Year**
Notes Payable	$88,720	$47,580	($133,050)	$3,250	$-0-
Bonds Payable	1,929,270	220,000	(195,195)	1,954,075	79,315
Plus: Unamortized Bond Premiums	30,439	-0-	(5,062)	25,377	-0-
Less: Deferred Amount on Refundings	(7,414)	(426)	949	(6,891)	-0-
Compensated Absences	888	184	(-0-)	1,072	515
Net OPEB Obligation	281	449	(128)	602	-0-
Escrow Deposits	8,249	1,223	(4,588)	4,884	643
Arbitrage Rebate Payable	2,254	1,005	(113)	3,146	-0-
Deferred Revenue	227	294	(484)	37	8
Total	$2,052,914	$270,309	($337,671)	$1,985,552	$80,481

e. Notes Issued and Outstanding

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

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

The following table is a summary of the drawdown note activity for the year ended June 30, 2009.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2008	Additions	Reductions	Ending Balance 6/30/2009
SINGLE FAMILY MORTGAGE NOTES							
2007CN-1	8/12/2010	$ 450,000	0.000 to 4.822	$88,720	$44,330	$(133,050)	$-0-

There was no drawdown activity during the year ended June 30, 2010.

Promissory Note. On December 22, 2008, the agency borrowed $3,250,000 for the Preserve Loan Program, which is part of the Housing Trust Fund. Interest is being charged quarterly at 3% with the principal maturing on December 22, 2011. On August 3, 2009, the agency borrowed $500,000 at 3% for the Preserve Loan Program, which is part of the Housing Trust Fund. Principal and interest are paid monthly with the principal maturing on August 4, 2012.

The activity of the 2007CN-1 notes shown above as well as the promissory note are also included in the summary of long-term liability activity in part d. of this note.

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

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 502 Deaderick Street, Nashville, Tennessee, 37243-0201 or by calling (615) 741-7063.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 13.02% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2010, 2009, and 2008, were $1,295,272, $1,201,303, and $1,297,298. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

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

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2010, and June 30, 2009, are presented in the *Tennessee Comprehensive Annual Financial Report*. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

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

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (*TCA*) Section 8-27-201 for the state plan and *TCA* 8-27-701 for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. The POS and HMO options will no longer be available to members after January 1, 2011. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243, or by calling (615) 741-2140.

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

Funding Policy. The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to participants. Retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

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

	June 30, 2010	June 30, 2009
Annual Required Contribution (ARC)	$351	$448
Interest on the Net OPEB Obligation	25	13
Adjustment to the ARC	(24)	(12)
Annual OPEB cost	352	449
Amount of contribution	(160)	(128)
Increase in Net OPEB Obligation	192	321
Net OPEB obligation-beginning of year	602	281
Net OPEB obligation-end of year	$794	$602

Year End	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At Year End (Thousands)
6/30/2008	State Employee Group Plan	$ 443	37%	$ 281
6/30/2009	State Employee Group Plan	$ 449	29%	$ 602
6/30/2010	State Employee Group Plan	$ 352	45%	$ 794

Funded Status and Funding Progress. The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2009, was as follows (Thousands):

Actuarial valuation date	7/01/2009
Actuarial accrued liability (AAL)	$ 3,629
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	$ 3,629
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 9,238
UAAL as a percentage of covered payroll	39%

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

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

In the July 1, 2009, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6 percent initially, increased to 10 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

NOTE 10. ON-BEHALF PAYMENTS

During the year ended June 30, 2010, the State of Tennessee made payments of $2,657 on behalf of THDA for retirees participating in the Medicare Supplement Plan, and during the year ended June 30, 2009, made payments of $2,528. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass

Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243, or by calling (615) 741-2140.

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. PRIOR – PERIOD ADJUSTMENT

For the years ended June 30, 2008 and June 30, 2009, the agency recorded federal administrative fee revenue on a cash basis instead of on an accrual basis. Therefore, the agency is restating its FY 2009 statements and effecting a prior period adjustment for FY 2008 for these fees.

For the year ended June 30, 2008, revenue in the amount of $1,286,244 was earned on or before June 30, 2008, but received on or after July 1, 2008. This revenue was recorded as an increase to cash and a recognition of revenue for the year ended June 30, 2009. If correctly recorded, this would have resulted in an increase to accounts receivable and recognition of revenue for the year ended June 30, 2008, and an increase to cash and a decrease to accounts receivable for the year ended June 30, 2009. As this error was made in a financial year prior to the comparative year, the opening Net Assets amount as of July 1, 2008 was increased by $1,286,244.

For the year ended June 30, 2009, revenue in the amount of $1,907,676 was earned on or before June 30, 2009, but received on or after July 1, 2009. If correctly recorded, this revenue would have resulted in an increase to accounts receivable and recognition of revenue for the year ended June 30, 2009.

The following financial statement line items for the year ended June 30, 2009 were affected by the correction of an error in previously issued financial statements on accrued federal administration fee revenue (expressed in thousands):

	As Originally reported	As Adjusted	Effect of change
Statements of net assets			
As of June 30, 2009			
Assets			
Current Assets			
Due from federal government	$11,589	$13,497	$1,908
Net Assets			
Unrestricted	$ -	$1,908	$1,908
Statements of revenues, expenses, and changes in net assets			
For the year ended June 30, 2009			
Operating Revenues			
Federal grant administration fees	$11,148	$11,770	$622
Operating income	$27,935	$28,557	$622
Statements of cash flows			
For the year ended June 30, 2009			
Reconciliation of operating income to net cash used by operating activities:			
Operating Income	$27,935	$28,557	$622
Adjustments to reconcile operating income to net cash used by operating activities:			
(Increase) in due from federal government	($5,036)	($5,658)	($622)

NOTE 13. SUBSEQUENT EVENTS

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

July 1, 2010	Mortgage Finance Program	$ 3,305,000
	Homeownership Program	$74,945,000
	Housing Finance Program	$ 455,000
	Total	$78,705,000

b. On September 1, 2010, the U.S. Department of the Treasury announced changes to the New Issue Bond Program (NIBP). These changes included extending the program from its original date of December 31, 2010 until December 31, 2011; and increasing the number of NIBP draws from three to six.

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

October 1, 2010	Mortgage Finance Program	$ 3,455,000
	Homeownership Program	$47,985,000
	Housing Finance Program	$ 425,000
	Total	$51,865,000

d. Homeownership Program Bonds, Issue 2010-1, were sold on October 13, 2010. The bond maturities are as follows:

BONDS ISSUED (Thousands)			
Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2010-1	1/1/2011-7/1/2025	$120,700	0.350 to 4.500
TOTAL ALL ISSUES		$120,700	

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

November 1, 2010	Homeownership Program	$99,835,000
	Total	$99,835,000

f. Housing Finance Program Bonds, Issue 2010-B, were sold on November 10, 2010. The bond maturities are as follows:

BONDS ISSUED (Thousands)			
Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2010-B	1/1/2011-7/1/2028	$40,000	0.450 to 4.500
TOTAL ALL ISSUES		$40,000	

g. Housing Finance Program Bonds, Issue 2009-B, Subseries B-2, were sold on November 10, 2010. The bond maturities are as follows:

BONDS ISSUED (Thousands)			
Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2009-B, Subseries B-2	7/1/2041	$60,000	3.16
TOTAL ALL ISSUES		$60,000	

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

Actuarial Valuation Date*	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2007	State Employee Group Plan	$ -0-	$ 3,902	$ 3,902	0%	$ 9,595	41%
7/1/2009	State Employee Group Plan	$ -0-	$ 3,629	$ 3,629	0%	$ 9,238	39%

*One additional year will be reported as data becomes available.

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2010
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	$ 3,774	$ 35,134	$ 193,346	$ 37,850	$ 84	$ 270,188
Investments	-	4,475	10,104	-	-	14,579
Receivables:						
Accounts	-	1,497	26,326	640	-	28,463
Interest	125	1,192	11,095	846	-	13,258
First mortgage loans	-	5,941	38,006	4,654	-	48,601
Due from federal government	22,775	-	-	-	-	22,775
Due from other funds	-	1,320	-	-	-	1,320
Total current assets	26,674	49,559	278,877	43,990	84	399,184
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	-	1,004	17,050	216,214	-	234,268
Investments	-	16,662	157,580	7,509	-	181,751
Investment Interest receivable	-	169	1,881	119	-	2,169
Investments	-	12,879	2,764	-	-	15,643
First mortgage loans receivable	261	147,610	1,688,513	230,613	-	2,066,997
Deferred charges	1	437	11,247	1,524	-	13,209
Advance to local government	2,952	-	-	-	-	2,952
Capital assets:						
Furniture and equipment	346	-	-	-	-	346
Less accumulated depreciation	(267)	-	-	-	-	(267)
Total noncurrent assets	3,293	178,761	1,879,035	455,979	-	2,517,068
Total assets	29,967	228,320	2,157,912	499,969	84	2,916,252
LIABILITIES						
Current liabilities:						
Warrants / wires payable	8,297	-	-	-	-	8,297
Accounts payable	6,509	22	78	8	-	6,617
Accrued payroll and related liabilities	443	-	-	-	-	443
Compensated absences	494	-	-	-	-	494
Interest payable	-	2,294	42,842	2,131	-	47,267
Escrow deposits	-	585	-	-	-	585
Prepayments on mortgage loans	-	108	1,529	225	-	1,862
Due to other funds	1,320	-	-	-	-	1,320
Bonds payable	-	10,535	115,165	2,500	-	128,200
Total current liabilities	17,063	13,544	159,614	4,864	-	195,085
Noncurrent liabilities:						
Notes payable	3,672	-	-	-	-	3,672
Bonds payable	-	79,795	1,635,928	472,825	-	2,188,548
Compensated absences	451	-	-	-	-	451
Net OPEB obligation	794	-	-	-	-	794
Escrow deposits	252	4,141	-	-	-	4,393
Arbitrage rebate payable	-	-	4,270	199	78	4,547
Total noncurrent liabilities	5,169	83,936	1,640,198	473,024	78	2,202,405
Total liabilities	22,232	97,480	1,799,812	477,888	78	2,397,490
NET ASSETS						
Invested in capital assets	79	-	-	-	-	79
Restricted for single family bond programs	-	124,768	358,100	22,081	6	504,955
Restricted for grant programs	202	6,072	-	-	-	6,274
Restricted for Homebuyers Revolving Loan Prograr	3,154	-	-	-	-	3,154
Unrestricted	4,300	-	-	-	-	4,300
Total net assets	$ 7,735	$ 130,840	$ 358,100	$ 22,081	$ 6	$ 518,762

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES						
Mortgage interest income	$ 2	$ 7,970	$ 107,457	$ 3,143	$ -	$ 118,572
Investment income:						
Interest	144	2,072	10,561	69	-	12,846
Net increase (decrease) in the fair value of investments	-	(115)	1,601	185	-	1,671
Federal grant administration fees	15,136	-	-	-	-	15,136
Fees and other income	2,098	354	-	-	-	2,452
Total operating revenues	17,380	10,281	119,619	3,397	-	150,677
OPERATING EXPENSES						
Salaries and benefits	13,841	-	-	-	-	13,841
Contractual services	3,315	-	-	-	-	3,315
Materials and supplies	321	-	-	-	-	321
Rentals and insurance	90	-	-	-	-	90
Other administrative expenses	502	-	-	-	-	502
Other program expenses	934	2,573	2,884	19	23	6,433
Interest expense	110	4,953	85,940	2,151	-	93,154
Mortgage service fees	-	489	6,697	208	-	7,394
Issuance costs	-	45	656	22	-	723
Depreciation	58	-	-	-	-	58
Total operating expenses	19,171	8,060	96,177	2,400	23	125,831
Operating income (loss)	(1,791)	2,221	23,442	997	(23)	24,846
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	253,712	-	-	-	-	253,712
Other grant revenue	-	705	-	-	-	705
Federal grants expenses	(253,618)	13	-	-	-	(253,605)
Local grants expenses	(2,352)	(6,320)	(8,197)	-	-	(16,869)
Total nonoperating revenues (expenses)	(2,258)	(5,602)	(8,197)	-	-	(16,057)
Income (loss) before transfers	(4,049)	(3,381)	15,245	997	(23)	8,789
Transfers (to) other funds	-	(7,101)	(17,606)	-	-	(24,707)
Transfers from other funds	3,611	-	-	21,084	12	24,707
Change in net assets	(438)	(10,482)	(2,361)	22,081	(11)	8,789
Total net assets, July 1	8,173	141,322	360,461	-	17	509,973
Total net assets, June 30	$ 7,735	$ 130,840	$ 358,100	$ 22,081	$ 6	$ 518,762

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:						
Receipts from customers	$ (47)	$ 25,062	$ 336,878	$ 2,790	$ -	$ 364,683
Receipts from federal government	15,117	-	-	-	-	15,117
Receipts from other funds	9,297	-	-	-	-	9,297
Other miscellaneous receipts	2,221	354	-	-	-	2,575
Acquisition of mortgage loans	-	(9,188)	(124,625)	(236,175)	-	(369,988)
Payments to service mortgages	-	(489)	(6,697)	(208)	-	(7,394)
Payments to suppliers	(5,073)	(2,518)	(3,929)	(11)	(12)	(11,543)
Payments to federal government	-	-	(71)	199	-	128
Payments to other funds	-	(1,320)	(7,977)	-	-	(9,297)
Payments to employees	(13,422)	-	-	-	-	(13,422)
Net cash provided (used) by operating activities	8,093	11,901	193,579	(233,405)	(12)	(19,844)
Cash flows from non-capital financing activities:						
Operating grants received	244,453	705	-	-	-	245,158
Transfers in (out)	3,611	(7,101)	(17,490)	20,968	12	-
Negative cash balance implicitly financed (repaid)	(4,153)	-	-	-	-	(4,153)
Proceeds from sale of bonds	-	-	75,531	475,442	-	550,973
Proceeds from issuance of notes	500	-	-	-	-	500
Operating grants paid	(251,713)	(6,307)	(8,197)	-	-	(266,217)
Cost of issuance paid	-	-	(691)	(1,546)	-	(2,237)
Principal payments	(78)	(14,805)	(188,720)	-	-	(203,603)
Interest paid	(110)	(5,134)	(88,510)	(21)	-	(93,775)
Net cash provided (used) by non-capital financing activities	(7,490)	(32,642)	(228,077)	494,843	12	226,646
Cash flows from capital and related financing activities:						
Purchases of capital assets	(108)	-	-	-	-	(108)
Net cash used by capital and related financing activities	(108)	-	-	-	-	(108)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	121,041	338,391	375	-	459,807
Purchases of investments	-	(84,697)	(226,508)	(7,897)	-	(319,102)
Investment interest received	19	2,239	11,230	69	-	13,557
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	1	11	79	-	91
Net cash provided (used) by investing activities	19	38,584	123,124	(7,374)	-	154,353
Net increase in cash and cash equivalents	514	17,843	88,626	254,064	-	361,047
Cash and cash equivalents, July 1	3,260	18,295	121,770	-	84	143,409
Cash and cash equivalents, June 30	$ 3,774	$ 36,138	$ 210,396	$ 254,064	$ 84	$ 504,456

(continued)

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	$ (1,791)	$ 2,221	$ 23,442	$ 997	$ (23)	$ 24,846
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	58	45	656	22	-	781
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	486	(7,352)	(640)	-	(7,506)
(Increase) decrease in mortgage interest receivable	-	55	522	(846)	-	(269)
(Increase) decrease in first mortgage loans receivable	(60)	7,322	111,792	(235,267)	-	(116,213)
(Increase) in due from federal government	(19)	-	-	-	-	(19)
(Increase) decrease in deferred charges	24	43	(2,304)	-	-	(2,237)
Decrease in other receivables	123	-	-	-	-	123
Decrease in interfund receivables	9,297	-	-	-	-	9,297
(Decrease) in interfund payables	-	(1,320)	(7,977)	-	-	(9,297)
Increase (decrease) in accounts payable	379	90	(169)	233	-	533
Increase in accrued payroll / compensated absences	116	-	-	-	-	116
(Decrease) in deferred revenue	-	(37)	-	-	-	(37)
Increase in arbitrage rebate liability	-	-	1,191	199	11	1,401
Investment income included as operating revenue	(144)	(1,957)	(12,162)	(254)	-	(14,517)
Interest expense included as operating expense	110	4,953	85,940	2,151	-	93,154
Total adjustments	9,884	9,680	170,137	(234,402)	11	(44,690)
Net cash provided (used) by operating activities	$ 8,093	$ 11,901	$ 193,579	$ (233,405)	$ (12)	$ (19,844)
Noncash investing, capital, and financing activities:						
Increase in fair value of investments	-	498	3,170	121	-	3,789
Total noncash investing, capital, and financing activities	$ -	$ 498	$ 3,170	$ 121	$ -	$ 3,789

Exhibit D

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2010
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 17,383	$ 15,920	$ 33,303	$ 1,831	$ 35,134
Investments	2,409	1,611	4,020	455	4,475
Receivables:					
Accounts	1,408	84	1,492	5	1,497
Interest	974	206	1,180	12	1,192
First mortgage loans	5,057	884	5,941	-	5,941
Due from other funds	-	1,320	1,320	-	1,320
Total current assets	27,231	20,025	47,256	2,303	49,559
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	1,004	-	1,004	-	1,004
Investments	16,662	-	16,662	-	16,662
Investment interest receivable	169	-	169	-	169
Investments	1,999	10,024	12,023	856	12,879
First mortgage loans receivable	144,233	3,377	147,610	-	147,610
Deferred charges	437	-	437	-	437
Total noncurrent assets	164,504	13,401	177,905	856	178,761
Total assets	191,735	33,426	225,161	3,159	228,320
LIABILITIES					
Current liabilities:					
Accounts payable	4	18	22	-	22
Interest payable	2,294	-	2,294	-	2,294
Escrow deposits	-	-	-	585	585
Prepayments on mortgage loans	105	3	108	-	108
Bonds payable	10,535	-	10,535	-	10,535
Total current liabilities	12,938	21	12,959	585	13,544
Noncurrent liabilities:					
Bonds payable	79,795	-	79,795	-	79,795
Escrow deposits	-	1,787	1,787	2,354	4,141
Total noncurrent liabilities	79,795	1,787	81,582	2,354	83,936
Total liabilities	92,733	1,808	94,541	2,939	97,480
NET ASSETS					
Restricted for single family bond programs	99,002	25,546	124,548	220	124,768
Restricted for grant programs	-	6,072	6,072	-	6,072
Total net assets	$ 99,002	$ 31,618	$ 130,620	$ 220	$ 130,840

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

Tennessee Housing Development Agency

Leading Tennessee Home

FINANCIAL STATEMENTS

June 30, 2009

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

November 6, 2009

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

Ladies and Gentlemen:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2009, and June 30, 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2009, and June 30, 2008, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.l. to the financial statements, during the year ended June 30, 2008, the agency implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*

The management's discussion and analysis and the schedule of funding progress are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, following the schedule of funding progress, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated November 6, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/tlh

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2009 and June 30, 2008. This information is being presented to provide additional information regarding the activities of THDA and to meet the reporting and disclosure requirements of the Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists people is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2009, THDA has originated over 101,000 single-family mortgage loans in its 36-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher program in approximately 74 of Tennessee's 95 counties, as well as project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide useful 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, other supplementary information is included.

THDA is also considered to be a "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at http://tennessee.gov/finance/act/cafr.html.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2009

- Total assets decreased by $47.4 million, or 1.8 %.
- Total liabilities decreased by $63.0 million, or 3.0%.
- Net assets (the amount that total assets exceeds total liabilities) were $508.1 million. This is an increase of $15.6 million, or 3.2%, from fiscal year 2008.
- Cash and cash equivalents decreased $129.0 million, or 47.4%.
- Total investments increased $55.2 million, or 18.6%.
- Bonds and notes payable decreased $65.2 million, or 3.2%.
- THDA originated $214.5 million in new loans, which is a decrease of $233.7 million, or 52.1%, from the prior year.

Year Ended June 30, 2008

- Total assets increased by $25.0 million, or 1.0 %.
- Total liabilities decreased by $10.1 million, or 0.5%.
- Net assets (the amount that total assets exceeds total liabilities) were $492.5 million. This is an increase of $35.1 million, or 7.7%, from fiscal year 2007.
- Cash and cash equivalents decreased $193.0 million, or 41.5%.
- Total investments decreased $76.1 million, or 20.5%.
- Bonds and notes payable decreased $18.9 million, or 0.9%.
- THDA originated $448.2 million in new loans, which is an increase of $40.1 million, or 9.8%, from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

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

	2009	2008	2007
Current assets	$ 311,109	$ 374,908	$ 577,369
Capital assets	29	79	65
Other noncurrent assets	2,247,094	2,230,603	2,003,173
Total assets	2,558,232	2,605,590	2,580,607
Current liabilities	145,096	165,375	404,643
Noncurrent liabilities	1,905,071	1,947,753	1,718,572
Total liabilities	2,050,167	2,113,128	2,123,215
Invested in capital assets	29	79	65
Restricted net assets	508,036	492,193	455,765
Unrestricted net assets	-	190	1,562
Total net assets	$ 508,065	$ 492,462	$ 457,392

2009 to 2008

- THDA's total net assets increased $15.6 million, or 3.2%, from $492.5 million at June 30, 2008 to $508.1 million at June 30, 2009. This primarily resulted from an increase in mortgage interest income, and an increase in the fair value of investments.

- Mortgage loans receivable increased $13.6 million, or 0.7%, from $1,985.8 million at June 30, 2008 to $1,999.4 million at June 30, 2009. This is not a significant change from the prior year.

- Total liabilities decreased $63.0 million, or 3.0%, from $2,113.1 million at June 30, 2008 to $2,050.2 million at June 30, 2009. The decrease is primarily due to a reduction in the amount of bonds issued during fiscal year 2009 as compared to fiscal year 2008, as well as the redemption of $83.1 million of its Single Family Mortgage Notes (please refer to Note 4 of the Notes to the Financial Statements for more information).

2008 to 2007

- THDA's total net assets increased $35.1 million, or 7.7%, from $457.4 million at June 30, 2007 to $492.5 million at June 30, 2008. This primarily resulted from an increase in mortgage interest income, and an increase in the fair value of investments.

- Mortgage loans receivable increased $284.7 million, or 16.7%, from $1,701.2 million at June 30, 2007 to $1,985.8 million at June 30, 2008. This increase resulted from a continuation of higher mortgage loan production than is typical for THDA.

- Total liabilities decreased $10.1 million, or 0.5%, from $2,123.2 million at June 30, 2007 to $2,113.1 million at June 30, 2008. The decrease is primarily due to a decrease in the amount of bonds issued during fiscal year 2008 as compared to fiscal year 2007.

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

	2009	2008	2007
Operating revenues			
Mortgage interest income	$ 119,500	$ 111,142	$ 93,387
Investment income	17,905	38,756	43,643
Other	13,564	14,465	14,518
Total operating revenues	150,969	164,363	151,548
Operating expenses			
Interest expense	93,103	97,328	96,887
Other	29,931	29,934	25,949
Total operating expenses	123,034	127,262	122,836
Operating income	27,935	37,101	28,712
Nonoperating revenues (expenses)			
Grant revenues	186,800	185,204	161,976
Grant expenses	(199,132)	(187,235)	(166,647)
Total nonoperating revenues (expenses)	(12,332)	(2,031)	(4,671)
Change in net assets	$ 15,603	$ 35,070	$ 24,041

2009 to 2008

For the year ended June 30, 2009, total operating revenues decreased $13.4 million from $164.4 million for the year ended June 30, 2008 to $151.0 million for the year ended June 30, 2009. The primary reasons for this decrease are as follows:

- Mortgage interest income increased $8.4 million, or 7.5%, from $111.1 million in 2008 to $119.5 million in 2009. This increase is due to record high origination of new mortgage loans as experienced during FY 2007 and FY 2008.

- Investment income decreased $20.9 million, or 53.8%, from $38.8 million in 2008 to $17.9 million in 2009. This decrease is primarily due to a decrease in the total amount of invested funds during FY 2009 as compared to FY 2008, as well as a decrease in the investment interest rates.

For the year ended June 30, 2009, total operating expenses decreased $4.3 million, or 3.3%, from $127.3 million in 2008 to $123.0 million in 2009. This decrease is primarily due to a decrease in interest expense as a result of debt management practices.

2008 to 2007

For the year ended June 30, 2008, total operating revenues increased $12.8 million from $151.6 million for the year ended June 30, 2007, to $164.4 million for the year ended June 30, 2008. The primary reasons for this increase are as follows:

- Mortgage interest income increased $17.7 million, or 19.0%, from $93.4 million in 2007 to $111.1 million in 2008. This increase is due to a decrease in mortgage loan prepayments, as well as the result of record high origination of new mortgage loans as experienced during FY 2007 and FY 2008.

- Investment income decreased $4.8 million, or 11.2%, from $43.6 million in 2007 to $38.8 million in 2008. This decrease is primarily due to a decrease in the total amount of invested funds during FY 2008, as compared to FY 2007, as well as a decrease in the investment interest rates.

For the year ended June 30, 2008, total operating expenses increased $4.5 million, or 3.6%, from $122.8 million in 2007 to $127.3 million in 2008. This increase is primarily due to an increase in salary expense of $1.4 million, from $12.2 million in 2007 to $13.6 million in 2008.

While the total net assets for fiscal year 2008 increased $35.1 million from the previous year, the non-monetary accretion of deep discount bonds and the change in the fair value of investments contributed $7.2 million toward this increase. When considered without these non-monetary components, net assets would have increased $27.9 million.

DEBT ACTIVITY

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

	2009	2008	2007
Bonds payable	$ 1,972,561	$ 1,952,295	$ 1,812,267
Notes payable	3,250	88,720	247,675
Total bonds and notes payable	$ 1,975,811	$ 2,041,015	$ 2,059,942

Year Ended June 30, 2009
Total bonds and notes payable decreased $65.2 million, or 3.2%, due primarily to a redemption of THDA's Single Family Mortgage Notes in the amount of $83.1 million. Please see Note 4 (e) for more information regarding this transaction. During the fiscal year, THDA issued debt totaling $267.6 million, with activity arising from four bond issues totaling $220.0 million and one note draw under the single family mortgage note program totaling $44.3 million. In addition, THDA obtained a $3.25 million loan from a local financial institution for the Housing Trust Fund. Principal redemptions decreased $256.1 million, from $584.4 million in FY 2008 to $328.2 million in FY 2009.

Year Ended June 30, 2008
Total bonds and notes payable decreased $18.9 million, or .9%, due primarily to an increase in the redemption of THDA's bonds and notes. During the fiscal year, THDA issued debt totaling $567.3 million, with activity arising from three bond issues totaling $368.3 million and three draws under the single family mortgage note program totaling $199.0 million. However, principal redemptions increased $245.7 million, from $338.7 million in FY 2007 to $584.4 million in FY 2008.

Note Authority
On July 19, 2007, THDA's board of directors authorized the issuance of Single Family Mortgage Note, Series 2007CN-1. This $450 million drawdown note with a final maturity of August 12, 2010 closed on August 9, 2007.

Additional information on THDA's long-term debt is presented in Note 4 to the financial statements.

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

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

Debt Limits

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

GRANT PROGRAMS

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

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

	FY 2007	FY 2008	FY 2009	Total
Funding Sources:				
THDA	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 18,000,000
State Appropriation	1,000,000	3,000,000	350,000	4,350,000
Totals	**$ 7,000,000**	**$ 9,000,000**	**$ 6,350,000**	**$ 22,350,000**
Approved Uses:				
Rural repair program (USDA)	$ 700,000	$ 700,000	$ 700,000	$ 2,100,000
Ramp Program (UCP)	50,000	-	-	50,000
Ramp Program	100,000	150,000	150,000	400,000
Homebuyer Education Initiative	150,000	150,000	-	300,000
Emergency Repairs for Elderly	2,000,000	2,000,000	2,000,000	6,000,000
Competitive Grants	4,000,000	6,000,000	3,500,000	13,500,000
Totals	**$ 7,000,000**	**$ 9,000,000**	**$ 6,350,000**	**$ 22,350,000**

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

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

During FY 2009, THDA received a loan of $3.25 million from a local financial institution for the Housing Trust Fund. These funds will be used to fund short-term second mortgages for low income Tennesseans for homeowner rehabilitation. As required by the lending financial institution, this program is limited to residents in middle Tennessee. THDA is actively pursuing additional financial institutions to also join this program throughout the state.

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

During FY 2007, much media attention was devoted to certain types of mortgages commonly known as "sub-prime" mortgages.

THDA offers three primary choices for single-family mortgages. The *Great Rate* mortgage product offers a below market interest rate loan secured by a first mortgage. The *Great Start* program offers a loan with an interest rate that is 60 basis points higher than the Great Rate product, but provides 4% of the loan amount as down payment and closing cost assistance. In addition, THDA introduced the *Great Advantage* product during fiscal year 2007, which offers a loan with an interest rate that is 30 basis points higher than the Great Rate product, and 2% of the loan amount as down payment and closing cost assistance.

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

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

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

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

Loans with a 78% LTV or lower do not require mortgage insurance. The maximum acceptable LTV is 97%.

A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at http://www.thda.org/Programs/Mortgage/choices.html.

More recently, media attention has focused on mortgage loan delinquencies and foreclosures. For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Rate, Great Start, and Great Advantage), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2009, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount	Percentage
60-89 Days Past Due	25,914	778	54,242,587	3.00%
90+ Days Past Due	25,914	1,452	103,219,318	5.60%
In Foreclosure	25,914	154	11,243,068	0.59%

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

As of June 30, 2008, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount	Percentage
60-89 Days Past Due	26,071	718	48,525,692	2.75%
90+ Days Past Due	26,071	1,089	70,223,930	4.18%
In Foreclosure	26,071	87	5,326,487	0.33%

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

ECONOMIC FACTORS

Fiscal Year 2009 saw a continuation of decreasing interest rates that were first noted in July 2007. Interest rates fell from July 2006 through May 2007, briefly reversed up until July 2007, but have trended downward ever since.

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

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

CONTACTING THDA's FINANCIAL MANAGEMENT

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND JUNE 30, 2008
(Expressed in Thousands)

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 132,294	$ 267,393
Investments (Note 2)	88,217	29,908
Receivables:		
Accounts	20,957	9,761
Interest	13,794	11,909
First mortgage loans	44,135	43,983
Other	123	113
Due from federal government	11,589	11,841
Total current assets	311,109	374,908
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	11,115	4,996
Investments (Note 2)	183,261	195,562
Investment interest receivable	1,956	2,543
Investments (Note 2)	79,738	70,585
First mortgage loans receivable	1,955,274	1,941,831
Deferred charges	12,822	12,204
Advance to local government	2,928	2,882
Capital assets:		
Furniture and equipment	238	238
Less accumulated depreciation	(209)	(159)
Total noncurrent assets	2,247,123	2,230,682
Total assets	2,558,232	2,605,590
LIABILITIES		
Current liabilities:		
Warrants / wires payable (Note 3)	12,450	7,625
Accounts payable	1,975	2,873
Accrued payroll and related liabilities	392	410
Compensated absences	515	426
Due to primary government	-	3
Interest payable	47,990	47,287
Escrow deposits	643	3,837
Prepayments on mortgage loans	1,808	2,016
Bonds payable (Note 4)	79,315	100,890
Deferred revenue	8	8
Total current liabilities	145,096	165,375
Noncurrent liabilities:		
Notes payable (Note 4)	3,250	88,720
Bonds payable (Note 4)	1,893,246	1,851,405
Compensated absences	557	462
Net OPEB obligation (Note 9)	602	281
Escrow deposits	4,241	4,412
Arbitrage rebate payable	3,146	2,254
Deferred revenue	29	219
Total noncurrent liabilities	1,905,071	1,947,753
Total liabilities	2,050,167	2,113,128
NET ASSETS		
Invested in capital assets	29	79
Restricted for single family bond programs (Note 5 and Note 7)	492,973	478,807
Restricted for grant programs (Note 5)	11,909	10,232
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154
Unrestricted (Note 7)	-	190
Total net assets	$ 508,065	$ 492,462

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008
(Expressed in Thousands)

	2009	2008
OPERATING REVENUES		
Mortgage interest income	$ 119,500	$ 111,142
Investment income:		
Interest	15,344	23,965
Net increase in the fair value of investments	2,561	14,791
Federal grant administration fees	11,148	10,692
Fees and other income	2,416	3,773
Total operating revenues	150,969	164,363
OPERATING EXPENSES		
Salaries and benefits	13,743	13,562
Contractual services	2,624	2,659
Materials and supplies	527	788
Rentals and insurance	1,212	1,180
Other administrative expenses	639	671
Other program expenses	3,140	3,417
Interest expense	93,103	97,328
Mortgage service fees	7,303	6,867
Issuance costs	693	733
Depreciation	50	57
Total operating expenses	123,034	127,262
Operating income	27,935	37,101
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	185,092	181,661
Other grants revenue	1,358	543
Payment from primary government	350	3,000
Federal grants expenses	(189,042)	(179,495)
Local grants expenses	(10,090)	(7,740)
Total nonoperating revenues (expenses)	(12,332)	(2,031)
Change in net assets	15,603	35,070
Total net assets, July 1	492,462	457,392
Total net assets, June 30	$ 508,065	$ 492,462

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008
(Expressed in Thousands)

	2009	2008
Cash flows from operating activities:		
Receipts from customers	$ 303,487	$ 265,949
Receipts from federal government	6,187	6,196
Other miscellaneous receipts	2,502	3,756
Acquisition of mortgage loans	(214,506)	(448,156)
Payments to service mortgages	(7,303)	(6,867)
Payments to suppliers	(10,565)	(5,728)
Payments to federal government	-	(2,216)
Payments to employees	(12,763)	(12,703)
Net cash provided (used) by operating activities	67,039	(199,769)
Cash flows from non-capital financing activities:		
Operating grants received	192,088	183,859
Negative cash balance implicitly financed (repaid)	4,825	7,625
Proceeds from sale of bonds	219,678	368,330
Proceeds from issuance of notes	47,580	198,945
Operating grants paid	(199,518)	(188,300)
Cost of issuance paid	(2,142)	(2,816)
Principal payments	(328,245)	(584,366)
Interest paid	(93,553)	(93,325)
Net cash used by non-capital financing activities	(159,287)	(110,048)
Cash flows from capital and related financing activities:		
Purchases of capital assets	-	(71)
Net cash used by capital and related financing activities	-	(71)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	378,527	370,031
Purchases of investments	(432,090)	(283,461)
Investment interest received	15,868	25,958
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	963	4,316
Net cash provided (used) by investing activities	(36,732)	116,844
Net decrease in cash and cash equivalents	(128,980)	(193,044)
Cash and cash equivalents, July 1	272,389	465,433
Cash and cash equivalents, June 30	$ 143,409	$ 272,389

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008
(Expressed in Thousands)

	2009	2008
Reconciliation of operating income to net cash used by operating activities:		
Operating income	$ 27,935	$ 37,101
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation and amortization	743	790
Changes in assets and liabilities:		
(Increase) in accounts receivable	(11,196)	(2,705)
(Increase) in mortgage interest receivable	(1,823)	(1,572)
(Increase) in first mortgage loans receivable	(13,641)	(284,701)
(Increase) in due from federal government	(5,036)	(4,496)
(Increase) in deferred charges	(2,232)	(183)
(Increase) in other receivables	(10)	(17)
(Decrease) in accounts payable	(4,085)	(3,463)
Increase in accrued payroll / compensated absences	487	369
(Decrease) in due to primary government	(3)	(105)
(Decrease) in deferred revenue	(190)	(80)
Increase in arbitrage rebate liability	892	721
Investment income included as operating revenue	(17,905)	(38,756)
Interest expense included as operating expense	93,103	97,328
Total adjustments	39,104	(236,870)
Net cash provided (used) by operating activities	$ 67,039	$ (199,769)
Noncash investing, capital, and financing activities:		
Accretion of deep discount bonds	$ -	$ (149)
Increase in fair value of investments	1,713	7,336
Total noncash investing, capital, and financing activities	$ 1,713	$ 7,187

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

f. Bond Issuance Costs, Refunding Costs, and Interest Accretion

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

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

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

4. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.

5. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

g. Cash and Cash Equivalents

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

h. Investments

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

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

l. Accounting Change

The agency implemented the Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* during the year ended June 30, 2008. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

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

At June 30, 2009, the bank balance was $1,404,893. At June 30, 2008, the bank balance was $1,137,834. All bank balances were insured. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report.* That report may be obtained by writing to the Tennessee Department of the Treasury, 502 Deaderick Street, Nashville, Tennessee 37243-0225, or by calling (615) 741-2956.

b. Investments

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

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

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

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

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

	June 30, 2009		**June 30, 2008**	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$200,097,788	1.369	$207,507,837	2.923
U.S. Agency Discount	60,948,600	0.255	88,787,358	0.024
U.S. Treasury Coupon	88,406,383	6.428	86,707,807	6.937
Repurchase Agreements	80,000,000	0.000	109,000,000	0.000
Pass Through Securities	1,763,903	0.120	1,839,146	0.603
Total	$431,216,674	1.753	$493,842,148	2.248

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

Variable Rate Bonds.
The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.219 of par on June 26, 2003. Although these securities were scheduled to mature on June 26, 2018, these bonds were called on September 26, 2008. The fair value of these securities on June 30, 2008 was $3,009,375, which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.688 of par on August 9, 2007. Although these securities were scheduled to mature on June 21, 2022, these bonds were called on September 21, 2008. The fair value of these securities on June 30, 2008, was $2,011,210 which is included in U.S. Agency Coupon in the table above.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Administration. They were purchased at par on February 25, 2008. Although these securities were scheduled to mature on January 25, 2023, these bonds were called on April 25, 2009. The fair value of these securities on June 30, 2008, was $4,992,187 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,150,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 100.063 of par on February 29, 2008. Although these securities were scheduled to mature on February 22, 2011, these bonds were called on November 22, 2008. The fair value of these securities on June 30, 2008, was $3,150,000 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at par on March 3, 2008. Although these securities were scheduled to mature on February 28, 2018, these bonds were called on May 28, 2009. The fair value of these securities on June 30, 2008, was $1,990,777 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on December 30, 2008, and mature on December 30, 2010. The fair value of these securities on June 30, 2009, is $3,019,689 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.25% with a step-up option to 3.5% on December 30, 2009. This investment is callable only once on December 30, 2009.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Administration. They were purchased at 99.8125 of par on January 28, 2009, and mature on July 28, 2014. The fair value of these securities on June 30, 2009, is $1,970,000 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on July 28, 2011. This investment is callable semi-annually beginning July 28, 2009, and ending January 28, 2010, and is then callable quarterly beginning on April 28, 2010, and ending on April 28, 2014.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Administration. They were purchased at 99.84375 of par on January 30, 2009, and mature on January 30, 2014. The fair value of these securities on June 30, 2009, is $2,000,626 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of

2.0% with a step-up option to 4.0% on January 30, 2011. This investment is callable quarterly beginning on April 30, 2009, and ending on January 30, 2011.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.6875 of par on April 17, 2009, and mature on April 17, 2024. The fair value of these securities on June 30, 2009, is $1,919,972 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 3.0% with a step-up option to 5.0% on April 17, 2012, to 6.0% on April 17, 2015, to 7.0% on April 17, 2018, and to 9.0% on April 17, 2021. This investment is callable quarterly beginning on October 17, 2009, and ending on January 17, 2024.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Administration. They were purchased at par on May 13, 2009, and mature on May 13, 2010. The fair value of these securities on June 30, 2009, is $5,001,565 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 0.5% with a step-up option to 1.5% on November 13, 2009. This investment is callable only once on November 13, 2009.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 100.302 of par on May 20, 2009, and mature on March 13, 2023. The fair value of these securities on June 30, 2009, is $1,004,756 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 5.5% with a step-up option to 6.0% on March 13, 2013, and to 7.0% on March 13, 2018. This investment is callable quarterly beginning on June 13, 2009, and ending on December 13, 2022.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at par on May 26, 2009, and mature on May 26, 2017. The fair value of these securities on June 30, 2009, is $1,975,912 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on May 26, 2011, to 6.0% on May 26, 2013, and to 8.0% on May 26, 2015. This investment is callable quarterly beginning on May 26, 2010, and ending on February 26, 2017.

The agency purchased $3,720,000 in step-up rate bonds issued by Federal National Mortgage Administration. They were purchased at 99.9687538 of par on May 28, 2009, and mature on May 28, 2014. The fair value of these securities on June 30, 2009, is $3,679,314 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on May 28, 2011, and to 6.0% on May 28, 2013. This investment is callable quarterly beginning on August 28, 2009, and ending on February 28, 2014.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on June 19, 2009, and mature on June 15, 2010. The fair value of these securities on June 30, 2009, is $5,003,125 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 0.5% with a step-up option to 1.0% on December 15, 2009. This investment is callable only once on December 15, 2009.

The agency purchased $425,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 100.96 of par on June 19, 2009, and mature on October 15, 2013. The fair value of these securities on June 30, 2009, is $429,287 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 4.0% with a step-up option to 4.25% on October 15, 2009, to 4.5% on October 15, 2010, and to 5.0% on October 15, 2011. This investment is callable beginning on October 15, 2009, and anytime thereafter.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Administration. They were purchased at par on June 24, 2009, and mature on June 24, 2014. The fair value of these securities on June 30, 2009, is $2,000,626 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.5% with a step-up option to 5.0% on June 24, 2011. This investment is callable quarterly beginning on December 24, 2009, and ending on June 24, 2011.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2009 and June 30, 2008 are included in the schedules below. Securities are rated using Standard and Poor's and / or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2009							
		U.S.	Credit Quality Rating				
Investment Type	**Fair Value**	**Treasury / Agency**[1]	**AAAm**	**AAA**	**A-1+**[2]	**AA-2**	**Not Rated**[3]
U.S. Agency Coupon	$200,097,788			$161,726,533		$4,940,625	$33,430,630
U.S. Agency Discount	60,948,600			29,949,000	$30,999,600		
U.S. Treasury Coupon	88,406,383	$88,406,383					
Repurchase Agreements	80,000,000						80,000,000
Pass Through Securities	1,763,903						1,763,903
Money Market Mutual Fund	58,869,923		$58,869,923				
Total	$490,086,597	$88,406,383	$58,869,923	$191,675,533	$30,999,600	$4,940,625	$115,194,533

June 30, 2008							
		U.S.	Credit Quality Rating				
Investment Type	**Fair Value**	**Treasury / Agency**[1]	**AAAm**	**AAA**	**A-1+**[2]	**AA-**	**Not Rated**[3]
U.S. Agency Coupon	$207,507,837			$194,373,114		$5,174,375	$7,960,348
U.S. Agency Discount	88,787,358				$88,787,358		
U.S. Treasury Coupon	86,707,807	$86,707,807					
Repurchase Agreements	109,000,000				20,000,000		89,000,000
Pass Through Securities	1,839,146						1,839,146
Money Market Mutual Fund	$69,489,499		$69,489,499				
Total	$563,331,647	$86,707,807	$69,489,499	$194,373,114	$108,787,358	$5,174,375	$98,799,494

[1] Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.
[2] A-1+ is the highest rating category for short-term debt.
[3] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

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

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

	June 30, 2009		June 30, 2008	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$63,689,474	14.72	$153,221,911	31.00
Federal Home Loan Mortgage Corp	$42,228,984	9.77	$51,447,476	10.45
Federal National Mortgage Assoc	$143,051,399	33.33	$75,367,121	15.24
Repurchase Agreements – U.S. Agency	$80,000,000	18.61	$109,000,000	21.97

NOTE 3. WARRANTS / WIRES PAYABLE

This amount includes the sum of warrants and wires initiated by the agency at year-end in excess of the agency's balance in the State Pooled Investment Fund that have not completely processed through the banking system. These warrants and wires are for grant payments for the Section 8 grant programs and will be reimbursed by the U. S. Department of Housing and Urban Development.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2009	Ending Balance 6/30/2008
MORTGAGE FINANCE PROGRAM BONDS					
2003A	7/1/2004-7/1/2034	$191,885	1.70 to 5.35	$107,865	$127,105
Less: Deferred Amount on Refundings				(2,882)	(3,034)
Net Mortgage Finance Program Bonds				$104,983	$124,071

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2009	Ending Balance 6/30/2008
HOMEOWNERSHIP PROGRAM BONDS					
1996-3	7/1/99-7/1/2028	$65,000	4.30 to 6.00	$7,570	$12,280
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	19,030	21,790
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	19,320	22,035
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	13,410	16,290
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	13,730	16,405
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	6,335	7,580
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	15,835	20,850
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	6,555	8,590

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2009	Ending Balance 6/30/2008
HOMEOWNERSHIP PROGRAM BONDS (cont.)					
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	21,565	26,275
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	21,025	25,760
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	20,460	28,735
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	63,830	68,770
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	23,655	26,855
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	22,675	26,910
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	32,240	38,385
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	38,880	45,990
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	26,285	30,415
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	36,285	41,545
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	43,025	49,050
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	51,555	58,015
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	68,135	78,075
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	71,445	80,075
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	80,495	89,595
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	83,990	92,565
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	87,630	95,520
2006-2	7/1/2007-1/1/2037	100,000	3.90 to 5.75	86,720	96,070
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	91,055	97,740
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	93,915	100,000
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	114,185	120,000
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	142,555	150,000
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	143,855	150,000
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	58,965	60,000
2008-2	7/1/2009-1/1/2027	50,000	3.25 to 5.75	50,000	-0-
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	90,000	-0-
2008-4	1/1/2010-7/1/2028	30,000	3.125 to 6.125	30,000	-0-
2009-1	1/1/2010-7/1/2029	50,000	1.00 to 5.00	50,000	-0-
Total Homeownership Program Bonds		$2,998,855		$1,846,210	$ 1,802,165
Plus: Unamortized Bond Premiums				25,377	30,439
Less: Deferred Amount on Refundings				(4,009)	(4,380)
Net Homeownership Program Bonds				1,867,578	1,828,224
Net Total All Issues				$ 1,972,561	$ 1,952,295

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2009 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2010	$78,689	$93,318	$172,007
2011	51,718	92,628	144,346
2012	49,903	90,545	140,448
2013	46,918	88,550	135,468
2014	44,223	86,633	130,856
2015 – 2019	215,806	404,928	620,734
2020 – 2024	227,226	362,069	589,295
2025 – 2029	231,156	294,690	525,846
2030 – 2034	296,550	225,629	522,179
2035 – 2039	737,263	115,199	852,462
Total	$1,979,452	$1,854,189	$3,833,641

The debt principal in the preceding table is $6,891,000 greater than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the year ended June 30, 2009, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $11,245,000 and in the Homeownership Program in the amount of $107,985,000. The respective carrying values of the bonds were $11,187,700 and $110,279,862. This resulted in an expense to the Mortgage Finance Program of $57,300 and in income to the Homeownership Program of $2,294,862.

On July 1, 2008, a fourth drawdown was made on the Series 2007 CN-1 Notes in the amount of $44,330,000. These proceeds were used on the same day to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $35,785,000 early redemption and $8,545,000 current maturities). The carrying amount of these bonds was $45,277,489. The refunding resulted in a difference of $947,489 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On August 7, 2008, the agency issued $50,000,000 in Homeownership Bonds, Issue 2008-2. On August 14, 2008, the agency used these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used November 1, 2007, January 2, 2008, and July 1, 2008 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $20,171,444 over the next 14 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $1,628,880.

On December 18, 2008, the agency issued $30,000,000 in Homeownership Bonds, Issue 2008-4. On January 2, 2009, the agency used $4,820,000 of these bonds to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $675,000 early redemption and $4,145,000 current maturities). The carrying amount of these bonds was $4,814,144. The refunding resulted in a difference of $5,856 between the reacquisition price and the net carrying amount of the old debt. The refunding increased the agency's debt service by $2,590,125 over the next 10.5 years, and the agency realized an economic loss (the difference between the present values of the old and new debt service payments) of $51,209.

During the year ended June 30, 2008, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $7,005,000 and in the Homeownership Program in the amount of $41,665,000. The respective carrying values of the bonds were $6,932,377 and $41,913,138. This resulted in an expense to the Mortgage Finance Program of $72,623 and in income to the Homeownership Program of $248,138.

On July 2, 2007, the agency used $31,535,000 of the 2004CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $16,035,000 early redemption and $15,500,000 current maturities). The carrying amount of these bonds was $31,907,968. The refunding resulted in a difference of $372,968 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate. Also on this date, the agency used $10,840,000 of the proceeds from the Homeownership Program Bond Issue 2007-2 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was $10,828,861. The refunding reduced the agency's debt service by $8,821,013 over the next 23 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $6,987,199.

On August 7, 2007, the agency issued $150,000,000 in Homeownership Bonds, Issue 2007-3. On August 9, 2007, the agency used $85,295,000 of these bonds to refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005, July 3, 2006, and January 2, 2007, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The agency also used $14,725,000 of these bonds to refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund the convertible drawdown notes, 2002 CN-1, at maturity. The convertible drawdown notes, 2002 CN-1 were used July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $2,177,304 over the next 25 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $241,907.

On August 9, 2007, the first drawdown was made on the Series 2007 CN-1 Notes in the amount of $91,695,000. These proceeds were used to refund the convertible drawdown notes, 2004 CN-1, at maturity.

On October 11, 2007, a second drawdown was made on the Series 2007 CN-1 Notes in the amount of $61,250,000. These proceeds were used on November 1, 2007 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $61,251,179 early redemption and $0 current maturities). The difference between the amount of the drawdown and the early redemption is $1,179, which is due to accretion. The carrying amount of these bonds was $61,170,222. The refunding resulted in a difference of $80,957 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On October 30, 2007, the agency issued $150,000,000 in Homeownership Bonds, Issue 2007-4. On November 8, 2007, the agency used $55,275,000 of these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used August 9, 2007 to refund the convertible drawdown notes, 2004 CN-1, at maturity. The convertible drawdown notes, 2004 CN-1 were used January 2, 2007, and July 2, 2007, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $3,156,726 over the next 24 years, and the agency realized an economic loss (the difference between the present values of the old and new debt service payments) of $1,189,810.

On January 2, 2008, a third drawdown was made on the Series 2007 CN-1 Notes in the amount of $46,000,000. These proceeds were used on the same day to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $39,860,000 early redemption and $6,140,000 current maturities). The carrying amount of these bonds was $46,592,662. The refunding resulted in a difference of $592,662 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On May 29, 2008, the agency issued $60,000,000 in Homeownership Bonds, Issue 2008-1. On June 12, 2008, the agency used $36,420,000 of these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used August 9, 2007 to refund the convertible drawdown notes, 2004 CN-1, at maturity. The agency also used $18,530,000 of these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used October 11, 2007, and January 2, 2008 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The convertible drawdown notes, 2004 CN-1 were used July 1, 2005, January 1, 2006, July 3, 2006, January 2, 2007, and July 2, 2007, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $34,743,879 over the next 19.5 years, and the agency realized an economic loss (the difference between the present values of the old and new debt service payments) of $1,865,753.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2009.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2008	Additions	Reductions	Ending Balance June 30, 2009	Amounts Due Within One Year
Notes Payable	$88,720	$47,580	($133,050)	$3,250	$-0-
Bonds Payable	1,929,270	220,000	(195,195)	1,954,075	79,315
Plus: Unamortized Bond Premiums	30,439	-0-	(5,062)	25,377	-0-
Less: Deferred Amount on Refundings	(7,414)	(426)	949	(6,891)	-0-
Compensated Absences	888	184	(-0-)	1,072	515
Net OPEB Obligation	281	449	(128)	602	-0-
Escrow Deposits	8,249	1,223	(4,588)	4,884	643
Arbitrage Rebate Payable	2,254	1,005	(113)	3,146	-0-
Deferred Revenue	227	294	(484)	37	8
Total	$2,052,914	$270,309	($337,671)	$1,985,552	$80,481

The following table is a summary of the long-term liability activity for the year ended June 30, 2008.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Amounts Due Within One Year
Notes Payable	$247,675	$198,945	($357,900)	$88,720	$-0-
Bonds Payable	1,795,587	360,149	(226,466)	1,929,270	100,890
Plus: Unamortized Bond Premiums	25,010	8,436	(3,007)	30,439	-0-
Less: Deferred Amount on Refundings	(8,330)	(759)	1,675	(7,414)	-0-
Compensated Absences	838	586	(536)	888	426
Net OPEB Obligation	-0-	443	(162)	281	-0-
Escrow Deposits	12,991	3,138	(7,880)	8,249	3,837
Arbitrage Rebate Payable	1,533	3,247	(2,526)	2,254	-0-
Deferred Revenue	307	262	(342)	227	8
Total	$2,075,611	$574,447	($597,144)	$2,052,914	$105,161

e. Notes Issued and Outstanding

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

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

The following table is a summary of the drawdown note activity for the year ended June 30, 2009.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2008	Additions	Reductions	Ending Balance 6/30/2009
SINGLE FAMILY MORTGAGE NOTES							
2007CN-1	8/12/2010	$ 450,000	0.000 to 4.822	$88,720	$44,330	$(133,050)	$-0-

The following table is a summary of the drawdown note activity for the year ended June 30, 2008.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2007	Additions	Reductions	Ending Balance 6/30/2008
SINGLE FAMILY MORTGAGE NOTES							
2004CN-1	8/9/2007	$ 450,000	4.622 to 5.098	$247,675	$-0-	($247,675)	$-0-
2007CN-1	8/12/2010	$ 450,000	1.846 to 4.822	-0-	198,945	(110,225)	88,720
Total Single Family Mortgage Notes				$247,675	$198,945	($357,900)	$88,720

Promissory Note. On December 22, 2008, the agency borrowed $3,250,000 for the Preserve Loan Program, which is part of the Housing Trust Fund. Interest is being charged quarterly at 3% with the principal maturing on December 22, 2011.

The activity of the 2004CN-1 and 2007CN-1 notes shown above as well as the promissory note are also included in the summary of long-term liability activity in part d. of this note.

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

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 502 Deaderick Street, Nashville, Tennessee, 37243-0201 or by calling (615) 741-7063.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 12.96% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2009, 2008, and 2007, were $1,201,303, $1,297,298, and $1,175,459. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

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

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2009, and June 30, 2008, are presented in the *Tennessee Comprehensive Annual Financial Report*. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

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

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (*TCA*) Section 8-27-201 for the state plan and *TCA* 8-27-701 for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, or by calling (615) 741-2140.

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

<u>Funding Policy.</u> The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to participants. Retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

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

	June 30, 2009	June 30, 2008
Annual Required Contribution (ARC)	$448	$443
Interest on the Net OPEB Obligation	13	-0-
Adjustment to the ARC	(12)	-0-
Annual OPEB cost	449	443
Amount of contribution	(128)	(162)
Increase in Net OPEB Obligation	321	281
Net OPEB obligation-beginning of year	281	-0-
Net OPEB obligation-end of year	$602	$281

Year End*	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At Year End (Thousands)
6/30/2008	State Employee Group Plan	$ 443	37%	$ 281
6/30/2009	State Employee Group Plan	$ 449	29%	$ 602

*Data not available for one preceding year.

Funded Status and Funding Progress. The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2007, was as follows (Thousands):

Actuarial valuation date	7/1/2007
Actuarial accrued liability (AAL)	$ 3,902
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	$ 3,902
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 9,595
UAAL as a percentage of covered payroll	41%

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

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

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

NOTE 10. ON-BEHALF PAYMENTS

During the year ended June 30, 2009, the State of Tennessee made payments of $2,528 on behalf of THDA for retirees participating in the Medicare Supplement Plan, and during the year ended June 30, 2008, made payments of $2,550. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, or by calling (615) 741-2140.

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

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

July 1, 2009	Mortgage Finance Program	$ 2,580,000
	Homeownership Program	$40,480,000
	Total	$43,060,000

b. Homeownership Program Bonds, Issue 2009-3, were authorized by the Board of Directors on September 17, 2009, not to exceed $100,000,000.

c. Homeownership Program Bonds, Issue 2009-2, were sold on September 30, 2009. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2009-2	7/1/2010-7/1/2030	$75,000	0.90 to 5.00
TOTAL ALL ISSUES		$75,000	

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

October 1, 2009	Mortgage Finance Program	$ 5,440,000
	Homeownership Program	$60,215,000
	Total	$65,655,000

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

Actuarial Valuation Date*	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2007	State Employee Group Plan	$ -0-	$ 3,902	$ 3,902	0%	$ 9,595	41%

*Two additional years will be reported as data becomes available.

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2009
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 3,260	$ 15,390	$ 113,560	$ 84	$ 132,294
Investments	-	20,929	67,288	-	88,217
Receivables:					
Accounts	-	1,983	18,974	-	20,957
Interest	-	1,430	12,364	-	13,794
First mortgage loans	75	5,674	38,386	-	44,135
Other	123	-	-	-	123
Due from federal government	11,589	-	-	-	11,589
Due from other funds	7,977	-	-	-	7,977
Total current assets	23,024	45,406	250,572	84	319,086
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	2,905	8,210	-	11,115
Investments	-	20,127	163,134	-	183,261
Investment Interest receivable	-	153	1,803	-	1,956
Investments	-	29,419	50,319	-	79,738
First mortgage loans receivable	150	155,199	1,799,925	-	1,955,274
Deferred charges	25	526	12,271	-	12,822
Advance to local government	2,928	-	-	-	2,928
Capital assets:					
Furniture and equipment	238	-	-	-	238
Less accumulated depreciation	(209)	-	-	-	(209)
Total noncurrent assets	3,132	208,329	2,035,662	-	2,247,123
Total assets	26,156	253,735	2,286,234	84	2,566,209
LIABILITIES					
Current liabilities:					
Warrants / wires payable	12,450	-	-	-	12,450
Accounts payable	1,884	10	81	-	1,975
Accrued payroll and related liabilities	392	-	-	-	392
Compensated absences	515	-	-	-	515
Interest payable	-	2,627	45,363	-	47,990
Escrow deposits	-	643	-	-	643
Prepayments on mortgage loans	-	113	1,695	-	1,808
Due to other funds	-	-	7,977	-	7,977
Bonds payable	-	8,750	70,565	-	79,315
Deferred revenue	-	8	-	-	8
Total current liabilities	15,241	12,151	125,681	-	153,073
Noncurrent liabilities:					
Notes payable	3,250	-	-	-	3,250
Bonds payable	-	96,233	1,797,013	-	1,893,246
Compensated absences	557	-	-	-	557
Net OPEB obligation	602	-	-	-	602
Escrow deposits	241	4,000	-	-	4,241
Arbitrage rebate payable	-	-	3,079	67	3,146
Deferred revenue	-	29	-	-	29
Total noncurrent liabilities	4,650	100,262	1,800,092	67	1,905,071
Total liabilities	19,891	112,413	1,925,773	67	2,058,144
NET ASSETS					
Invested in capital assets	29	-	-	-	29
Restricted for single family bond programs	-	132,495	360,461	17	492,973
Restricted for grant programs	3,082	8,827	-	-	11,909
Restricted for Homebuyers Revolving Loan Program	3,154	-	-	-	3,154
Unrestricted	-	-	-	-	-
Total net assets	$ 6,265	$ 141,322	$ 360,461	$ 17	$ 508,065

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	-	$ 9,188	$ 110,312	$ -	$ 119,500
Investment income:					
Interest	147	3,057	12,140	-	15,344
Net increase (decrease) in the fair value of investments	-	(1,135)	3,017	679	2,561
Federal grant administration fees	11,148	-	-	-	11,148
Fees and other income	2,430	(14)	-	-	2,416
Total operating revenues	13,725	11,096	125,469	679	150,969
OPERATING EXPENSES					
Salaries and benefits	13,743	-	-	-	13,743
Contractual services	2,624	-	-	-	2,624
Materials and supplies	527	-	-	-	527
Rentals and insurance	1,212	-	-	-	1,212
Other administrative expenses	639	-	-	-	639
Other program expenses	81	628	2,359	72	3,140
Interest expense	22	5,663	87,976	(558)	93,103
Mortgage service fees	-	520	6,783	-	7,303
Issuance costs	-	52	624	17	693
Depreciation	50	-	-	-	50
Total operating expenses	18,898	6,863	97,742	(469)	123,034
Operating income (loss)	(5,173)	4,233	27,727	1,148	27,935
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	185,092	-	-	-	185,092
Other grant revenue	-	1,358	-	-	1,358
Payment from primary government	350	-	-	-	350
Federal grants expenses	(189,022)	(20)	-	-	(189,042)
Local grants expenses	61	(6,403)	(3,748)	-	(10,090)
Total nonoperating revenues (expenses)	(3,519)	(5,065)	(3,748)	-	(12,332)
Income (loss) before transfers	(8,692)	(832)	23,979	1,148	15,603
Transfers (to) other funds	-	(7,863)	(6)	(1,012)	(8,881)
Transfers from other funds	8,881	-	-	-	8,881
Change in net assets	189	(8,695)	23,973	136	15,603
Total net assets, July 1	6,076	150,017	336,488	(119)	492,462
Total net assets, June 30	$ 6,265	$ 141,322	$ 360,461	$ 17	$ 508,065

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	$ (30)	$ 25,086	$ 278,431	$ -	$ 303,487
Receipts from federal government	6,112	-	75	-	6,187
Receipts from other funds	-	-	5,477	-	5,477
Other miscellaneous receipts	2,420	82	-	-	2,502
Acquisition of mortgage loans	-	(13,045)	(201,461)	-	(214,506)
Payments to service mortgages	-	(520)	(6,783)	-	(7,303)
Payments to suppliers	(6,084)	(577)	(3,899)	(5)	(10,565)
Payments to other funds	(4,859)	(618)	-	-	(5,477)
Payments to employees	(12,763)	-	-	-	(12,763)
Net cash provided (used) by operating activities	(15,204)	10,408	71,840	(5)	67,039
Cash flows from non-capital financing activities:					
Operating grants received	190,730	1,358	-	-	192,088
Transfers in (out)	8,881	(7,853)	(1,051)	23	-
Negative cash balance implicitly financed	4,825	-	-	-	4,825
Proceeds from sale of bonds	-	-	219,678	-	219,678
Proceeds from issuance of notes	3,250	-	-	44,330	47,580
Operating grants paid	(189,347)	(6,423)	(3,748)	-	(199,518)
Cost of issuance paid	-	-	(2,125)	(17)	(2,142)
Principal payments	-	(19,240)	(175,955)	(133,050)	(328,245)
Interest paid	(22)	(5,916)	(86,951)	(664)	(93,553)
Net cash provided (used) by non-capital financing activities	18,317	(38,074)	(50,152)	(89,378)	(159,287)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	117,810	284,793	-	402,603
Purchases of investments	-	(98,731)	(357,435)	-	(456,166)
Investment interest received	147	3,616	12,105	-	15,868
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	14	270	679	963
Net cash provided (used) by investing activities	147	22,709	(60,267)	679	(36,732)
Net increase (decrease) in cash and cash equivalents	3,260	(4,957)	(38,579)	(88,704)	(128,980)
Cash and cash equivalents, July 1	-	23,252	160,349	88,788	272,389
Cash and cash equivalents, June 30	$ 3,260	$ 18,295	$ 121,770	$ 84	$ 143,409

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	$ (5,173)	$ 4,233	$ 27,727	$ 1,148	$ 27,935
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	50	52	624	17	743
Changes in assets and liabilities:					
(Increase) in accounts receivable	-	(1,114)	(10,082)	-	(11,196)
(Increase) in mortgage interest receivable	-	(1)	(1,822)	-	(1,823)
(Increase) decrease in first mortgage loans receivable	-	7,621	(21,262)	-	(13,641)
(Increase) in due from federal government	(5,036)	-	-	-	(5,036)
(Increase) decrease in deferred charges	3	57	(2,292)	-	(2,232)
Decrease in other receivables	(10)	-	-	-	(10)
Decrease in interfund receivables	-	-	5,477	-	5,477
(Decrease) in interfund payables	(4,859)	(618)	-	-	(5,477)
(Decrease) in accounts payable	(538)	(3,373)	(174)	-	(4,085)
Increase in accrued payroll / compensated absences	487	-	-	-	487
Increase in due to primary government	(3)	-	-	-	(3)
(Decrease) in deferred revenue	-	(190)	-	-	(190)
Increase in arbitrage rebate liability	-	-	825	67	892
Investment income included as operating revenue	(147)	(1,922)	(15,157)	(679)	(17,905)
Interest expense included as operating expense	22	5,663	87,976	(558)	93,103
Total adjustments	(10,031)	6,175	44,113	(1,153)	39,104
Net cash provided (used) by operating activities	$ (15,204)	$ 10,408	$ 71,840	$ (5)	$ 67,039
Noncash investing, capital, and financing activities:					
Increase in fair value of investments	-	(1,073)	2,786	-	1,713
Total noncash investing, capital, and financing activities	$ -	$ (1,073)	$ 2,786	$ -	$ 1,713

Exhibit D

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2009
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 13,007	$ 2,042	$ 15,049	$ 341	$ 15,390
Investments	8,564	11,864	20,428	501	20,929
Receivables:					
Accounts	1,873	105	1,978	5	1,983
Interest	1,105	297	1,402	28	1,430
First mortgage loans	5,257	417	5,674	-	5,674
Total current assets	29,806	14,725	44,531	875	45,406
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	2,905	-	2,905	-	2,905
Investments	20,127	-	20,127	-	20,127
Investment interest receivable	153	-	153	-	153
Investments	9,930	17,128	27,058	2,361	29,419
First mortgage loans receivable	151,149	4,050	155,199	-	155,199
Deferred charges	526	-	526	-	526
Total noncurrent assets	184,790	21,178	205,968	2,361	208,329
Total assets	214,596	35,903	250,499	3,236	253,735
LIABILITIES					
Current liabilities:					
Accounts payable	5	5	10	-	10
Interest payable	2,627	-	2,627	-	2,627
Escrow deposits	-	-	-	643	643
Prepayments on mortgage loans	110	3	113	-	113
Bonds payable	8,750	-	8,750	-	8,750
Deferred revenue	-	8	8	-	8
Total current liabilities	11,492	16	11,508	643	12,151
Noncurrent liabilities:					
Bonds payable	96,233	-	96,233	-	96,233
Escrow deposits	-	1,644	1,644	2,356	4,000
Deferred revenue	-	29	29	-	29
Total noncurrent liabilities	96,233	1,673	97,906	2,356	100,262
Total liabilities	107,725	1,689	109,414	2,999	112,413
NET ASSETS					
Restricted for single family bond programs	106,871	25,387	132,258	237	132,495
Restricted for grant programs	-	8,827	8,827	-	8,827
Total net assets	$ 106,871	$ 34,214	$ 141,085	$ 237	$ 141,322

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

Tennessee Housing Development Agency

Leading Tennessee Home

FINANCIAL STATEMENTS

June 30, 2008

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

October 31, 2008

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2008, and June 30, 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency.

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, 2008, and June 30, 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.l. to the financial statements, during the year ended June 30, 2008, the agency implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*

The management's discussion and analysis and the schedule of funding progress are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, following the schedule of funding progress, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated October 31, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/tlh

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND JUNE 30, 2007

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2008 and June 30, 2007. This information is being presented to provide additional information regarding the activities of THDA and to meet the reporting and disclosure requirements of the Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The Tennessee Housing Development Agency was established by the Tennessee General Assembly in 1973

> In order to promote the production of more affordable new housing units for very low, low and moderate income individuals and families in the state, to promote the preservation and rehabilitation of existing housing units for such persons, and to bring greater stability to the residential construction industry and related industries so as to assure a steady flow of production of new housing units… (*Tennessee Code Annotated 13-23-102*)

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 people is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2008, THDA has originated over 99,000 single-family mortgage loans in its 35-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher program in approximately 74 of Tennessee's 95 counties, as well as project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

THDA began administering the HUD Emergency Shelter Grants Program as of July 1, 2007. In addition, THDA has initiated a foreclosure prevention initiative that is intended to prevent homeowners from losing their home due to foreclosure through foreclosure counseling, outreach, education, and referring impacted homeowners to other federal, state, local, and non-profit agencies that may be able to refinance their mortgage or provide other assistance.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated*

13-23-105). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide useful 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, other supplementary information is included.

THDA is also considered to be a "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at http://tennessee.gov/finance/act/cafr.html.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2008

- Total assets increased by $25.0 million, or 1.0 %.
- Total liabilities decreased by $10.1 million, or 0.5%.
- Net assets (the amount that total assets exceeds total liabilities) were $492.5 million. This is an increase of $35.1 million, or 7.7%, from fiscal year 2007.
- Cash and cash equivalents decreased $193.0 million, or 41.5%.
- Total investments decreased $76.1 million, or 20.5%.
- Bonds and notes payable decreased $18.9 million, or 0.9%.
- THDA originated $448.2 million in new loans, which is an increase of $40.1 million, or 9.8%, from the prior year.

Year Ended June 30, 2007

- Total assets increased by $252.6 million, or 10.9 %.
- Total liabilities increased $228.6 million, or 12.1%.
- Net assets (the amount that total assets exceeds total liabilities) were $457.4 million. This is an increase of $24.1 million, or 5.6%, from fiscal year 2006.

- Cash and cash equivalents increased $40.6 million, or 9.6%.
- Total investments decreased $10.9 million, or 2.8%.
- Bonds and notes payable increased $229.1 million, or 12.5%.
- THDA originated $408.1 million in new loans, which is an increase of $125.1 million, or 44.2%, from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

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

	2008	2007	2006
Current assets	$ 374,908	$ 577,369	$ 525,616
Capital assets	79	65	60
Other noncurrent assets	2,230,603	2,003,173	1,802,256
Total assets	2,605,590	2,580,607	2,327,932
Current Liabilities	165,375	404,643	159,520
Noncurrent Liabilities	1,947,753	1,718,572	1,735,061
Total liabilities	2,113,128	2,123,215	1,894,581
Invested in capital assets	79	65	60
Restricted net assets	492,193	455,765	428,757
Unrestricted net assets	190	1,562	4,534
Total net assets	$ 492,462	$ 457,392	$ 433,351

2008 to 2007

- THDA's total net assets increased $35.1 million, or 7.7%, from $457.4 million at June 30, 2007 to $492.5 million at June 30, 2008. This primarily resulted from an increase in mortgage interest income, and an increase in the fair value of investments.

- Mortgage loans receivable increased $284.7 million, or 16.7%, from $1,701.2 million at June 30, 2007 to $1,985.8 million at June 30, 2008. This increase resulted from a continuation of higher mortgage loan production than is typical for THDA.

- Total liabilities decreased $10.1 million, or 0.5%, from $2,123.2 million at June 30, 2007 to $2,113.1 million at June 30, 2008. The decrease is primarily due to a decrease in the amount of bonds issued during fiscal year 2008 as compared to the same period in fiscal year 2007.

2007 to 2006

- THDA's total net assets increased $24.1 million, or 5.6%, from $433.3 million at June 30, 2006 to $457.4 million at June 30, 2007. This primarily resulted from an increase in mortgage interest income, and an increase in the fair value of investments.

- Mortgage loans receivable increased $230.4 million, or 15.7%, from $1,470.8 million at June 30, 2006 to $1,701.2 million at June 30, 2007. This increase resulted from historic high mortgage loan production.

- Total liabilities increased $228.6 million, or 12.1%, from $1,894.6 million at June 30, 2006 to $2,123.2 million at June 30, 2007. The increase is primarily due to an increase in the amount of bonds issued during the fiscal year.

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

	2008	2007	2006
Operating revenues			
Mortgage interest income	$ 111,142	$ 93,387	$ 87,118
Investment income	38,756	43,643	14,024
Other	14,465	14,518	13,096
Total operating revenues	164,363	151,548	114,238
Operating expenses			
Interest expense	97,328	96,887	86,566
Other	29,934	25,949	22,102
Total operating expenses	127,262	122,836	108,668
Operating income	37,101	28,712	5,570
Nonoperating revenues (expenses)			
Grant revenues	185,204	161,976	162,137
Grant expenses	(187,235)	(166,647)	(166,880)
Total nonoperating revenues (expenses)	(2,031)	(4,671)	(4,743)
Change in net assets	$ 35,070	$ 24,041	$ 827

2008 to 2007

For the year ended June 30, 2008, total operating revenues increased $12.8 million from $151.6 million for the year ended June 30, 2007, to $164.4 million for the year ended June 30, 2008. The primary reasons for this increase are as follows:

- Mortgage interest income increased $17.7 million, or 19.0%, from $93.4 million in 2007 to $111.1 million in 2008. This increase is due to a decrease in mortgage loan prepayments, as well as the result of record high origination of new mortgage loans as experienced during FY 2007 and FY 2008.

- Investment income decreased $4.8 million, or 11.2%, from $43.6 million in 2007 to $38.8 million in 2008. This decrease is primarily due to a decrease in the total amount of invested funds during FY 2008, as compared to FY 2007, as well as a decrease in the investment interest rates.

For the year ended June 30, 2008, total operating expenses increased $4.5 million, or 3.6%, from $122.8 million in 2007 to $127.3 million in 2008. This increase is primarily due to an increase in salary expense of $1.4 million, from $12.2 million in 2007 to $13.6 million in 2008.

While the total net assets for fiscal year 2008 increased $35.1 million from the previous year, the non-monetary accretion of deep discount bonds and the change in the fair value of investments contributed $7.2 million toward this increase. When considered without these non-monetary components, net assets would have increased $27.9 million.

2007 to 2006

For the year ended June 30, 2007, total operating revenues increased $37.3 million from $114.2 million for the year ended June 30, 2006, to $151.5 million for the year ended June 30, 2007. The primary reasons for this increase are as follows:

- Mortgage interest income increased $6.3 million, or 7.2%, from $87.1 million in 2006 to $93.4 million in 2007. This increase is due to a decrease in mortgage loan prepayments, as well as record high origination of new mortgage loans.

- Investment income increased $29.6 million, from $14.0 million in 2006 to $43.6 million in 2007. This increase is primarily due to a net increase in the fair value of investments of $16.1 million in 2007 as compared to a net decrease of $9.6 million in 2006.

For the year ended June 30, 2007, total operating expenses increased $14.2 million, or 13%, from $108.6 million in 2006 to $122.8 million in 2007. This increase is primarily due to an increase in interest expense of $10.3 million, from $86.6 million in 2006 to $96.9 million in 2007. This increase occurred as a result of THDA issuing higher amounts of bonds in order to meet record high mortgage loan production.

While the total net assets for fiscal year 2007 increased $24.1 million from the previous year, the non-monetary accretion of deep discount bonds and the change in the fair value of investments contributed $1.2 million toward this increase. When considered without these non-monetary components, net assets would have increased $22.9 million.

CASH FLOWS

Cash flows for fiscal years ended June 30, 2008, 2007, and 2006 were as follows (expressed in thousands):

	2008	2007	2006
Cash and cash equivalents, July 1	$ 465,433	$ 424,790	$ 444,586
Net cash (used) by operating activities	(199,769)	(149,336)	(4,102)
Net cash provided (used) by non-capital financial activities	(110,048)	136,107	1,194
Net cash used by capital and related financing activities	(71)	(48)	(60)
Net cash provided (used) by investing activities	116,844	53,920	(16,828)
Net increase (decrease) in cash and cash equivalents	(193,044)	40,643	(19,796)
Cash and cash equivalents, June 30	$ 272,389	$ 465,433	$ 424,790

For the year ended June 30, 2008, THDA's net cash decreased $193.0 million. THDA's net cash increased $40.6 million in 2007, and decreased $19.8 million in 2006. One major component of THDA's cash flows is the amount of cash provided by, or used by, investing activities. As noted above, THDA's investment activities resulted in a "source" of cash for fiscal years 2008 and 2007, and a "use" of cash in fiscal year 2006.

Another major component in THDA's cash flows is the difference between mortgage loan originations (a use of operating cash) and mortgage loan prepayments (a source of operating cash). During fiscal year 2006, THDA initiated a marketing and outreach program that resulted in a rise in mortgage loan originations. A trend that was first noted during fiscal year 2005, in which mortgage loan prepayments declined whereas mortgage loan originations increased, continued into fiscal year 2008. This results in an increasing demand on operating cash for THDA on a short-term basis, but is expected to result in increased interest revenues in future years. This trend is depicted in the following chart:

	2008	2007	2006
Mortgage Loan Originations (Use of cash)	$ (448,156)	$ (408,073)	$ (283,007)
Mortgage Loan Prepayments (Source of cash)	116,694	142,730	172,269
Difference	$ (331,462)	$ (265,343)	$ (110,738)

A document published by THDA's Division of Research, Planning, and Technical Services entitled *THDA Mortgage Program Report - Fiscal Year 2008* is available on THDA's internet site at http://www.thda.org/Research/mortstat/fy08.pdf. This document provides additional statistical information regarding mortgage loan originations during fiscal year 2008.

DEBT ACTIVITY

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

	2008	2007	2006
Bonds payable	$ 1,952,295	$ 1,812,267	$ 1,568,472
Notes payable	88,720	247,675	262,395
Total bonds and notes payable	$ 2,041,015	$ 2,059,942	$ 1,830,867

Year Ended June 30, 2008
Total bonds and notes payable decreased $18.9 million, or .9%, due primarily to an increase in the redemption of THDA's bonds and notes. During the fiscal year, THDA issued debt totaling $567.3 million, with activity arising from three bond issues totaling $368.3 million and three draws under the single family mortgage note program totaling $199.0 million. However, principal redemptions increased $245.7 million, from $338.7 million in FY 2007 to $584.4 million in FY 2008.

Year Ended June 30, 2007
Total bonds and notes payable increased $229.1 million, or 12.5%, due primarily to the issuance of new long-term bonds. During the fiscal year, THDA issued debt totaling $567.8 million, with activity arising from four bond issues totaling $432.7 million and three draws under the single family mortgage note program totaling $135.1 million.

Note Authority
On July 19, 2007, THDA's board of directors authorized the issuance of Single Family Mortgage Note, Series 2007CN-1. This $450 million drawdown note with a final maturity of August 12, 2010 closed on August 9, 2007.

Additional information on THDA's long-term debt is presented in Note 4 to the financial statements.

GRANT PROGRAMS

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

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

	FY 2007	FY 2008	FY 2009	Total
Funding Sources:				
THDA	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 18,000,000
State Appropriation	1,000,000	3,000,000	350,000	4,350,000
Totals	**$ 7,000,000**	**$ 9,000,000**	**$ 6,350,000**	**$ 22,350,000**
Approved Uses:				
Rural repair program (USDA)	$ 700,000	$ 700,000	$ 700,000	$ 2,100,000
Ramp Program (UCP)	50,000	-	-	50,000
Ramp Program	100,000	150,000	150,000	400,000
Homebuyer Education Initiative	150,000	150,000	-	300,000
Emergency Repairs for Elderly	2,000,000	2,000,000	2,000,000	6,000,000
Competitive Grants	4,000,000	6,000,000	3,500,000	13,500,000
Totals	**$ 7,000,000**	**$ 9,000,000**	**$ 6,350,000**	**$ 22,350,000**

Note: The amounts for FY 2009 are projected.

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

THDA is seeking additional state appropriations in FY 2010 for this grant program, as well as private sector funding. In addition to the above approved uses, THDA received requests that merit funding. These requests totaled approximately $6 million more than the funds available.

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

During FY 2007, much media attention was devoted to certain types of mortgages commonly known as "sub-prime" mortgages.

THDA offers three primary choices for single-family mortgages. The *Great Rate* mortgage product offers a below market interest rate loan secured by a first mortgage. The *Great Start* program offers a loan with an interest rate that is 100 basis points higher than the Great Rate product, but provides 4% of the loan amount as down payment and closing cost assistance. In addition, THDA introduced the *Great Advantage* product during fiscal year 2007, which offers a loan with an interest rate that is 50 basis points higher than the Great Rate product, and 2% of the loan amount as down payment and closing cost assistance.

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

Single-family mortgage loans made or purchased by THDA must be properly insured or have an acceptable Loan-to-value (LTV) ratio (currently at 78% LTV or lower). The maximum acceptable LTV is 97%. Loans in which the LTV is between 78% and 97% must have an acceptable insurer/guarantor, which includes:

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

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

A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at http://www.thda.org/Programs/Mortgage/choices.html.

More recently, media attention has focused on mortgage loan delinquencies and foreclosures. For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Rate, Great Start, and Great Advantage), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2008, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount	Percentage
60-89 Days Past Due	26,071	718	48,525,692	2.75%
90+ Days Past Due	26,071	1,089	70,223,930	4.18%
In Foreclosure	26,071	87	5,326,487	0.33%

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

ECONOMIC FACTORS

Investment interest rates during Fiscal Year 2008 reversed the trend established in FY 2007 and fell to the lowest point observed over the past three fiscal years. In addition, the dollar amount of mortgage loan prepayments continued to decline during FY 2008, which continued a trend observed over the past three fiscal years. Notwithstanding these trends, THDA continued the practice of using mortgage loan prepayments to redeem long-term debt.

In accordance with THDA's investment policy, THDA typically invests in short-term collateralized repurchase agreements, as well as short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five year Constant Maturity Treasury (CMT) rates as established by the United States Treasury. The following tables depict these rates for fiscal years 2008, 2007, and 2006.

For the Fiscal Year Ended June 30, 2008

Month	***1yr CMT***	***3yr CMT***	***5yr CMT***
June, 2008	2.42%	3.08%	3.49%
May, 2008	2.05%	2.69%	3.14%
April, 2008	1.74%	2.23%	2.84%
March, 2008	1.54%	1.80%	2.48%
February, 2008	2.05%	2.19%	2.78%
January, 2008	2.71%	2.51%	2.98%
December, 2007	3.26%	3.13%	3.49%
November, 2007	3.50%	3.35%	3.67%
October, 2007	4.10%	4.01%	4.20%
September, 2007	4.14%	4.06%	4.20%
August, 2007	4.47%	4.34%	4.43%
July, 2007	4.96%	4.82%	4.88%

For the Fiscal Year Ended June 30, 2007

Month	***1yr CMT***	***3yr CMT***	***5yr CMT***
June, 2007	4.91%	5.00%	5.03%
May, 2007	4.93%	4.69%	4.67%
April, 2007	4.92%	4.60%	4.59%
March, 2007	4.85%	4.51%	4.48%
February, 2007	5.05%	4.75%	4.71%
January, 2007	5.06%	4.79%	4.75%
December, 2006	4.94%	4.58%	4.53%
November, 2006	5.01%	4.64%	4.58%
October, 2006	5.01%	4.72%	4.69%
September, 2006	4.97%	4.69%	4.67%
August, 2006	5.08%	4.85%	4.82%
July, 2006	5.22%	5.07%	5.04%

For the Fiscal Year Ended June 30, 2006

Month	***1yr CMT***	***3yr CMT***	***5yr CMT***
June, 2006	5.16%	5.09%	5.07%
May, 2006	5.00%	4.97%	5.00%
April, 2006	4.90%	4.89%	4.90%
March, 2006	4.77%	4.74%	4.72%
February, 2006	4.68%	4.64%	4.57%
January, 2006	4.45%	4.35%	4.35%
December, 2005	4.35%	4.39%	4.39%
November, 2005	4.33%	4.43%	4.45%
October, 2005	4.18%	4.29%	4.33%
September, 2005	3.85%	3.96%	4.01%
August, 2005	3.87%	4.08%	4.12%
July, 2005	3.64%	3.91%	3.98%

Fiscal Year 2008 saw interest rates decrease significantly from July, 2007 through most of the fiscal year. In FY 2007, interest rates were relatively stagnant from August, 2006 through July 2007, and in FY 2006, interest rates rose dramatically from July 2005 through August, 2006.

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

CONTACTING THDA's FINANCIAL MANAGEMENT

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND JUNE 30, 2007
(Expressed in Thousands)

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 267,393	$ 464,872
Investments (Note 2)	29,908	48,089
Receivables:		
Accounts	9,761	7,056
Interest	11,909	12,184
First mortgage loans	43,983	39,072
Other	113	96
Due from federal government	11,841	6,000
Total current assets	374,908	577,369
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	4,996	561
Investments (Note 2)	195,562	189,423
Investment interest receivable	2,543	2,688
Investments (Note 2)	70,585	134,639
First mortgage loans receivable	1,941,831	1,662,080
Deferred charges	12,204	10,939
Advance to local government	2,882	2,843
Capital assets:		
Furniture and equipment	238	201
Less accumulated depreciation	(159)	(136)
Total noncurrent assets	2,230,682	2,003,238
Total assets	2,605,590	2,580,607
LIABILITIES		
Current liabilities:		
Warrants / wires payable (Note 3)	7,625	-
Accounts payable	2,873	3,110
Accrued payroll and related liabilities	410	372
Compensated absences	426	401
Due to primary government	3	108
Interest payable	47,287	42,449
Escrow deposits	3,837	847
Prepayments on mortgage loans	2,016	1,565
Notes payable (Note 4)	-	247,675
Bonds payable (Note 4)	100,890	108,104
Deferred revenue	8	12
Total current liabilities	165,375	404,643
Noncurrent liabilities:		
Notes payable (Note 4)	88,720	-
Bonds payable (Note 4)	1,851,405	1,704,163
Compensated absences	462	437
Net OPEB obligation (Note 9)	281	-
Escrow deposits	4,412	12,144
Arbitrage rebate payable	2,254	1,533
Deferred revenue	219	295
Total noncurrent liabilities	1,947,753	1,718,572
Total liabilities	2,113,128	2,123,215
NET ASSETS		
Invested in capital assets	79	65
Restricted for single family bond programs (Note 5 and Note 7)	478,807	450,445
Restricted for grant programs (Note 5)	10,232	2,166
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154
Unrestricted (Note 7)	190	1,562
Total net assets	$ 492,462	$ 457,392

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007
(Expressed in Thousands)

	2008	2007
OPERATING REVENUES		
Mortgage interest income	$ 111,142	$ 93,387
Investment income:		
Interest	23,965	27,510
Net increase in the fair value of investments	14,791	16,133
Federal grant administration fees	10,692	10,617
Fees and other income	3,773	3,901
Total operating revenues	164,363	151,548
OPERATING EXPENSES		
Salaries and benefits	13,562	12,194
Contractual services	2,659	1,858
Materials and supplies	788	630
Rentals and insurance	1,180	1,093
Other administrative expenses	671	576
Other program expenses	3,417	3,290
Interest expense	97,328	96,887
Mortgage service fees	6,867	5,697
Issuance costs	733	568
Depreciation	57	43
Total operating expenses	127,262	122,836
Operating income	37,101	28,712
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	181,661	160,976
Other grants revenue	543	-
Payment from primary government	3,000	1,000
Federal grants expenses	(179,495)	(160,200)
Local grants expenses	(7,740)	(6,447)
Total nonoperating revenues (expenses)	(2,031)	(4,671)
Change in net assets	35,070	24,041
Total net assets, July 1	457,392	433,351
Total net assets, June 30	$ 492,462	$ 457,392

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007
(Expressed in Thousands)

	2008	2007
Cash flows from operating activities:		
Receipts from customers	$ 265,949	$ 272,185
Receipts from federal government	6,196	6,586
Other miscellaneous receipts	3,756	3,815
Acquisition of mortgage loans	(448,156)	(408,073)
Payments to service mortgages	(6,867)	(5,697)
Payments to suppliers	(5,728)	(5,781)
Payments to federal government	(2,216)	(85)
Payments to employees	(12,703)	(12,286)
Net cash used by operating activities	(199,769)	(149,336)
Cash flows from non-capital financing activities:		
Operating grants received	183,859	170,369
Negative cash balance implicitly financed (repaid)	7,625	(5,855)
Proceeds from sale of bonds	368,330	432,743
Proceeds from issuance of notes	198,945	135,075
Operating grants paid	(188,300)	(165,231)
Cost of issuance paid	(2,816)	(3,167)
Principal payments	(584,366)	(338,685)
Interest paid	(93,325)	(89,142)
Net cash provided (used) by non-capital financing activities	(110,048)	136,107
Cash flows from capital and related financing activities:		
Purchases of capital assets	(71)	(48)
Net cash used by capital and related financing activities	(71)	(48)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	370,031	224,716
Purchases of investments	(283,461)	(211,363)
Investment interest received	25,958	26,926
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	4,316	13,641
Net cash provided by investing activities	116,844	53,920
Net increase (decrease) in cash and cash equivalents	(193,044)	40,643
Cash and cash equivalents, July 1	465,433	424,790
Cash and cash equivalents, June 30	$ 272,389	$ 465,433

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007
(Expressed in Thousands)

	2008	2007
Reconciliation of operating income to net cash used by operating activities:		
Operating income	$ 37,101	$ 28,712
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation and amortization	790	611
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(2,705)	3,375
(Increase) in mortgage interest receivable	(1,572)	(201)
(Increase) in first mortgage loans receivable	(284,701)	(230,390)
(Increase) in due from federal government	(4,496)	(4,075)
(Increase) decrease in deferred charges	(183)	8
(Increase) in other receivables	(17)	(86)
(Decrease) in accounts payable	(3,463)	(1,636)
Increase in accrued payroll / compensated absences	369	305
Increase (decrease) in due to primary government	(105)	24
Increase (decrease) in deferred revenue	(80)	88
Increase in arbitrage rebate liability	721	685
Investment income included as operating revenue	(38,756)	(43,643)
Interest expense included as operating expense	97,328	96,887
Total adjustments	(236,870)	(178,048)
Net cash used by operating activities	$ (199,769)	$ (149,336)
Noncash investing, capital, and financing activities:		
Accretion of deep discount bonds	$ (149)	$ (886)
Increase in fair value of investments	7,336	2,038
Total noncash investing, capital, and financing activities	$ 7,187	$ 1,152

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

f. Bond Issuance Costs, Refunding Costs, and Interest Accretion

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

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

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

4. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.

5. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

g. Cash and Cash Equivalents

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

h. Investments

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

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

l. Accounting Change

The agency has implemented the Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

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

At June 30, 2008, the bank balance was $1,137,834. At June 30, 2007, the bank balance was $3,790,784. All bank balances were insured. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $257,312 on June 30, 2007. The State Treasurer's pooled investment fund is not rated by a nationally recognized statistical rating organization.

The fund's investment policy and required disclosures are presented in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

b. Investments

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

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

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

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

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

	June 30, 2008		June 30, 2007	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$207,507,837	2.923	$270,032,551	3.767
U.S. Agency Discount	88,787,358	0.024	253,552,540	0.029
U.S. Treasury Coupon	86,707,807	6.937	100,113,910	6.627
Repurchase Agreements	109,000,000	0.000	168,000,000	0.004
Pass Through Securities	1,839,146	0.603	0	NA
Total	$493,842,148	2.248	$791,699,001	2.041

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

Variable Rate Bonds.
The agency invested $2,000,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 95.125 of par on August 8, 2003, and mature August 6, 2015. Although these securities were scheduled to mature on August 6, 2015, these bonds were called on February 6, 2008. The fair value of these securities on June 30, 2007, was $1,960,000, which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the six month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 6.625%, then the interest rate on the bond is 6.50%. If the LIBOR rate exceeds 6.625%, then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 6.625%. At June 29, 2007, the six-month LIBOR rate was 5.39%. At no time during fiscal years 2008 and 2007 did the LIBOR rate exceed 6.625%.

The agency invested $500,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on August 24, 2004, and mature August 24, 2009. Although these securities were scheduled to mature on August 24, 2009, these bonds were called on November 24, 2007. The fair value of these securities on June 30, 2007, was $485,150, which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the six month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 5.00%, then the interest rate on the bond is 5.00% effective until August 24, 2007. After August 24, 2007, the interest rate is 5.00% if the LIBOR rate does not exceed 6.00%. If the LIBOR rate exceeds 5.00% or 6.00% respectively, then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 5.00% currently. During fiscal year 2007, the LIBOR rate gradually decreased to 5.39% on June 29, 2007. At no time during fiscal year 2008 did the LIBOR rate exceed 6.00%.

The agency invested $1,500,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on September 27, 2005, and mature March 27, 2009. Although these securities were scheduled to mature on March 27, 2009, these bonds were called on December 27, 2007. The fair value of these securities on June 30, 2007, was $1,435,650, which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the three month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 5.00%, then the interest rate on the bond is 6.00%. If the LIBOR rate exceeds 5.00% then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches

5.00%. During fiscal year 2007, the LIBOR rate gradually decreased to 5.36% on June 29, 2007. During fiscal year 2008, the LIBOR rate gradually decreased to 5.13% on December 27, 2007, which is the date the bonds were called.

The agency also invested $3,475,000 in variable rate bonds issued by Federal Home Loan Bank. They were purchased at 99.975 of par on February 22, 2005, and matured February 22, 2007. The amount of the quarterly interest payment is calculated at Constant Maturing Treasury (CMT) minus a 0.40% spread. The CMT is reset quarterly on the interest payment dates.

The agency invested $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.219 of par on June 26, 2003, and mature on June 26, 2018. The fair value of these securities on June 30, 2008, was $3,009,375 and on June 30, 2007, was $2,858,437 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 4% with a step-up option to 5% on June 26, 2008, and to 7% on June 26, 2013. This investment is callable quarterly beginning on September 26, 2003 and ending on March 26, 2018.

The agency invested $600,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.750 of par on July 16, 2003, and mature on July 16, 2018. Although these securities were scheduled to mature on July 16, 2018, these bonds were called on April 16, 2008. The fair value of these securities on June 30, 2007, was $576,562, which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 4% with a step-up option to 7% on January 16, 2010. This investment is callable quarterly beginning on April 16, 2008 and ending on January 16, 2010.

The agency invested $2,000,000 in step-up rate bonds issued by Federal National Mortgage Administration. They were purchased at 98.875 of par on June 20, 2007, and mature on June 6, 2022. The fair value of these securities on June 30, 2007, was $1,963,750 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 6% with a step-up option to 6.50% on June 6, 2015, and to 7% on June 6, 2019. This investment is callable semi-annually beginning on December 6, 2007, and ending on December 6, 2021.

The agency invested $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.688 of par on August 9, 2007, and mature on June 21, 2022. The fair value of these securities on June 30, 2008, is $2,011,210 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 6% with a step-up option to 7% on June 21, 2013, and to 8% on June 21, 2018. This investment is callable quarterly beginning on June 21, 2008, and ending on March 21, 2022.

The agency invested $2,000,000 in step-up rate bonds issued by Federal National Mortgage Administration. They were purchased at 100.395 of par on February 11, 2008, and mature on October 20, 2015. Although these securities were scheduled to mature on October 20, 2015, these bonds were called on April 20, 2008. This investment has a stated coupon rate of 5.125% with a step-up option to 5.75% on April 20, 2008, and to 6.25% on October 20, 2010. This investment is callable semi-annually beginning on April 20, 2008, and ending on October 20, 2010.

The agency invested $5,000,000 in step-up rate bonds issued by Federal National Mortgage Administration. They were purchased at par on February 25, 2008, and mature on January 25, 2023. The fair value of these securities on June 30, 2008, is $4,992,187 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 4% with a step-up option to 6.25% on January 25, 2009. This investment is callable quarterly beginning on April 25, 2008, and ending on October 25, 2022.

The agency invested $3,150,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 100.063 of par on February 29, 2008, and mature on February 22, 2011. The fair value of these securities on June 30, 2008, is $3,150,000 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 3.25% with a step-up option to 4.25% on February 22, 2009. This investment is callable quarterly beginning on May 22, 2008, and ending on February 22, 2009.

The agency invested $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at par on March 3, 2008, and mature on February 28, 2018. The fair value of these securities on June 30, 2008, is $1,990,777 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 4.5% with a step-up option to 5.5% on February 28, 2011 and to 6.5% on February 28, 2015. This investment is callable quarterly beginning on May 28, 2008, and ending on November 28, 2017.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2008 and June 30, 2007 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. Funds held in a money market mutual fund were rated AAAm by Standard and Poor's.

June 30, 2008

			Credit Quality Rating			
Investment Type	**Fair Value**	**U.S. Treasury / Agency**[1]	**AAA**	**A-1+**[2]	**AA-**	**Not Rated**[3]
U.S. Agency Coupon	$207,507,837		$194,373,114		$5,174,375	$7,960,348
U.S. Agency Discount	88,787,358			$88,787,358		
U.S. Treasury Coupon	86,707,807	$86,707,807				
Repurchase Agreements	109,000,000			20,000,000		89,000,000
Pass Through Securities	1,839,146					1,839,146
Total	$493,842,148	$86,707,807	$194,373,114	$108,787,358	$5,174,375	$98,799,494

[1] Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.
[2] A-1+ is the highest rating category for short-term debt.
[3] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

June 30, 2007						
		U.S.	Credit Quality Rating			
Investment Type	**Fair Value**	**Treasury / Agency[1]**	**AAA**	**A-1+[2]**	**AA-**	**Not Rated[3]**
U.S. Agency Coupon	$270,032,551		$255,911,218		$5,007,031	$9,114,302
U.S. Agency Discount	253,552,540			$253,552,540		
U.S. Treasury Coupon	100,113,910	$100,113,910				
Repurchase Agreements	168,000,000			35,000,000		133,000,000
Total	$791,699,001	$100,113,910	$255,911,218	$288,552,540	$5,007,031	$142,114,302

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

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

	June 30, 2008		June 30, 2007	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$153,221,911	31.00	$339,227,215	42.80
Federal Home Loan Mortgage Corp	$51,447,476	10.45	$85,431,333	10.70
Federal National Mortgage Assoc	$75,367,121	15.24	$77,330,513	09.83
Repurchase Agreements – U.S. Agency	$109,000,000	21.97	$168,000,000	21.21

NOTE 3. WARRANTS / WIRES PAYABLE

This amount includes the sum of warrants and wires initiated by the agency at year-end in excess of the agency's balance in the State Pooled Investment Fund that have not completely processed through the banking system. These warrants and wires are for grant payments for the Section 8 grant programs and will be reimbursed by the U. S. Department of Housing and Urban Development.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING (Thousands)					
Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2008	Ending Balance 6/30/2007
MORTGAGE FINANCE PROGRAM BONDS					
2003A	7/1/2004-7/1/2034	191,885	1.70 to 5.35	127,105	151,530
Less: Deferred Amount on Refundings				(3,034)	(3,255)
Net Mortgage Finance Program Bonds				$124,071	$148,275

[1] Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.
[2] A-1+ is the highest rating category for short-term debt.
[3] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2008	Ending Balance 6/30/2007
HOMEOWNERSHIP PROGRAM BONDS					
1995-1	1/1/97-7/1/2026	$65,000	4.35 to 6.48	$-0-	$2,875
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	-0-	10,730
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	-0-	15,060
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	12,280	14,490
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	-0-	7,600
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	21,790	25,335
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	22,035	24,300
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	16,290	19,635
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	-0-	8,630
			Interest accretion	-0-	5,737
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	16,405	18,520
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	7,580	9,260
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	20,850	24,230
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	8,590	10,435
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	26,275	30,995
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	25,760	29,970
2000-1	7/1/2001-7/1/2031	105,000	4.60 to 6.40	-0-	14,520
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	28,735	42,440
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	68,770	73,745
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	26,855	31,315
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	26,910	31,740
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	38,385	44,205
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	45,990	52,910
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	30,415	34,880
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	41,545	46,850
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	49,050	57,930
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	58,015	65,160
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	78,075	87,260
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	80,075	88,825
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	89,595	96,565
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	92,565	97,910
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	95,520	100,000
2006-2	7/1/2007–1/1/2037	100,000	3.90 to 5.75	96,070	100,000
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	97,740	100,000
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	100,000	100,000
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	120,000	120,000
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	150,000	-0-
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	150,000	-0-
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	60,000	-0-
Total Homeownership Program Bonds		$3,196,863		$ 1,802,165	$ 1,644,057
Plus: Unamortized Bond Premiums				30,439	25,010
Less: Deferred Amount on Refundings				(4,380)	(5,075)
Net Homeownership Program Bonds				1,828,224	1,663,992
Net Total All Issues				$ 1,952,295	$ 1,812,267

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2008 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2009	$96,924	$91,331	$188,255
2010	49,148	90,766	139,914
2011	49,993	88,746	138,739
2012	46,558	86,635	133,193
2013	42,933	84,659	127,592
2014 – 2018	186,429	397,407	583,836
2019 – 2023	132,649	361,855	494,504
2024 – 2028	251,594	308,036	559,630
2029 – 2033	274,319	252,510	526,829
2034 – 2038	628,932	157,051	785,983
2039	200,230	5,444	205,674
Total	$1,959,709	$1,924,440	$3,884,149

The debt principal in the preceding table is $7,414,000 greater than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the year ended June 30, 2008, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $7,005,000 and in the Homeownership Program in the amount of $41,665,000. The respective carrying values of the bonds were $6,932,377 and $41,913,138. This resulted in an expense to the Mortgage Finance Program of $72,623 and in income to the Homeownership Program of $248,138.

On July 2, 2007, the agency used $31,535,000 of the 2004CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $16,035,000 early redemption and $15,500,000 current maturities). The carrying amount of these bonds was $31,907,968. The refunding resulted in a difference of $372,968 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate. Also on this date, the agency used $10,840,000 of the proceeds from the Homeownership Program Bond Issue 2007-2 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was $10,828,861. The refunding reduced the agency's debt service by $8,821,013 over the next 23 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $6,987,199.

On August 7, 2007, the agency issued $150,000,000 in Homeownership Bonds, Issue 2007-3. On August 9, 2007, the agency used $85,295,000 of these bonds to refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005, July 3, 2006, and January 2, 2007, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The agency also used $14,725,000 of these bonds to refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund the convertible drawdown notes, 2002 CN-1, at maturity. The convertible drawdown notes, 2002 CN-1 were used July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $2,177,304 over the next 25 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $241,907.

On August 9, 2007, the first drawdown was made on the Series 2007 CN-1 Notes in the amount of $91,695,000. These proceeds were used to refund the convertible drawdown notes, 2004 CN-1, at maturity.

On October 11, 2007, a second drawdown was made on the Series 2007 CN-1 Notes in the amount of $61,250,000. These proceeds were used on November 1, 2007 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $61,251,179 early redemption and $0 current maturities). The difference between the amount of the drawdown and the early redemption is $1,179, which is due to accretion. The carrying amount of these bonds was $61,170,222. The refunding resulted in a difference of $80,957 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On October 30, 2007, the agency issued $150,000,000 in Homeownership Bonds, Issue 2007-4. On November 8, 2007, the agency used $55,275,000 of these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used August 9, 2007 to refund the convertible drawdown notes, 2004 CN-1, at maturity. The convertible drawdown notes, 2004 CN-1 were used January 2, 2007, and July 2, 2007, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $3,156,726 over the next 24 years, and the agency realized an economic loss (the difference between the present values of the old and new debt service payments) of $1,189,810.

On January 2, 2008, a third drawdown was made on the Series 2007 CN-1 Notes in the amount of $46,000,000. These proceeds were used on the same day to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $39,860,000 early redemption and $6,140,000 current maturities). The carrying amount of these bonds was $46,592,662. The refunding resulted in a difference of $592,662 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On May 29, 2008, the agency issued $60,000,000 in Homeownership Bonds, Issue 2008-1. On June 12, 2008, the agency used $36,420,000 of these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used August 9, 2007 to refund the convertible drawdown notes, 2004 CN-1, at maturity. The agency also used $18,530,000 of these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used October 11, 2007, and January 2, 2008 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The convertible drawdown notes, 2004 CN-1 were used July 1, 2005, January 1, 2006, July 3, 2006, January 2, 2007, and July 2, 2007, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $34,743,879 over the next 19.5 years, and the agency realized an economic loss (the difference between the present values of the old and new debt service payments) of $1,865,753.

During the year ended June 30, 2007, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $9,260,000 and in the Homeownership Program in the amount of $50,700,000. The respective carrying values of the bonds were $9,169,555 and

$50,785,575. This resulted in an expense to the Mortgage Finance Program of $90,445 and in income to the Homeownership Program of $85,575.

On July 3, 2006, a fifth drawdown was made on the Series 2004 CN-1 Notes in the amount of $51,240,000. These proceeds were used on the same day to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $33,505,000 early redemption and $17,735,000 current maturities). The carrying amount of these bonds was $51,286,975. The refunding resulted in a difference of $46,975 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On July 27, 2006, the agency issued $100,000,000 in Homeownership Bonds, Issue 2006-2. On September 14, 2006, the agency used $46,605,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used January 3, 2005 and July 1, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency’s debt service by $3,285,390 over the next 25 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $910,219.

On October 31, 2006, the agency issued $100,000,000 in Homeownership Bonds, Issue 2006-3. On November 9, 2006, the agency used $51,475,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used January 3, 2005 and December 8, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency’s debt service by $784,104 over the next 24.75 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $984,375.

On December 14, 2006, a sixth drawdown was made on the Series 2004 CN-1 Notes in the amount of $52,300,000. These proceeds were used on January 2, 2007 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $39,385,000 early redemption and $12,915,000 current maturities). The carrying amount of these bonds was $52,439,622. The refunding resulted in a difference of $139,622 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On March 13, 2007, the agency issued $100,000,000 in Homeownership Bonds, Issue 2007-1. On April 12, 2007, the agency used $51,715,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency’s debt service by $21,735,173 over the next 23 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $12,714,883.

On June 6, 2007, the agency issued $120,000,000 in Homeownership Bonds, Issue 2007-2. On July 2, 2007, the agency will use $14,725,000 of these bonds to refund certain bonds previously issued in the Homeownership program. On July 12, 2007, the agency will use $55,960,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund the convertible drawdown notes, 2002 CN-1, at maturity. The convertible drawdown notes, 2002 CN-1 were used January 2, 2004, April 1, 2004, and July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. A portion of these bonds were used to refund maturities and redemptions on July 2, 2007, and July 12, 2007; therefore, the full economic impact of the refunding was not determined as of June 30, 2007.

On June 14, 2007, a seventh drawdown was made on the Series 2004 CN-1 Notes in the amount of $31,535,000. These proceeds were used on July 2, 2007 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $21,220,000 early redemption and $10,315,000 current maturities). Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2008.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Amounts Due Within One Year
Notes Payable	$247,675	$198,945	($357,900)	$88,720	$-0-
Bonds Payable	1,795,587	360,149	(226,466)	1,929,270	100,890
Plus: Unamortized Bond Premiums	25,010	8,436	(3,007)	30,439	-0-
Less: Deferred Amount on Refundings	(8,330)	(759)	1,675	(7,414)	-0-
Compensated Absences	838	586	(536)	888	426
Net OPEB Obligation	-0-	443	(162)	281	-0-
Escrow Deposits	12,991	3,138	(7,880)	8,249	3,837
Arbitrage Rebate Payable	1,533	3,247	(2,526)	2,254	-0-
Deferred Revenue	307	262	(342)	227	8
Total	$2,075,611	$574,447	($597,144)	$2,052,914	$105,161

The following table is a summary of the long-term liability activity for the year ended June 30, 2007.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Amounts Due Within One Year
Notes Payable	$262,395	$135,075	($149,795)	$247,675	$247,675
Bonds Payable	1,563,591	420,886	(188,890)	1,795,587	108,104
Plus: Unamortized Bond Premiums	14,139	12,743	(1,872)	25,010	-0-
Less: Deferred Amount on Refundings	(9,258)	(-0-)	928	(8,330)	-0-
Compensated Absences	582	743	(487)	838	401
Escrow Deposits	15,324	3,762	(6,095)	12,991	847
Arbitrage Rebate Payable	848	945	(260)	1,533	-0-
Deferred Revenue	219	216	(128)	307	12
Total	$1,847,840	$574,370	($346,599)	$2,075,611	$357,039

e. Notes Issued and Outstanding

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

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

The following table is a summary of the note activity for the year ended June 30, 2008.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2007	Additions	Reductions	Ending Balance 6/30/2008
SINGLE FAMILY MORTGAGE NOTES							
2004CN-1	8/9/2007	$ 450,000	4.622 to 5.098	$247,675	$-0-	($247,675)	$-0-
2007CN-1	8/12/2010	$ 450,000	1.846 to 4.822	-0-	198,945	(110,225)	88,720
Total Single Family Mortgage Notes				$247,675	$198,945	($357,900)	$88,720

The following table is a summary of the note activity for the year ended June 30, 2007.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2006	Additions	Reductions	Ending Balance 6/30/2007
SINGLE FAMILY MORTGAGE NOTES							
2004CN-1	8/9/2007	$ 450,000	4.983 to 5.150	$262,395	$135,075	($149,795)	$247,675

The activity of the 2004CN-1 and 2007CN-1 notes shown above is also included in the summary of long-term liability activity in part d. of this note.

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 13.51% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2008, 2007, and 2006, were $1,297,298, $1,175,459, and $771,350. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

Since the amount of net assets restricted for single family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net assets for this purpose. Notwithstanding, the agency designated the total amount of loan loss reserves from unrestricted net assets for FY 2007.

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2008, and June 30, 2007, are presented in the *Tennessee Comprehensive Annual Financial Report*. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

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

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans available to THDA employees−the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (TCA) 8-27-201. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205(b), retirees not eligible for Medicare pay a percentage of the total state premium under the state employee group plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the state employee group plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the state employee group plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the state employee group plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the state employee group plan. Contributions for the state plan for the year ended June 30, 2008, were $1,803,834 which consisted of $1,485,845 from THDA and $317,989 from the employees.

Annual OPEB Cost and Net OPEB Obligation
(Thousands)

	State Employee Group Plan
Annual Required Contribution (ARC)	$ 443
Interest on the Net OPEB Obligation	-0-
Adjustment to the ARC	-0-
Annual OPEB cost	443
Amount of contribution	(162)
Increase in Net OPEB Obligation	281
Net OPEB obligation-beginning of year	-0-
Net OPEB obligation-end of year	$ 281

Year End*	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At Year End (Thousands)
6/30/2008	State Employee Group Plan	$ 443	37%	$ 281

*Data not available for two preceding years.

Funded Status and Funding Progress. The funded status of the plans as of June 30, 2008, was as follows (Thousands):

	State Employee Group Plan
Actuarial valuation date	7/1/2007
Actuarial accrued liability (AAL)	$ 3,902
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	$ 3,902
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 9,595
UAAL as a percentage of covered payroll	41%

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

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

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

NOTE 10. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of $2,550 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

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

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

July 1, 2008	Mortgage Finance Program	$ 3,045,000
	Homeownership Program	$45,550,000
	Total	$48,595,000

b. On July 1, 2008, the fourth drawdown was made on the Series 2007 CN-1 Notes in the amount of $44,330,000. These proceeds were used on the same day to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

c. Homeownership Program Bonds, Issue 2008-2, were sold on August 7, 2008. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2008-2	7/1/2009-1/1/2027	$50,000	3.25 to 5.75
TOTAL ALL ISSUES		$50,000	

On August 14, 2008, the agency used these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used November 1, 2007, January 2, 2008, and July 1, 2008 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

d. Homeownership Program Bonds, Issue 2008-3, were sold on September 30, 2008. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2008-3	7/1/2009-7/1/2038	$90,000	2.00 to 5.45
TOTAL ALL ISSUES		$90,000	

e. Homeownership Program Bonds, Issue 2008-4, were authorized by the Board of Directors on September 18, 2008, not to exceed $120,000,000.

f. Mortgage prepayments, foreclosure proceeds, and note proceeds were used to redeem bonds as indicated below:

October 1, 2008	Mortgage Finance Program	$ 4,505,000
	Homeownership Program	$34,490,000
	Total	$38,995,000

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

Actuarial Valuation Date*	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2007	State Employee Group Plan	$ -0-	$ 3,902	$ 3,902	0%	$ 9,595	41%

*Two additional years will be reported as data becomes available.

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2008
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 22,321	$ 156,284	$ 88,788	$ 267,393
Investments	-	8,257	21,651	-	29,908
Receivables:					
Accounts	-	869	8,892	-	9,761
Interest	-	1,604	10,305	-	11,909
First mortgage loans	75	7,319	36,589	-	43,983
Other	113	-	-	-	113
Due from federal government	11,841	-	-	-	11,841
Due from other funds	3,118	-	-	-	3,118
Total current assets	15,147	40,370	233,721	88,788	378,026
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	931	4,065	-	4,996
Investments	-	37,778	157,784	-	195,562
Investment Interest receivable	-	537	2,006	-	2,543
Investments	-	44,668	25,917	-	70,585
First mortgage loans receivable	196	161,175	1,780,460	-	1,941,831
Deferred charges	28	644	11,622	(90)	12,204
Advance to local government	2,882	-	-	-	2,882
Capital assets:					
Furniture and equipment	238	-	-	-	238
Less accumulated depreciation	(159)	-	-	-	(159)
Total noncurrent assets	3,185	245,733	1,981,854	(90)	2,230,682
Total assets	18,332	286,103	2,215,575	88,698	2,608,708
LIABILITIES					
Current liabilities:					
Warrants / wires payable	7,625	-	-	-	7,625
Accounts payable	2,778	16	79	-	2,873
Accrued payroll and related liabilities	410	-	-	-	410
Compensated absences	426	-	-	-	426
Due to primary government	3	-	-	-	3
Interest payable	-	3,031	44,159	97	47,287
Escrow deposits	-	3,837	-	-	3,837
Prepayments on mortgage loans	-	145	1,871	-	2,016
Due to other funds	-	618	2,500	-	3,118
Notes payable	-	-	-	-	-
Bonds payable	-	12,130	88,760	-	100,890
Deferred revenue	-	8	-	-	8
Total current liabilities	11,242	19,785	137,369	97	168,493
Noncurrent liabilities:					
Notes payable	-	-	-	88,720	88,720
Bonds payable	-	111,941	1,739,464	-	1,851,405
Compensated absences	462	-	-	-	462
Net OPEB obligation	281	-	-	-	281
Escrow deposits	271	4,141	-	-	4,412
Arbitrage rebate payable	-	-	2,254	-	2,254
Deferred revenue	-	219	-	-	219
Total noncurrent liabilities	1,014	116,301	1,741,718	88,720	1,947,753
Total liabilities	12,256	136,086	1,879,087	88,817	2,116,246
NET ASSETS					
Invested in capital assets	79	-	-	-	79
Restricted for single family bond programs	-	142,438	336,488	(119)	478,807
Restricted for grant programs	2,653	7,579	-	-	10,232
Restricted for Homebuyers Revolving Loan Prograr	3,154	-	-	-	3,154
Unrestricted	190	-	-	-	190
Total net assets	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	$ -	$ 9,664	$ 101,478	$ -	$ 111,142
Investment income:					
Interest	189	5,511	18,263	2	23,965
Net increase in the fair value of investments	-	3,460	7,060	4,271	14,791
Federal grant administration fees	10,692	-	-	-	10,692
Fees and other income	2,632	1,141	-	-	3,773
Total operating revenues	13,513	19,776	126,801	4,273	164,363
OPERATING EXPENSES					
Salaries and benefits	13,562	-	-	-	13,562
Contractual services	2,659	-	-	-	2,659
Materials and supplies	788	-	-	-	788
Rentals and insurance	1,180	-	-	-	1,180
Other administrative expenses	671	-	-	-	671
Other program expenses	157	197	2,758	305	3,417
Interest expense	-	6,588	87,411	3,329	97,328
Mortgage service fees	-	528	6,339	-	6,867
Issuance costs	-	60	548	125	733
Depreciation	57	-	-	-	57
Total operating expenses	19,074	7,373	97,056	3,759	127,262
Operating income (loss)	(5,561)	12,403	29,745	514	37,101
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	181,661	-	-	-	181,661
Other grant revenue	-	543	-	-	543
Payment from primary government	3,000	-	-	-	3,000
Federal grants expenses	(179,495)	-	-	-	(179,495)
Local grants expenses	(1,594)	(3,052)	(3,094)	-	(7,740)
Total nonoperating revenues (expenses)	3,572	(2,509)	(3,094)	-	(2,031)
Income (loss) before transfers	(1,989)	9,894	26,651	514	35,070
Transfers (to) other funds	-	(3,647)	-	(691)	(4,338)
Transfers from other funds	2,333		2,005	-	4,338
Change in net assets	344	6,247	28,656	(177)	35,070
Total net assets, July 1	5,732	143,770	307,832	58	457,392
Total net assets, June 30	$ 6,076	$ 150,017	$ 336,488	$ (119)	$ 492,462

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	$ (27)	$ 25,702	$ 240,274	$ -	$ 265,949
Receipts from federal government	6,196	-	-	-	6,196
Receipts from other funds	-	-	2,500	-	2,500
Other miscellaneous receipts	2,615	1,141	-	-	3,756
Acquisition of mortgage loans	-	(37,366)	(410,790)	-	(448,156)
Payments to service mortgages	-	(528)	(6,339)	-	(6,867)
Payments to suppliers	(5,243)	(123)	(361)	(1)	(5,728)
Payments to federal government	-	-	(1,818)	(398)	(2,216)
Payments to other funds	(2,333)	(167)	-	-	(2,500)
Payments to employees	(12,703)	-	-	-	(12,703)
Net cash (used) by operating activities	(11,495)	(11,341)	(176,534)	(399)	(199,769)
Cash flows from non-capital financing activities:					
Operating grants received	183,316	543	-	-	183,859
Transfers in (out)	2,333	(3,573)	1,119	121	-
Negative cash balance implicitly financed	7,625	-	-	-	7,625
Proceeds from sale of bonds	-	-	368,330	-	368,330
Proceeds from issuance of notes	-	-	-	198,945	198,945
Operating grants paid	(182,154)	(3,052)	(3,094)	-	(188,300)
Cost of issuance paid	-	-	(2,691)	(125)	(2,816)
Principal payments	-	(24,425)	(202,041)	(357,900)	(584,366)
Interest paid	-	(6,907)	(81,610)	(4,808)	(93,325)
Net cash provided (used) by non-capital financing activities	11,120	(37,414)	80,013	(163,767)	(110,048)
Cash flows from capital and related financing activities:					
Purchases of capital assets	(71)	-	-	-	(71)
Net cash used by capital and related financing activities	(71)	-	-	-	(71)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	129,836	251,751	-	381,587
Purchases of investments	-	(90,311)	(204,706)	-	(295,017)
Investment interest received	189	6,332	19,435	2	25,958
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	10	35	4,271	4,316
Net cash provided by investing activities	189	45,867	66,515	4,273	116,844
Net (decrease) in cash and cash equivalents	(257)	(2,888)	(30,006)	(159,893)	(193,044)
Cash and cash equivalents, July 1	257	26,140	190,355	248,681	465,433
Cash and cash equivalents, June 30	$ -	$ 23,252	$ 160,349	$ 88,788	$ 272,389

(continued)

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	$ (5,561)	$ 12,403	$ 29,745	$ 514	$ 37,101
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	57	60	548	125	790
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	-	245	(2,950)	-	(2,705)
(Increase) decrease in mortgage interest receivable	-	2	(1,574)	-	(1,572)
(Increase) in first mortgage loans receivable	-	(16,829)	(267,872)	-	(284,701)
(Increase) in due from federal government	(4,496)	-	-	-	(4,496)
(Increase) decrease in deferred charges	(8)	73	(248)	-	(183)
(Increase) in other receivables	(17)	-	-	-	(17)
(Increase) in interfund receivables	(2,333)	(167)	-	-	(2,500)
Increase in interfund payables	-	-	2,500	-	2,500
Increase (decrease) in accounts payable	788	(4,665)	414	-	(3,463)
Increase in accrued payroll / compensated absences	369	-	-	-	369
(Decrease) in due to primary government	(105)	-	-	-	(105)
(Decrease) in deferred revenue	-	(80)	-	-	(80)
Increase in arbitrage rebate liability	-	-	815	(94)	721
Investment income included as operating revenue	(189)	(8,971)	(25,323)	(4,273)	(38,756)
Interest expense included as operating expense	-	6,588	87,411	3,329	97,328
Total adjustments	(5,934)	(23,744)	(206,279)	(913)	(236,870)
Net cash (used) by operating activities	$ (11,495)	$ (11,341)	$ (176,534)	$ (399)	$ (199,769)
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	$ -	$ -	$ (149)	$ -	$ (149)
Increase in fair value of investments	-	1,758	5,578	-	7,336
Total noncash investing, capital, and financing activities	$ -	$ 1,758	$ 5,429	$ -	$ 7,187

Exhibit D

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2008
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 14,874	$ 6,590	$ 21,464	$ 857	$ 22,321
Investments	6,812	897	7,709	548	8,257
Receivables:					
Accounts	800	64	864	5	869
Interest	1,214	353	1,567	37	1,604
First mortgage loans	5,885	1,434	7,319	-	7,319
Total current assets	29,585	9,338	38,923	1,447	40,370
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	931	-	931	-	931
Investments	37,778	-	37,778	-	37,778
Investment interest receivable	537	-	537	-	537
Investments	14,084	25,758	39,842	4,826	44,668
First mortgage loans receivable	157,153	4,022	161,175	-	161,175
Deferred charges	644	-	644	-	644
Total noncurrent assets	211,127	29,780	240,907	4,826	245,733
Total assets	240,712	39,118	279,830	6,273	286,103
LIABILITIES					
Current liabilities:					
Accounts payable	6	10	16	-	16
Interest payable	3,031	-	3,031	-	3,031
Escrow deposits	-	-	-	3,837	3,837
Prepayments on mortgage loans	142	3	145	-	145
Due to other funds	-	618	618	-	618
Bonds payable	12,130	-	12,130	-	12,130
Deferred revenue	-	8	8	-	8
Total current liabilities	15,309	639	15,948	3,837	19,785
Noncurrent liabilities:					
Bonds payable	111,941	-	111,941	-	111,941
Escrow deposits	-	2,046	2,046	2,095	4,141
Deferred revenue	-	219	219	-	219
Total noncurrent liabilities	111,941	2,265	114,206	2,095	116,301
Total liabilities	127,250	2,904	130,154	5,932	136,086
NET ASSETS					
Restricted for single family bond programs	113,462	28,635	142,097	341	142,438
Restricted for grant programs	-	7,579	7,579	-	7,579
Total net assets	$ 113,462	$ 36,214	$ 149,676	$ 341	$ 150,017

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

Tennessee Housing Development Agency

Leading Tennessee Home

FINANCIAL STATEMENTS

June 30, 2007

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

October 9, 2007

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2007, and June 30, 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to the bond finance committee of the Tennessee Housing Development Agency.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2007, and June 30, 2006, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, following the notes to the financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2007, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/tlh

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007 AND JUNE 30, 2006

This section of the Tennessee Housing Development Agency's (the Agency or THDA) annual financial statements presents management's discussion and analysis of the financial performance of the Agency for the years ended June 30, 2007 and June 30, 2006. This information is being presented to provide additional information regarding the activities of the Agency and to meet the reporting and disclosure requirements of the Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The Tennessee Housing Development Agency was established by the Tennessee General Assembly in 1973

> In order to promote the production of more affordable new housing units for very low, low and moderate income individuals and families in the state, to promote the preservation and rehabilitation of existing housing units for such persons, and to bring greater stability to the residential construction industry and related industries so as to assure a steady flow of production of new housing units… (*Tennessee Code Annotated 13-23-102*)

The mission statement of the Agency 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 the Agency assists people is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2007, THDA has originated over 95,000 single-family mortgage loans. The Agency also serves as the master servicer for all active mortgages funded by THDA. In addition to helping homebuyers, THDA administers portions of the federal Section 8 rental assistance programs, including tenant-based and project-based assistance. 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 authorities for specific multifamily developments.

As established by statue, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*)

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of the Agency at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about the Agency's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide useful information regarding the Agency's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. The Agency'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, other supplementary information is also included.

The Agency is also considered a "component unit" for the State of Tennessee, and therefore, is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at http://tennessee.gov/finance/act/cafr.html.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2007

- Total assets increased by $252.6 million, or 10.9 %.
- Total liabilities increased $228.6 million, or 12.1%.
- Total assets exceeded total liabilities by $457.4 million. This is an increase of $24.1 million, or 5.6%, from fiscal year 2006.
- Cash and cash equivalents increased $40.6 million, or 9.6%.
- Total investments decreased $10.9 million, or 2.8%.
- Bonds and notes payable increased $229.1 million, or 12.5%.
- The Agency originated $408.1 million in new loans, which is an increase of $125.1 million, or 44.2%, from the prior year.

Year Ended June 30, 2006

- Total assets increased by $91.7 million, or 4.1 %.
- Total liabilities increased by $90.8 million, or 5.0%.
- Total assets exceeded total liabilities by $433.3 million. This is an increase of $0.8 million, or 0.2%, from fiscal year 2005.
- Cash and cash equivalents decreased $19.8 million, or 4.5%.
- Total investments increased $30.7 million, or 8.7%.
- Bonds and notes payable increased $85.5 million, or 4.9%.
- The Agency originated $283.0 million in new loans, which is an increase of $67.7 million, or 31.4%, from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

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

	2007	2006	2005
Current assets	$ 577,369	$ 525,616	$ 508,384
Capital assets	65	60	16
Other noncurrent assets	2,003,173	1,802,256	1,727,813
Total assets	2,580,607	2,327,932	2,236,213
Current Liabilities	404,643	159,520	355,537
Noncurrent Liabilities	1,718,572	1,735,061	1,448,152
Total liabilities	2,123,215	1,894,581	1,803,689
Invested in capital assets	65	60	16
Restricted net assets	455,765	428,757	425,198
Unrestricted net assets	1,562	4,534	7,310
Total net assets	$ 457,392	$ 433,351	$ 432,524

2007 to 2006

- The Agency's total net assets increased $24.1 million, or 5.6%, from $433.3 million at June 30, 2006 to $457.4 million at June 30, 2007. This primarily resulted from an increase in mortgage interest income, and an increase in the fair value of investments.

- Mortgage loans receivable increased $230.4 million, or 15.7%, from $1,470.8 million at June 30, 2006 to $1,701.2 million at June 30, 2007. This increase resulted from historic high mortgage loan production.

- Total liabilities increased $228.6 million, or 12.1%, from $1,894.6 million at June 30, 2006 to $2,123.2 million at June 30, 2007. The increase is primarily due to an increase in the amount of bonds issued during the fiscal year.

2006 to 2005

- The Agency's total net assets increased $0.8 million, or .2%, from $432.5 million at June 30, 2005 to $433.3 million at June 30, 2006. This resulted from normal Agency operations.

- Mortgage loans receivable increased $79.1 million, or 5.7%, from $1,391.7 million at June 30, 2005 to $1,470.8 million at June 30, 2006. The Agency initiated a new marketing and outreach program for our single-family mortgage loan products. As a result, the Agency originated mortgage loans in 2006 totaling $283.0 million, which was $67.7 million, or 31.4% more than the $215.3 million originated in fiscal year 2005. In addition, prepayments for fiscal year 2006 were $172.3 million; which was $17.8 million less than the $190.1 million received in 2005.

- Total liabilities increased $90.9 million, or 5.0%, from $1,803.7 million at June 30, 2005 to $1,894.6 million at June 30, 2006. The increase is primarily due to an increase in the amount of bonds and notes issued.

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

	2007	2006	2005
Operating revenues			
Mortgage interest income	$ 93,387	$ 87,118	$ 88,438
Investment income	43,643	14,024	39,007
Other	14,518	13,096	13,035
Total operating revenues	151,548	114,238	140,480
Operating expenses			
Interest expense	96,887	86,566	81,294
Other	25,949	22,102	20,660
Total operating expenses	122,836	108,668	101,954
Operating income	28,712	5,570	38,526
Nonoperating revenues (expenses)			
Grant revenues	161,976	162,137	151,630
Grant expenses	(166,647)	(166,880)	(155,707)
Total nonoperating revenues (expenses)	(4,671)	(4,743)	(4,077)
Change in net assets	$ 24,041	$ 827	$ 34,449

2007 to 2006

For the year ended June 30, 2007, total operating revenues increased $37.3 million from $114.2 million for the year ended June 30, 2006, to $151.5 million for the year ended June 30, 2007. The primary reasons for this increase are as follows:

- Mortgage interest income increased $6.3 million, or 7.2%, from $87.1 million in 2006 to $93.4 million in 2007. This increase is due to a decrease in mortgage loan prepayments, as well as record high origination of new mortgage loans.

- Investment income increased $29.6 million, from $14.0 million in 2006 to $43.6 million in 2007. This increase is primarily due to a net increase in the fair value of investments of $16.1 million in 2007 as compared to a net decrease of $9.6 million in 2006.

For the year ended June 30, 2007, total operating expenses increased $14.2 million, or 13%, from $108.6 million in 2006 to $122.8 million in 2007. This increase is primarily due to an increase in interest expense of $10.3 million, from $86.6 million in 2006 to $96.9 million in 2007. This increase occurred as a result of the Agency issuing higher amounts of bonds in order to meet record high mortgage loan production.

While the total net assets for fiscal year 2007 increased $24.1 million from the previous year, the non-monetary accretion of deep discount bonds and the change in the fair value of investments contributed $1.2 million toward this increase. When considered without these non-monetary components, net assets would have increased $22.9 million.

2006 to 2005

For the year ended June 30, 2006, total operating revenues decreased $26.3 million from $140.5 million for the year ended June 30, 2005 to $114.2 million for the year ended June 30, 2006. The primary reason for this decrease is that investment income decreased $25 million, from $39 million in 2005 to $14 million in 2006. This decrease is due to a net decrease in the fair value of investments of $9.6 million in 2006 (as compared to a net increase of $18.2 million in 2005) as well as interest rates remaining at relatively low historical rates.

For the year ended June 30, 2006, total operating expenses increased $6.7 million, or 6.6%, from $101.9 million in 2005 to $108.6 million in 2006. This increase is primarily due to an increase in interest expense of $5.3 million, from $81.3 million in 2005 to $86.6 million in 2006. This increase occurred due to an increase in bonds issued during the current year.

While the total net assets for fiscal year 2006 increased $827 thousand from the previous year, the non-monetary accretion of deep discount bonds and the change in the fair value of investments accounted for a net decrease of $22.9 million. When considered without these non-monetary components, net assets would have increased $23.7 million.

CASH FLOWS

Cash flows for fiscal years ending June 30, 2007, 2006, and 2005 were as follows (expressed in thousands):

	2007	2006	2005
Cash and cash equivalents, July 1	$ 424,790	$ 444,586	$ 376,297
Net cash provided (used) by operating activities	(149,336)	(4,102)	100,663
Net cash provided (used) by non-capital financial activities	136,107	1,194	(98,539)
Net cash used by capital and related financing activities	(48)	(60)	(5)
Net cash provided (used) by investing activities	53,920	(16,828)	66,170
Net increase (decrease) in cash and cash equivalents	40,643	(19,796)	68,289
Cash and cash equivalents, June 30	$ 465,433	$ 424,790	$ 444,586

For the year ended June 30, 2007, the Agency's net cash increased $40.6 million. The Agency's net cash decreased $19.8 million in 2006, and increased $68.3 million in 2005. One major component of the Agency's cash flows is the amount of cash provided by, or used by, investing activities. As noted above, the Agency's investment activities resulted in a "source" of cash for fiscal years 2007 and 2005, and a "use" of cash in fiscal year 2006.

Another major component in the Agency's cash flows is the difference between mortgage loan originations (a use of operating cash) and mortgage loan prepayments (a source of operating cash). During fiscal year 2006, the Agency initiated a marketing and outreach program that resulted in a rise in mortgage loan originations. A trend that was first noted during fiscal year 2005, in which mortgage loan prepayments declined whereas mortgage loan originations increased, continued into fiscal year 2007. This results in an increasing demand on operating cash for the Agency on a short-term basis, but is expected to result in increased interest revenues in future years. This trend is depicted in the following chart:

	2007	2006	2005
Mortgage Loan Originations (Use of cash)	$ (408,073)	$ (283,007)	$ (215,315)
Mortgage Loan Prepayments (Source of cash)	142,730	172,269	190,060
Difference	$ (265,343)	$ (110,738)	$ (25,255)

DEBT ACTIVITY

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

	2007	2006	2005
Bonds payable	$ 1,812,267	$ 1,568,472	$ 1,433,430
Notes payable	247,675	262,395	311,900
Total bonds and notes payable	$ 2,059,942	$ 1,830,867	$ 1,745,330

Year Ended June 30, 2007

Total bonds and notes payable increased $229.1 million, or 12.5%, due primarily to the issuance of new long-term bonds. During the fiscal year, the Agency issued debt totaling $567.8 million, with activity arising from four bond issues totaling $432.7 million and three draws under the single family mortgage note program totaling $135.1 million.

Year Ended June 30, 2006

Total bonds and notes payable increased $85.5 million, or 4.9%, due primarily to an increase in the origination of long-term bonds during the fiscal year. During 2006, the Agency issued debt totaling $545 million, with activity arising from three bond issues totaling $306.5 million and two draws under the single family mortgage note program totaling $238.5 million. The increase in mortgage loan production, which requires funds, resulted in the increase in long-term debt originations.

Note Authority

On July 19, 2007, the Agency's board of directors authorized the issuance of Single Family Mortgage Note, Series 2007CN-1. This $450 million drawdown note with a final maturity of August 12, 2010 closed on August 9, 2007.

Additional information on the Agency's long-term debt is presented in Note 4 to the financial statements.

NEW GRANT PROGRAMS

During the 104th General Assembly, the members appropriated $1 million to THDA for grant programs during fiscal year 2007. Of this appropriation, $350,000 was established as a recurring appropriation. During the 105th General Assembly, the members appropriated $3 million for grant programs in fiscal year 2008.

In September, 2006, THDA's Board of Directors voted to allocate $12 million of THDA funds (over a two-year period) for grants. These funds, along with the appropriations from the General Assembly, established a grant program that has been titled by the Agency as the "Tennessee Housing Trust Fund."

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

	FY 2007	FY 2008	Total
Funding Sources:			
THDA	$ 6,000,000	$ 6,000,000	$ 12,000,000
State Appropriation	1,000,000	3,000,000	4,000,000
Totals	**$ 7,000,000**	**$ 9,000,000**	**$ 16,000,000**
Approved Uses:			
Rural repair program (USDA)	$ 700,000	$ 700,000	$ 1,400,000
Ramp Program (UCP)	50,000	-	50,000
Ramp Program	100,000	150,000	250,000
Homebuyer Education Initiative	150,000	150,000	300,000
Emergency Repairs for Elderly	2,000,000	2,000,000	4,000,000
Competitive Grants	4,000,000	6,000,000	10,000,000
Totals	**$ 7,000,000**	**$ 9,000,000**	**$ 16,000,000**

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

THDA is seeking additional state appropriations in FY 2009 for this grant program, as well as private sector funding. In addition to the above approved uses, THDA received requests that merit funding. These requests totaled approximately $6 million more than the funds available.

CURRENT MORTGAGE ENVIRONMENT

Much media attention has been recently devoted to rising foreclosures and certain types of mortgages commonly known as "sub-prime" mortgages. Single-family mortgage loans made or purchased by THDA must be properly insured or have an acceptable loan-to-value ratio (currently at 78% LTV). Acceptable forms of mortgage insurance includes FHA Insurance Programs, Veterans Administration Guaranty Program, the United States Department of Agriculture - Rural Development (formerly Farmers Home Administration Guaranteed Rural Housing Program) or acceptable Private Mortgage Insurance.

THDA requires private mortgage insurance coverage for all single-family loans if the principal amount of the loan exceeds seventy-eight (78%) of the lesser of the purchase price or appraised value and the loan is not guaranteed by VA or USDA/RD or insured by FHA. THDA will accept private mortgage insurance provided by private mortgage insurers who are authorized by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee; who are rated at least AA by Standard & Poor's Rating Group; and who provide protection against involuntary job loss at no extra cost to the borrower.

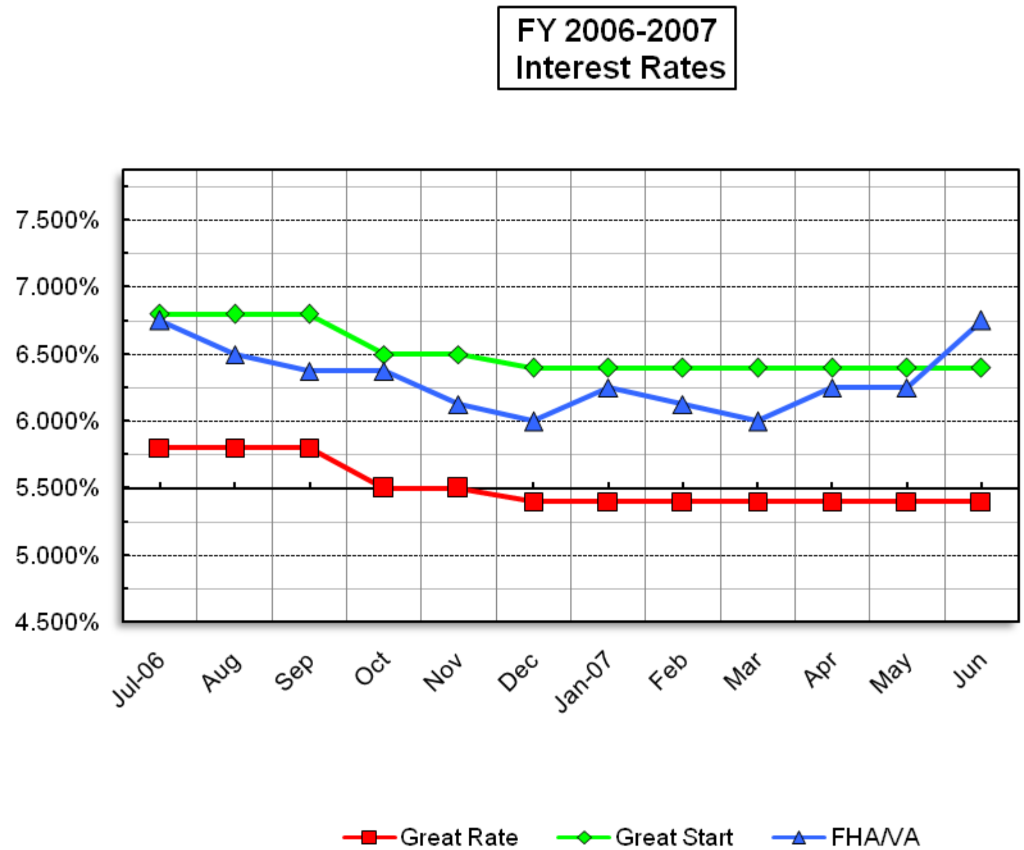
THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae through the Fannie Mae "My Community Mortgage" program or by Freddie Mac through the Freddie Mac "Home Possible" program. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 100% of the lesser of the purchase price or the appraised value.

In addition, THDA makes or purchases fixed-rate mortgages with a maximum loan term of 360 months (30 years) that conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARM's), interest-only mortgages, or mortgages with a future lump-sum payment due (balloon-type mortgage). THDA does not make or purchase "sub-prime" mortgage loans.

ECONOMIC FACTORS

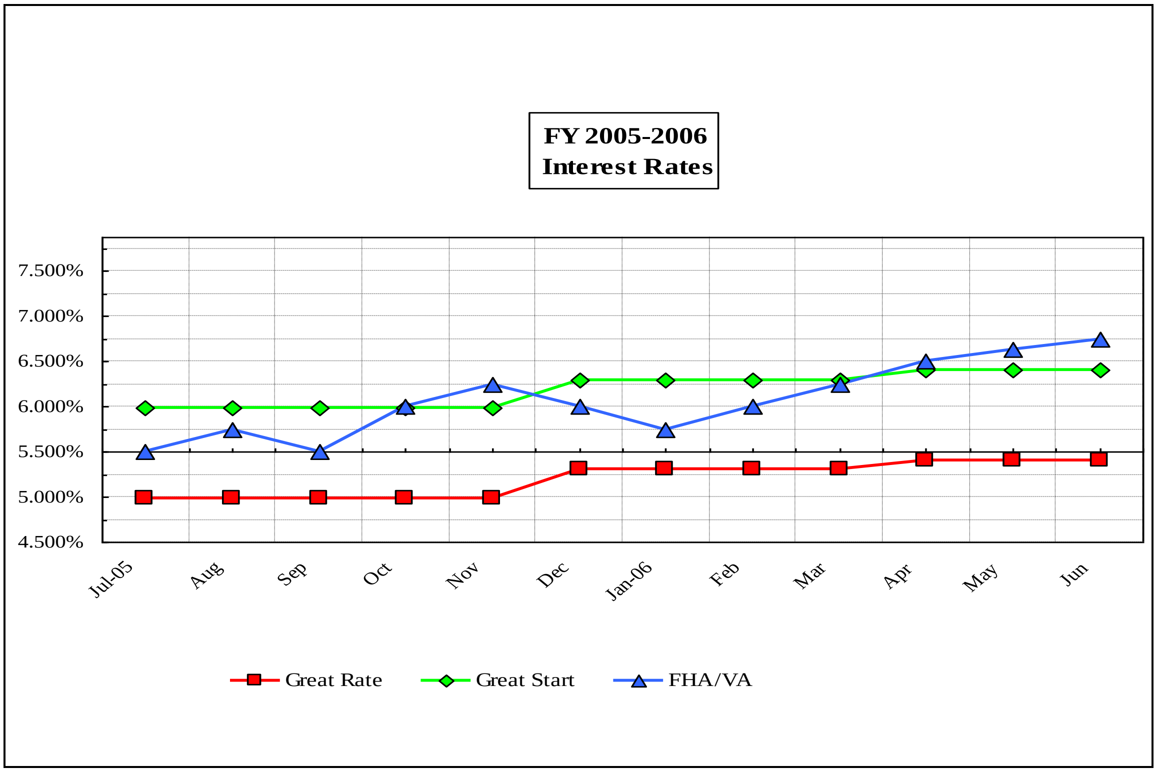
Fiscal year 2007 saw a continued rebound in mortgage loan rates. The Great Rate mortgage product offers a below market interest rate loan secured by a first mortgage. The Great Start program offers a loan at 100 basis points higher interest rate, but provides 4% of the loan amount as down payment and closing cost assistance. In addition, THDA introduced the Great Advantage product, which offers a loan at 50 basis points higher than the Great Rate product, and 2% of the loan amount as down payment and closing cost assistance.

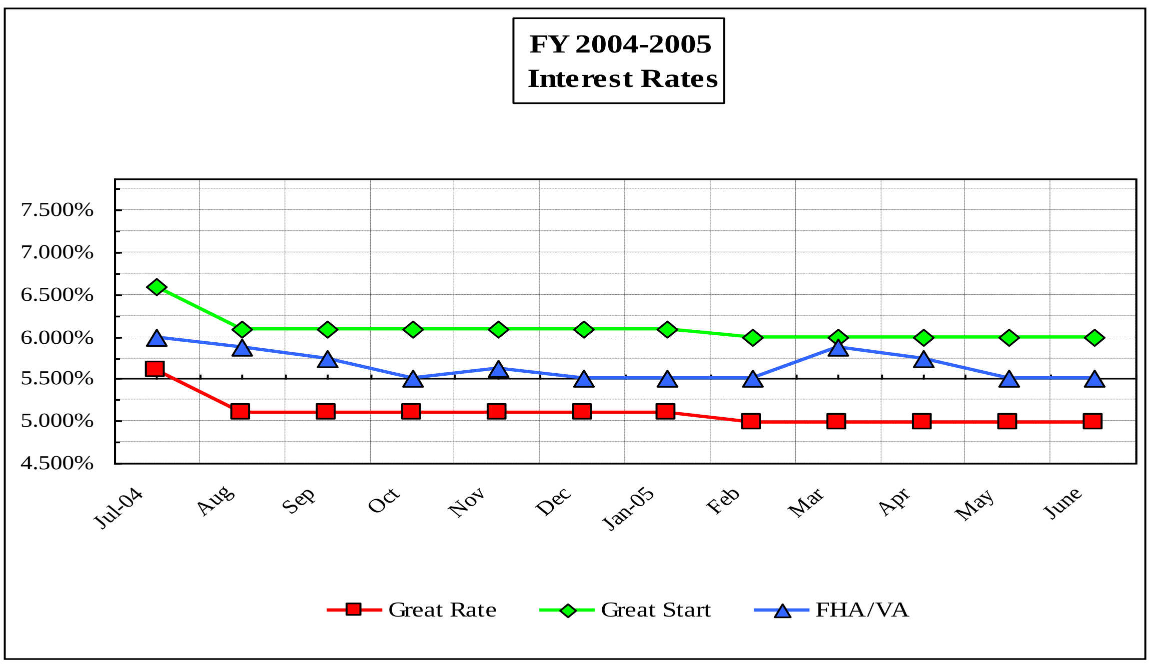
The following charts depict the Agency's mortgage loan rates as compared to the average FHA/VA loan rates during fiscal year 2007:



As noted above, the "Great Rate" mortgage product interest rate at the end of the fiscal year was approximately 135 basis points below the average FHA/VA rates, thus making our rates very attractive to the market place. During fiscal year 2007, this spread between the Great Rate and the average FHA/VA rates averaged just below 80 basis points.

For comparison purposes the charts of THDA rates, compared with the comparable FHA/VA average rates for fiscal years 2006 and 2005 are depicted below:


FY 2005-2006
Interest Rates
7.500%
7.000%
6.500%
6.000%
5.500%
5.000%
4.500%
Jul-05
Aug
Sep
Oct
Nov
Dec
Jan-06
Feb
Mar
Apr
May
Jun
Great Rate
Great Start
FHA/VA


FY 2004-2005
Interest Rates
7.500%
7.000%
6.500%
6.000%
5.500%
5.000%
4.500%
Jul-04
Aug
Sep
Oct
Nov
Dec
Jan-05
Feb
Mar
Apr
May
June
Great Rate
Great Start
FHA/VA

The Agency continued to use the proceeds from mortgage loan prepayments to call its bond debt. However, the decrease in the amount of prepayments, coupled with a continued increase in market investment rates, reduced the frequency and quantity of bond redemptions.

In accordance with the Agency's investment policy, the Agency typically invests in short-term collateralized repurchase agreements, as well as short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, the Agency uses the one, three, and five year Constant Maturity Treasury (CMT) rates as established by the United States Treasury. The following tables depict these rates for fiscal years 2007, 2006 and 2005:

For the Fiscal Year Ending June 30, 2007

Month	***1yr CMT***	***3yr CMT***	***5yr CMT***
June, 2007	4.91%	5.00%	5.03%
May, 2007	4.93%	4.69%	4.67%
April, 2007	4.92%	4.60%	4.59%
March, 2007	4.85%	4.51%	4.48%
February, 2007	5.05%	4.75%	4.71%
January, 2007	5.06%	4.79%	4.75%
December, 2006	4.94%	4.58%	4.53%
November, 2006	5.01%	4.64%	4.58%
October, 2006	5.01%	4.72%	4.69%
September, 2006	4.97%	4.69%	4.67%
August, 2006	5.08%	4.85%	4.82%
July, 2006	5.22%	5.07%	5.04%

For the Fiscal Year Ending June 30, 2006

Month	***1yr CMT***	***3yr CMT***	***5yr CMT***
June, 2006	5.16%	5.09%	5.07%
May, 2006	5.00%	4.97%	5.00%
April, 2006	4.90%	4.89%	4.90%
March, 2006	4.77%	4.74%	4.72%
February, 2006	4.68%	4.64%	4.57%
January, 2006	4.45%	4.35%	4.35%
December, 2005	4.35%	4.39%	4.39%
November, 2005	4.33%	4.43%	4.45%
October, 2005	4.18%	4.29%	4.33%
September, 2005	3.85%	3.96%	4.01%
August, 2005	3.87%	4.08%	4.12%
July, 2005	3.64%	3.91%	3.98%

For the Fiscal Year Ending June 30, 2005

Month	***1yr CMT***	***3yr CMT***	***5yr CMT***
June, 2005	3.36%	3.69%	3.77%
May, 2005	3.33%	3.72%	3.85%
April, 2005	3.32%	3.79%	4.00%
March, 2005	3.30%	3.91%	4.17%
February, 2005	3.03%	3.54%	3.77%
January, 2005	2.86%	3.39%	3.71%
December, 2004	2.67%	3.21%	3.60%
November, 2004	2.50%	3.09%	3.53%
October, 2004	2.23%	2.85%	3.35%
September, 2004	2.12%	2.83%	3.36%
August, 2004	2.02%	2.88%	3.47%
July, 2004	2.10%	3.05%	3.69%

In fiscal year 2007 we noted that these benchmarks continued their rebound from the historically low rates as noted in the prior few years. Currently, the investments yields are often below the related bond yields, which results in negative arbitrage. The Agency monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's stakeholders with a general overview of the Agency'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) 532-9180 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND JUNE 30, 2006
(Expressed in Thousands)

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 464,872	$ 424,616
Investments (Note 2)	48,089	34,370
Receivables:		
Accounts	7,056	10,431
Interest	12,184	11,612
First mortgage loans	39,072	34,269
Other	96	-
Due from federal government	6,000	10,318
Total current assets	577,369	525,616
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	561	174
Investments (Note 2)	189,423	176,393
Investment interest receivable	2,688	2,475
Investments (Note 2)	134,639	172,249
First mortgage loans receivable	1,662,080	1,436,524
Deferred charges	10,939	11,619
Advance to local government	2,843	2,812
Other receivables	-	10
Capital assets:		
Furniture and equipment	201	153
Less accumulated depreciation	(136)	(93)
Total noncurrent assets	2,003,238	1,802,316
Total assets	2,580,607	2,327,932
LIABILITIES		
Current liabilities:		
Checks / warrants / wires payable (Note 3)	-	5,855
Accounts payable	3,110	1,183
Accrued payroll and related liabilities	372	323
Compensated absences	401	285
Due to primary government	108	84
Interest payable	42,449	37,917
Escrow deposits	847	969
Prepayments on mortgage loans	1,565	1,379
Notes payable (Note 4)	247,675	-
Bonds payable (Note 4)	108,104	111,525
Deferred revenue	12	-
Total current liabilities	404,643	159,520
Noncurrent liabilities:		
Notes payable (Note 4)	-	262,395
Bonds payable (Note 4)	1,704,163	1,456,947
Compensated absences	437	297
Escrow deposits	12,144	14,355
Arbitrage rebate payable	1,533	848
Deferred revenue	295	219
Total noncurrent liabilities	1,718,572	1,735,061
Total liabilities	2,123,215	1,894,581
NET ASSETS		
Invested in capital assets	65	60
Restricted for single family bond programs (Note 5)	450,445	425,218
Restricted for grant programs (Note 5)	2,166	385
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154
Unrestricted (Note 7)	1,562	4,534
Total net assets	$ 457,392	$ 433,351

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
(Expressed in Thousands)

	2007	2006
OPERATING REVENUES		
Mortgage interest income	$ 93,387	$ 87,118
Investment income:		
Interest	27,510	23,626
Net increase (decrease) in the fair value of investments	16,133	(9,602)
Federal grant administration fees	10,617	9,903
Fees and other income	3,901	3,193
Total operating revenues	151,548	114,238
OPERATING EXPENSES		
Salaries and benefits	12,194	10,121
Contractual services	1,858	1,766
Materials and supplies	630	425
Rentals and insurance	1,093	1,083
Other administrative expenses	576	453
Other program expenses	3,290	2,547
Interest expense	96,887	86,566
Mortgage service fees	5,697	5,163
Issuance costs	568	527
Depreciation	43	17
Total operating expenses	122,836	108,668
Operating income	28,712	5,570
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	160,976	162,137
Payment from primary government	1,000	-
Federal grants expenses	(160,200)	(162,137)
Local grants expenses	(6,447)	(4,743)
Total nonoperating revenues (expenses)	(4,671)	(4,743)
Change in net assets	24,041	827
Total net assets, July 1	433,351	432,524
Total net assets, June 30	$ 457,392	$ 433,351

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
(Expressed in Thousands)

	2007	2006
Cash flows from operating activities:		
Receipts from customers	$ 272,185	$ 293,066
Receipts from federal government	6,586	5,502
Other miscellaneous receipts	3,815	3,193
Acquisition of mortgage loans	(408,073)	(283,007)
Payments to service mortgages	(5,697)	(5,163)
Payments to suppliers	(5,781)	(5,311)
Payments to federal government	(85)	(1,927)
Payments to employees	(12,286)	(10,455)
Net cash used by operating activities	(149,336)	(4,102)
Cash flows from non-capital financing activities:		
Operating grants received	170,369	163,509
Negative cash balance implicitly financed (repaid)	(5,855)	4,091
Proceeds from sale of bonds	432,743	306,515
Proceeds from issuance of notes	135,075	238,455
Operating grants paid	(165,231)	(166,629)
Cost of issuance paid	(3,167)	(2,283)
Principal payments	(338,685)	(460,854)
Interest paid	(89,142)	(81,610)
Net cash provided by non-capital financing activities	136,107	1,194
Cash flows from capital and related financing activities:		
Purchases of capital assets	(48)	(60)
Net cash used by capital and related financing activities	(48)	(60)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	224,716	60,619
Purchases of investments	(211,363)	(113,448)
Investment interest received	26,926	23,457
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	13,641	12,544
Net cash provided (used) by investing activities	53,920	(16,828)
Net increase (decrease) in cash and cash equivalents	40,643	(19,796)
Cash and cash equivalents, July 1	424,790	444,586
Cash and cash equivalents, June 30	$ 465,433	$ 424,790

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
(Expressed in Thousands)

	2007	2006
Reconciliation of operating income to net cash used by operating activities:		
Operating income	$ 28,712	$ 5,570
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation and amortization	611	544
Changes in assets and liabilities:		
Decrease in accounts receivable	3,375	1,623
(Increase) decrease in mortgage interest receivable	(201)	456
(Increase) in first mortgage loans receivable	(230,390)	(79,174)
(Increase) in due from federal government	(4,075)	(4,401)
Decrease in deferred charges	8	327
(Increase) in other receivables	(86)	-
Increase (decrease) in accounts payable	(1,636)	262
Increase (decrease) in accrued payroll / compensated absences	305	(13)
Increase in due to primary government	24	41
Increase (decrease) in deferred revenue	88	(40)
Increase (decrease) in arbitrage rebate liability	685	(1,839)
Investment income included as operating revenue	(43,643)	(14,024)
Interest expense included as operating expense	96,887	86,566
Total adjustments	(178,048)	(9,672)
Net cash used by operating activities	$ (149,336)	$ (4,102)
Noncash investing, capital, and financing activities:		
Accretion of deep discount bonds	$ (886)	$ (1,442)
Increase (decrease) in fair value of investments	2,038	(21,450)
Total noncash investing, capital, and financing activities	$ 1,152	$ (22,892)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

f. Bond Issuance Costs, Refunding Costs, and Interest Accretion

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

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

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

4. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.

5. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

g. Cash and Cash Equivalents

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

h. Investments

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

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

l. Direct Servicing

On May 1, 2003, the agency began a pilot program called Direct Servicing for servicing mortgages originated by the agency. On March 17, 2005, the agency’s Board of Directors voted to terminate the pilot program. The loans were sold to U. S. Bank, one of the agency’s existing servicers, on July 1, 2005.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

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

At June 30, 2007, the bank balance was $3,790,784. At June 30, 2006, the bank balance was $2,805,343. All bank balances were insured. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $257,312 on June 30, 2007. The State Treasurer's pooled investment fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required disclosures are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

b. Investments

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

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

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

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

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

	June 30, 2007		June 30, 2006	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$270,032,551	3.767	$252,827,347	4.131
U.S. Agency Discount	253,552,540	0.029	311,386,743	.027
U.S. Treasury Coupon	100,113,910	6.627	101,308,523	7.126
Municipal Securities	0	NA	406,864	2.387
Variable Rate Securities	0	NA	3,469,190	0.624
Repurchase Agreements	168,000,000	0.004	89,000,000	0.005
Total	$791,699,001	2.041	$758,398,667	2.242

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

Collateralized Mortgage Obligations. The agency purchased $1,400,000 face value, mortgage-backed pass through securities on January 31, 2005, at .8125003 over par. The fair value of these securities on June 30, 2005, was $1,277,526. These securities were scheduled to mature on April 15, 2015; however, on January 15, 2006 all payments and interest were received liquidating this investment. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

Variable Rate Bonds.
The agency invested $2,000,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 95.125 of par on August 8, 2003, and mature August 6, 2015. The fair value of these securities on June 30, 2007, is $1,960,000 and on June 30, 2006, was $1,936,800 which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the six month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 6.625%, then the interest rate on the bond is 6.50%. If the LIBOR rate exceeds 6.625%, then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 6.625%. At June 29, 2007, the six-month LIBOR rate was 5.39%, and at June 30, 2006, the rate was 5.59%. At no time during fiscal years 2007 and 2006 did the LIBOR rate exceed 6.625%.

The agency invested $500,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on August 24, 2004, and mature August 24, 2009. The fair value of these securities on June 30, 2007, is $485,150 and on June 30, 2006, was $457,450 which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the six month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 5.00%, then the interest rate on the bond is 5.00% effective until August 24, 2007. Then the interest rate is 5.00% if the LIBOR rate does not exceed 6.00%. If the LIBOR rate exceeds 5.00% or 6.00% respectively, then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 5.00% currently. On March 3, 2006, the six-month LIBOR rate was 5.00% and it gradually increased during the remainder of the fiscal year to 5.59% on June 30, 2006. During fiscal year 2007, the LIBOR rate gradually decreased to 5.39% on June 29, 2007.

The agency invested $1,500,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on September 27, 2005, and mature March 27, 2009. The fair value of these securities on June 30, 2007, is $1,435,650 and on June 30, 2006, was $1,352,850 which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the three month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 5.00%, then the interest rate on the bond is 6.00%. If the LIBOR rate exceeds 5.00% then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 5.00%. On March 31, 2006, the three-month LIBOR rate was 5.00% and it gradually increased during the remainder of the fiscal year to 5.48% on June 30, 2006. During fiscal year 2007, the LIBOR rate gradually decreased to 5.36% on June 29, 2007.

The agency also invested $3,475,000 in variable rate bonds issued by Federal Home Loan Bank. They were purchased at 99.975 of par on February 22, 2005, and matured February 22, 2007. The fair value of these securities on June 30, 2006, was $3,469,190. The amount of the quarterly interest payment is calculated at Constant Maturing Treasury (CMT) minus a 0.40% spread. The CMT is reset quarterly on the interest payment dates.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2007 and June 30, 2006 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. Funds held in a money market mutual fund were rated AAAm by Standard and Poor's.

	June 30, 2007					
		U.S. Treasury / Agency[1]	Credit Quality Rating			
Investment Type	**Fair Value**		**AAA**	**A-1+[2]**	**AA-**	**Not Rated[3]**
U.S. Agency Coupon	$270,032,551		$255,911,218		$5,007,031	$9,114,302
U.S. Agency Discount	253,552,540			$253,552,540		
U.S. Treasury Coupon	100,113,910	$100,113,910				
Repurchase Agreements	168,000,000			35,000,000		133,000,000
Total	$791,699,001	$100,113,910	$255,911,218	$288,552,540	$5,007,031	$142,114,302

[1] Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.
[2] A-1+ is the highest rating category for short-term debt.
[3] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

	June 30, 2006						
		U.S.	Credit Quality Rating				
Investment Type	**Fair Value**	**Treasury / Agency[1]**	**AAA**	**AA**	**A-1+[2]**	**AA-**	**Not Rated[3]**
U.S. Agency Coupon	$252,827,347		$240,088,740			$5,045,547	$7,693,060
U.S. Agency Discount	311,386,743				$311,386,743		
U.S. Treasury Coupon	101,308,523	$101,308,523					
Municipal Securities	406,864			$406,864			
Variable Rate Securities	3,469,190		3,469,190				
Repurchase Agreements	89,000,000		22,000,000				67,000,000
Total	$758,398,667	$101,308,523	$265,557,930	$406,864	$311,386,743	$5,045,547	$74,693,060

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

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

	June 30, 2007		June 30, 2006	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$339,227,215	42.80	$385,099,779	50.78
Federal Home Loan Mortgage Corp	$85,431,333	10.70	$62,034,048	08.18
Federal National Mortgage Assoc	$77,330,513	09.83	$101,271,612	13.35
Repurchase Agreements – U.S. Agency	$168,000,000	21.21	$89,000,000	11.74

NOTE 3. CHECKS / WARRANTS / WIRES PAYABLE

This amount includes the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily. This amount also includes the sum of warrants and wires initiated by the agency at year-end in excess of the agency's balance in the State Pooled Investment Fund that have not completely processed through the banking system. These warrants and wires are for grant payments for the Section 8 grant programs and will be reimbursed by the U. S. Department of Housing and Urban Development.

[1] Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.
[2] A-1+ is the highest rating category for short-term debt.
[3] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2007	Ending Balance 6/30/2006
MORTGAGE FINANCE PROGRAM BONDS					
1995B/C	1/1/97-7/1/2026	$100,000	4.80 to 6.55	$ -0-	$4,990
2003A	7/1/2004-7/1/2034	191,885	1.70 to 5.35	151,530	167,475
Total Mortgage Finance Program Bonds		$291,885		151,530	172,465
Less: Deferred Amount on Refundings				(3,255)	(3,411)
Net Mortgage Finance Program Bonds				$148,275	$169,054
HOMEOWNERSHIP PROGRAM BONDS					
1995-1	1/1/97-7/1/2026	$65,000	4.35 to 6.48	$2,875	$4,345
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	10,730	13,135
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	15,060	17,710
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	14,490	17,405
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	7,600	10,180
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	25,335	29,565
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	24,300	27,735
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	19,635	23,270
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	8,630	16,176
			Interest accretion	5,737	9,295
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	18,520	22,400
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	9,260	11,130
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	24,230	30,255
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	10,435	14,135
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	30,995	38,085
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	29,970	36,850
2000-1	7/1/2001-7/1/2031	105,000	4.60 to 6.40	14,520	20,535
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	42,440	51,900
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	73,745	79,855
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	31,315	37,030
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	31,740	38,295
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	44,205	53,910
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	52,910	62,970
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	34,880	41,585
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	46,850	52,555
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	57,930	66,165
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	65,160	73,560
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	87,260	95,185
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	88,825	95,910
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	96,565	100,000
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	97,910	100,000
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	100,000	100,000
2006-2	7/1/2007–1/1/2037	100,000	3.90 to 5.75	100,000	-0-
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	100,000	-0-
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	100,000	-0-
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	120,000	-0-
Total Homeownership Program Bonds		$2,836,863		$ 1,644,057	$ 1,391,126
Plus: Unamortized Bond Premiums				25,010	14,139
Less: Deferred Amount on Refundings				(5,075)	(5,847)
Net Homeownership Program Bonds				1,663,992	1,399,418
Net Total All Issues				$ 1,812,267	$ 1,568,472

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2007 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2008	$101,586	$87,746	$189,332
2009	52,738	84,433	137,171
2010	52,742	81,093	133,835
2011	53,532	78,734	132,266
2012	49,927	76,301	126,228
2013 – 2017	195,591	350,983	546,574
2018 – 2022	126,371	313,177	439,548
2023 – 2027	241,431	266,199	507,630
2028 – 2032	203,136	214,696	417,832
2033 – 2037	533,568	135,988	669,556
2038 – 2039	204,238	10,934	215,172
Total	$1,814,860	$1,700,284	$3,515,144

The debt principal in the preceding table is $2,593,000 greater than that presented in the accompanying financial statements. Of this amount, $5,737,000 represents the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2008-2009) in which the bonds mature. Also, $8,330,000, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the year ended June 30, 2007, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $9,260,000 and in the Homeownership Program in the amount of $50,700,000. The respective carrying values of the bonds were $9,169,555 and $50,785,575. This resulted in an expense to the Mortgage Finance Program of $90,445 and in income to the Homeownership Program of $85,575.

On July 3, 2006, a fifth drawdown was made on the Series 2004 CN-1 Notes in the amount of $51,240,000. These proceeds were used on the same day to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $33,505,000 early redemption and $17,735,000 current maturities). The carrying amount of these bonds was $51,286,975. The refunding resulted in a difference of $46,975 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On July 27, 2006, the agency issued $100,000,000 in Homeownership Bonds, Issue 2006-2. On September 14, 2006, the agency used $46,605,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used January 3, 2005 and July 1, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $3,285,390 over the next 25 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $910,219.

On October 31, 2006, the agency issued $100,000,000 in Homeownership Bonds, Issue 2006-3. On November 9, 2006, the agency used $51,475,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used January 3, 2005 and December 8, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $784,104 over the next 24.75 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $984,375.

On December 14, 2006, a sixth drawdown was made on the Series 2004 CN-1 Notes in the amount of $52,300,000. These proceeds were used on January 2, 2007 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $39,385,000 early redemption and $12,915,000 current maturities). The carrying amount of these bonds was $52,439,622. The refunding resulted in a difference of $139,622 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On March 13, 2007, the agency issued $100,000,000 in Homeownership Bonds, Issue 2007-1. On April 12, 2007, the agency used $51,715,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $21,735,173 over the next 23 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $12,714,883.

On June 6, 2007, the agency issued $120,000,000 in Homeownership Bonds, Issue 2007-2. On July 2, 2007, the agency will use $14,725,000 of these bonds to refund certain bonds previously issued in the Homeownership program. On July 12, 2007, the agency will use $55,960,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund the convertible drawdown notes, 2002 CN-1, at maturity. The convertible drawdown notes, 2002 CN-1 were used January 2, 2004, April 1, 2004, and July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. A portion of these bonds were used to refund maturities and redemptions on July 2, 2007, and July 12, 2007; therefore, the full economic impact of the refunding was not determined as of June 30, 2007.

On June 14, 2007, a seventh drawdown was made on the Series 2004 CN-1 Notes in the amount of $31,535,000. These proceeds were used on July 2, 2007 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $21,220,000 early redemption and $10,315,000 current maturities). Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

During the year ended June 30, 2006, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $7,265,000 and in the Homeownership Program in the amount of $71,880,000. The respective carrying values of the bonds were $7,191,410 and $71,630,120. This resulted in an expense to the Mortgage Finance Program of $73,590 and the Homeownership Program of $249,880.

On July 1, 2005, a third drawdown was made on the Series 2004 CN-1 Notes in the amount of $34,620,000. These proceeds were used to refund bonds previously issued in the Mortgage

Finance Program and the Homeownership Program (this amount consists of $16,185,000 early redemption and $18,435,000 current maturities). The carrying amount of these bonds was $34,595,966. The refunding resulted in a difference of $24,034 between the reacquisition price and the net carrying amount of the old debt. A portion of these notes were refunded with bonds on December 8, 2005, July 27, 2006, and November 9, 2006.

On July 28, 2005, the agency issued $100,000,000 in Homeownership Bonds, Issue 2005-1. On August 11, 2005, the agency used $28,740,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003, November 3, 2003, January 2, 2004, and July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $4,403,524 over the next 26.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,603,550.

On November 17, 2005, the agency issued $100,000,000 in Homeownership Bonds, Issue 2005-2. On December 8, 2005, the agency used $39,630,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used January 2, 2003, July 1, 2003, and April 1, 2004 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The agency also used $12,685,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used October 1, 2004, January 3, 2005, and July 1, 2005, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $11,380,279 over the next 27.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $7,375,779.

On December 8, 2005, a fourth drawdown was made on the Series 2004 CN-1 Notes in the amount of $203,835,000. Of these proceeds, $167,225,000 was used to refund 2002 CN-1 Notes at maturity. Also, $36,610,000 of these proceeds were used on January 1, 2006, to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($24,685,000 early redemption and $11,925,000 current maturities). The carrying amount of these bonds was $36,669,782. The refunding resulted in a difference of $59,782 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On April 27, 2006, the agency issued $100,000,000 in Homeownership Bonds, Issue 2006-1. On May 11, 2006, the agency used $39,680,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used October 1, 2004 and January 3, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $4,091,138 over the next 28 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $1,596,587.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2007.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Amounts Due Within One Year
Notes Payable	$262,395	$135,075	($149,795)	$247,675	$247,675
Bonds Payable	1,563,591	420,886	(188,890)	1,795,587	108,104
Plus: Unamortized Bond Premiums	14,139	12,743	(1,872)	25,010	-0-
Less: Deferred Amount on Refundings	(9,258)	(-0-)	928	(8,330)	-0-
Compensated Absences	582	743	(487)	838	401
Escrow Deposits	15,324	3,762	(6,095)	12,991	847
Arbitrage Rebate Payable	848	945	(260)	1,533	-0-
Deferred Revenue	219	216	(128)	307	12
Total	$1,847,840	$574,370	($346,599)	$2,075,611	$357,039

The following table is a summary of the long-term liability activity for the year ended June 30, 2006.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2005	Additions	Reductions	Ending Balance June 30, 2006	Amounts Due Within One Year
Notes Payable	$311,900	$238,455	($287,960)	$262,395	$-0-
Bonds Payable	1,435,044	301,441	(172,894)	1,563,591	111,525
Plus: Unamortized Bond Premiums	8,689	6,515	(1,065)	14,139	-0-
Less: Deferred Amount on Refundings	(10,303)	(42)	1,087	(9,258)	-0-
Compensated Absences	639	59	(116)	582	285
Escrow Deposits	15,360	3,723	(3,759)	15,324	969
Arbitrage Rebate Payable	2,687	2,027	(3,866)	848	-0-
Deferred Revenue	259	132	(172)	219	-0-
Total	$1,764,275	$552,310	($468,745)	$1,847,840	$112,779

e. Notes Issued and Outstanding

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

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

The following table is a summary of the note activity for the year ended June 30, 2007.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2006	Additions	Reductions	Ending Balance 6/30/2007
SINGLE FAMILY MORTGAGE NOTES							
2004CN-1	8/9/2007	$ 450,000	4.983 to 5.150	262,395	135,075	(149,795)	247,675

The following table is a summary of the note activity for the year ended June 30, 2006.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2005	Additions	Reductions	Ending Balance 6/30/2006
SINGLE FAMILY MORTGAGE NOTES							
2002CN-1	12/8/2005	$ 450,000	2.753 to 3.853	$235,595	$-0-	($235,595)	$-0-
2004CN-1	8/9/2007	$ 450,000	2.990 to 4.983	76,305	238,455	(52,365)	262,395
Total Single Family Mortgage Notes				$311,900	$238,455	($287,960)	$262,395

The activity of the 2002CN-1 and 2004CN-1 notes shown above is also included in the summary of long-term liability activity in part d. of this note.

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee

Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 10.30% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2007, 2006, and 2005, were $1,175,459, $771,350, and $753,275. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2007, and June 30, 2006, are presented in the *Tennessee Comprehensive Annual Financial Report*. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims 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 POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. PAYMENTS TO PRIMARY GOVERNMENT

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

NOTE 11. SUBSEQUENT EVENTS

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

July 2, 2007	Mortgage Finance Program	$ 3,660,000
	Homeownership Program	$43,145,000
	Total	$46,805,000

b. On July 12, 2007, a principal redemption was made on the Series 2004CN-1 Notes in the amount of $55,960,000.

c. Homeownership Program Bonds, Issue 2007-3, were sold on August 7, 2007. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2007-3	7/1/2009-7/1/2038	$150,000	3.85 to 5.50
TOTAL ALL ISSUES		$150,000	

On August 9, 2007, the agency used $85,295,000 of these bonds to refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005, July 3, 2006, and January 2, 2007, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The agency also used $14,725,000 of these bonds to refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund the convertible drawdown notes, 2002 CN-1, at maturity. The convertible drawdown notes, 2002 CN-1 were used July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

d. On August 9, 2007, the first drawdown was made on the Series 2007 CN-1 Notes in the amount of $91,695,000. These proceeds were used to refund the convertible drawdown notes, 2004 CN-1, at maturity.

e. Homeownership Program Bonds, Issue 2007-4, were authorized by the Board of Directors on September 20, 2007, not to exceed $150,000,000.

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2007
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Homeownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 257	$ 26,140	$ 189,794	$ 248,681	$ 464,872
Investments	-	10,991	37,098	-	48,089
Receivables:					
Accounts	-	1,114	5,942	-	7,056
Interest	-	2,395	9,789	-	12,184
First mortgage loans	75	7,256	31,741	-	39,072
Other	96	-	-	-	96
Due from federal government	6,000	-	-	-	6,000
Due from other funds	785	-	-	-	785
Total current assets	7,213	47,896	274,364	248,681	578,154
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	-	561	-	561
Investments	-	38,582	150,841	-	189,423
Investment Interest receivable	-	570	2,118	-	2,688
Investments	-	77,205	57,434	-	134,639
First mortgage loans receivable	235	144,409	1,517,436	-	1,662,080
Deferred charges	20	850	10,335	(266)	10,939
Advance to local government	2,843	-	-	-	2,843
Capital assets:					
Furniture and equipment	201	-	-	-	201
Less accumulated depreciation	(136)	-	-	-	(136)
Total noncurrent assets	3,163	261,616	1,738,725	(266)	2,003,238
Total assets	10,376	309,512	2,013,089	248,415	2,581,392
LIABILITIES					
Current liabilities:					
Accounts payable	3,028	15	67	-	3,110
Accrued payroll and related liabilities	372	-	-	-	372
Compensated absences	401	-	-	-	401
Due to primary government	108	-	-	-	108
Interest payable	-	3,571	38,290	588	42,449
Escrow deposits	-	847	-	-	847
Prepayments on mortgage loans	-	96	1,469	-	1,565
Due to other funds	-	785	-	-	785
Notes payable	-	-	-	247,675	247,675
Bonds payable	-	13,080	95,024	-	108,104
Deferred revenue	-	12	-	-	12
Total current liabilities	3,909	18,406	134,850	248,263	405,428
Noncurrent liabilities:					
Bonds payable	-	135,195	1,568,968	-	1,704,163
Compensated absences	437	-	-	-	437
Escrow deposits	298	11,846	-	-	12,144
Arbitrage rebate payable	-	-	1,439	94	1,533
Deferred revenue	-	295	-	-	295
Total noncurrent liabilities	735	147,336	1,570,407	94	1,718,572
Total liabilities	4,644	165,742	1,705,257	248,357	2,124,000
NET ASSETS					
Invested in capital assets	65	-	-	-	65
Restricted for single family bond programs	-	142,555	307,832	58	450,445
Restricted for grant programs	951	1,215	-	-	2,166
Restricted for Homebuyers Revolving Loan Program	3,154	-	-	-	3,154
Unrestricted	1,562	-	-	-	1,562
Total net assets	$ 5,732	$ 143,770	$ 307,832	$ 58	$ 457,392

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	$ -	$ 9,856	$ 83,531	$ -	$ 93,387
Investment income:					
Interest	479	6,974	20,052	5	27,510
Net increase (decrease) in the fair value of investments	-	1,640	924	13,569	16,133
Federal grant administration fees	10,617	-	-	-	10,617
Fees and other income	2,428	1,473	-	-	3,901
Total operating revenues	13,524	19,943	104,507	13,574	151,548
OPERATING EXPENSES					
Salaries and benefits	12,194	-	-	-	12,194
Contractual services	1,858	-	-	-	1,858
Materials and supplies	630	-	-	-	630
Rentals and insurance	1,093	-	-	-	1,093
Other administrative expenses	576	-	-	-	576
Other program expenses	864	325	2,006	95	3,290
Interest expense	-	7,536	73,959	15,392	96,887
Mortgage service fees	-	512	5,185	-	5,697
Issuance costs	-	69	484	15	568
Depreciation	43	-	-	-	43
Total operating expenses	17,258	8,442	81,634	15,502	122,836
Operating income (loss)	(3,734)	11,501	22,873	(1,928)	28,712
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	160,976	-	-	-	160,976
Payment from primary government	1,000	-	-	-	1,000
Federal grants expenses	(160,200)	-	-	-	(160,200)
Local grants expenses	(1,228)	(1,534)	(3,685)	-	(6,447)
Total nonoperating revenues (expenses)	548	(1,534)	(3,685)	-	(4,671)
Income (loss) before transfers	(3,186)	9,967	19,188	(1,928)	24,041
Transfers (to) other funds	-	(11,404)	-	(174)	(11,578)
Transfers from other funds	785		10,793	-	11,578
Change in net assets	(2,401)	(1,437)	29,981	(2,102)	24,041
Total net assets, July 1	8,133	145,207	277,851	2,160	433,351
Total net assets, June 30	$ 5,732	$ 143,770	$ 307,832	$ 58	$ 457,392

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	$ 1	$ 31,294	$ 240,890	$ -	$ 272,185
Receipts from federal government	6,542	-	44	-	6,586
Receipts from other funds	-	829	-	-	829
Other miscellaneous receipts	2,332	1,473	10	-	3,815
Acquisition of mortgage loans	-	-	(408,073)	-	(408,073)
Payments to service mortgages	-	(512)	(5,185)	-	(5,697)
Payments to suppliers	(4,083)	(160)	(1,537)	(1)	(5,781)
Payments to federal government	-	(85)	-	-	(85)
Payments to other funds	(785)	-	(44)	-	(829)
Payments to employees	(12,286)	-	-	-	(12,286)
Net cash provided (used) by operating activities	(8,279)	32,839	(173,895)	(1)	(149,336)
Cash flows from non-capital financing activities:					
Operating grants received	170,369	-	-	-	170,369
Transfers in (out)	785	(11,404)	10,606	13	-
Negative cash balance implicitly financed	(3,037)	(6)	(2,812)	-	(5,855)
Proceeds from sale of bonds	-	-	432,743	-	432,743
Proceeds from issuance of notes	-	-	-	135,075	135,075
Operating grants paid	(160,012)	(1,534)	(3,685)	-	(165,231)
Cost of issuance paid	-	-	(3,152)	(15)	(3,167)
Principal payments	-	(20,935)	(167,955)	(149,795)	(338,685)
Interest paid	-	(7,820)	(67,760)	(13,562)	(89,142)
Net cash provided (used) by non-capital financing activities	8,105	(41,699)	197,985	(28,284)	136,107
Cash flows from capital and related financing activities:					
Purchases of capital assets	(48)	-	-	-	(48)
Net cash used by capital and related financing activities	(48)	-	-	-	(48)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	63,843	187,904	-	251,747
Purchases of investments	-	(63,798)	(174,596)	-	(238,394)
Investment interest received	479	6,833	19,609	5	26,926
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	72	13,569	13,641
Net cash provided (used) by investing activities	479	6,878	32,989	13,574	53,920
Net increase (decrease) in cash and cash equivalents	257	(1,982)	57,079	(14,711)	40,643
Cash and cash equivalents, July 1	-	28,122	133,276	263,392	424,790
Cash and cash equivalents, June 30	$ 257	$ 26,140	$ 190,355	$ 248,681	$ 465,433

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	$ (3,734)	$ 11,501	$ 22,873	$ (1,928)	$ 28,712
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	43	69	484	15	611
Changes in assets and liabilities:					
Decrease in accounts receivable	-	1,843	1,532	-	3,375
(Increase) decrease in mortgage interest receivable	-	260	(461)	-	(201)
(Increase) decrease in first mortgage loans receivable	1	21,597	(251,988)	-	(230,390)
(Increase) in due from federal government	(4,075)	-	-	-	(4,075)
(Increase) decrease in deferred charges	3	91	(86)	-	8
(Increase) decrease in other receivables	(96)	-	10	-	(86)
(Increase) in interfund receivables	(785)	-	(44)	-	(829)
Increase in interfund payables	-	829	-	-	829
Increase (decrease) in accounts payable	514	(2,361)	211	-	(1,636)
Increase in accrued payroll / compensated absences	305	-	-	-	305
Increase in due to primary government	24	-	-	-	24
Increase in deferred revenue	-	88	-	-	88
Increase in arbitrage rebate liability	-	-	591	94	685
Investment income included as operating revenue	(479)	(8,614)	(20,976)	(13,574)	(43,643)
Interest expense included as operating expense	-	7,536	73,959	15,392	96,887
Total adjustments	(4,545)	21,338	(196,768)	1,927	(178,048)
Net cash provided (used) by operating activities	$ (8,279)	$ 32,839	$ (173,895)	$ (1)	$ (149,336)
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	$ -	$ -	$ (886)	$ -	$ (886)
Increase (decrease) in fair value of investments	-	1,434	(37)	641	2,038
Total noncash investing, capital, and financing activities	$ -	$ 1,434	$ (923)	$ 641	$ 1,152

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2007
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 21,253	$ 4,313	$ 25,566	$ 574	$ 26,140
Investments	9,992	999	10,991	-	10,991
Receivables:					
Accounts	1,039	75	1,114	-	1,114
Interest	1,757	552	2,309	86	2,395
First mortgage loans	6,494	762	7,256	-	7,256
Total current assets	40,535	6,701	47,236	660	47,896
Noncurrent assets:					
Restricted assets:					
Investments	38,582	-	38,582	-	38,582
Investment interest receivable	570	-	570	-	570
Investments	42,842	24,898	67,740	9,465	77,205
First mortgage loans receivable	139,518	4,891	144,409	-	144,409
Deferred charges	850	-	850	-	850
Total noncurrent assets	222,362	29,789	252,151	9,465	261,616
Total assets	262,897	36,490	299,387	10,125	309,512
LIABILITIES					
Current liabilities:					
Accounts payable	7	8	15	-	15
Interest payable	3,571	-	3,571	-	3,571
Escrow deposits	-	-	-	847	847
Prepayments on mortgage loans	93	3	96	-	96
Due to other funds	-	785	785	-	785
Bonds payable	13,080	-	13,080	-	13,080
Deferred revenue	-	12	12	-	12
Total current liabilities	16,751	808	17,559	847	18,406
Noncurrent liabilities:					
Bonds payable	135,195	-	135,195	-	135,195
Escrow deposits	-	2,681	2,681	9,165	11,846
Deferred revenue	-	295	295	-	295
Total noncurrent liabilities	135,195	2,976	138,171	9,165	147,336
Total liabilities	151,946	3,784	155,730	10,012	165,742
NET ASSETS					
Restricted for single family bond programs	110,951	31,491	142,442	113	142,555
Restricted for grant programs	-	1,215	1,215	-	1,215
Total net assets	$ 110,951	$ 32,706	$ 143,657	$ 113	$ 143,770

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

Tennessee Housing Development Agency

Leading Tennessee Home

FINANCIAL STATEMENTS

June 30, 2006

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

September 29, 2006

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2006, and June 30, 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to the bond finance committee of the Tennessee Housing Development Agency.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2006, and June 30, 2005, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, following the notes to the financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/tlh

This section of the Tennessee Housing Development Agency's (Agency) annual financial statements presents management's discussion and analysis of the financial performance of the Agency for the years ended June 30, 2006 and June 30, 2005. This information is being presented to provide additional information regarding the activities of the Agency and to meet the reporting and disclosure requirements of the Governmental Accounting Standards Board Statement Number 34. *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This analysis should be read in conjunction with the Agency's financial statements, which follow this section.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The Tennessee Housing Development Agency was established by the Tennessee General Assembly in 1973,

> In order to promote the production of more affordable new housing units for very low, low and moderate income individuals and families in the state, to promote the preservation and rehabilitation of existing housing units for such persons, and to bring greater stability to the residential construction industry and related industries so as to assure a steady flow of production of new housing units… (*Tennessee Code Annotated* 13-23-102)

The mission of the Agency is to be the lead State Agency promoting sound and affordable housing for people who need help. THDA's goal is to provide housing assistance to those in need, and to do so by offering a variety of programs to serve various types of need. One of the primary ways the Agency assist people is by offering mortgages for first-time homebuyers at below conventional market interest rates. In 2002, the Agency celebrated the financing of the 80,000th homebuyer. The Agency also serves as the master servicer for all active mortgages funded by THDA. In addition to helping homebuyers, THDA administers the federal Section 8 rental assistance programs, including both tenant- and project-based assistance. 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 authorities for specific multifamily developments.

As established by statue, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated* 13-23-105)

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of the Agency at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about the Agency's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide useful information regarding the Agency's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. The Agency'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, other supplementary information is also included.

The Agency is also considered a "component unit" for the State of Tennessee, and therefore, is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed in PDF format at http://tennessee.gov/finance/act/cafr.html.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2006

- Total assets increased by $91.7 million, or 4.1 %.
- Total liabilities increased by $90.8 million, or 5.0%.
- Total assets exceeded total liabilities by $433.3 million. This is an increase of $0.8 million, or 0.2% from fiscal year 2005.
- Cash and cash equivalents decreased $19.8 million, or 4.5%.
- Total investments increased $30.7 million, or 8.7%.
- Bonds and notes payable increased $85.5 million, or 4.9%.
- The Agency originated $283.0 million in new loans, which is an increase of $67.7 million, or 31.4% from the prior year.

Year Ended June 30, 2005

- Total assets increased by $11.8 million, or .5 %.
- Total liabilities decreased $22.6 million, or 1.2%.
- Total assets exceeded total liabilities by $432.5 million. This is an increase of $34.4 million, or 8.6%, from fiscal year 2004.
- Cash and cash equivalents increased $68.2 million, or 18.1%.
- Total investments decreased $27 million, or 7.1%.
- Bonds and notes payable decreased $17.2 million, or 1%.

- The Agency originated $215.3 million in new loans, which is a decrease of $57.9 million, or 21.2% from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

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

	2006	2005	2004
Current assets	$ 525,616	$ 508,384	$ 459,245
Capital assets	60	16	16
Other noncurrent assets	1,802,256	1,727,813	1,765,131
Total assets	2,327,932	2,236,213	2,224,392
Current liabilities	159,520	355,537	138,620
Noncurrent liabilities	1,735,061	1,448,152	1,687,697
Total liabilities	1,894,581	1,803,689	1,826,317
Invested in capital assets	60	16	16
Restricted net assets	428,757	425,198	388,913
Unrestricted net assets	4,534	7,310	9,146
Total net assets	$ 433,351	$ 432,524	$ 398,075

2006 to 2005

- The Agency's total net assets increased $0.8 million, or .2%, from $432.5 million at June 30, 2005 to $433.3 million at June 30, 2006. This resulted from normal Agency operations.

- Mortgage loans receivable increased $79.1 million, or 5.7%, from $1,391.7 million at June 30, 2005 to $1,470.8 million at June 30, 2006. The Agency initiated a new marketing and outreach program for our single-family mortgage loan products. As a result, the Agency originated mortgage loans in 2006 totaling $283.0 million, which was $67.7 million, or 31.4% more than the $215.3 million originated in fiscal year 2005. In addition, prepayments for fiscal year 2006 were $172.3 million; which was $17.8 million less than the $190.1 million received in 2005.

- Total liabilities increased $90.9 million, or 5.0%, from $1,803.7 million at June 30, 2005 to $1,894.6 million at June 30, 2006. The increase is primarily due to an increase in the amount of bonds and notes issued.

2005 to 2004

- The Agency's total net assets increased $34.4 million, or 8.6%, from $398.1 million at June 30, 2004 to $432.5 million at June 30, 2005. This primarily resulted from the increase in the fair value of investments.

- Mortgage loans receivable decreased $25.3 million, or 1.8%, from $1,417.0 million at June 30, 2004 to $1,391.7 million at June 30, 2005. The decrease resulted from loan prepayments exceeding loan originations.

- Total liabilities decreased $22.6 million, or 1.2%, from $1,826.3 million at June 30, 2004 to $1,803.7 million at June 30, 2005. The decrease is primarily due to the retirement of debt.

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

	2006	2005	2004
Operating revenues			
Mortgage interest income	$ 87,118	$ 88,438	$ 93,763
Investment income (loss)	14,024	39,007	(67)
Other	13,096	13,035	12,174
Total operating revenues	114,238	140,480	105,870
Operating expenses			
Interest expense	86,566	81,294	83,326
Other	22,102	20,660	24,005
Total operating expenses	108,668	101,954	107,331
Operating income (loss)	5,570	38,526	(1,461)
Nonoperating revenues (expenses)			
Grant revenues	162,137	151,630	143,630
Grant expenses	(166,880)	(155,707)	(149,810)
Total nonoperating revenues (expenses)	(4,743)	(4,077)	(6,180)
Changes in net assets	$ 827	$ 34,449	$ (7,641)

2006 to 2005

For the year ended June 30, 2006, total operating revenues decreased $26.3 million from $140.5 million for the year ended June 30, 2005 to $114.2 million for the year ended June 30, 2006. The primary reason for this decrease is that investment income decreased $25 million, from $39 million in 2005 to $14 million in 2006. This decrease is due to a net decrease in the fair value of investments of $9.6 million in 2006 (as compared to a net increase of $18.2 million in 2005) as well as interest rates remaining at relatively low historical rates.

For the year ended June 30, 2006, total operating expenses increased $6.7 million, or 6.6%, from $101.9 million in 2005 to $108.6 million in 2006. This increase is primarily due to an increase in interest expense of $5.3 million, from $81.3 million in 2005 to $86.6 million in 2006. This increase occurred due to an increase in bonds issued during the current year.

While the total net assets for fiscal year 2006 increased $827 thousand from the previous year, the non-monetary accretion of deep discount bonds and the change in the fair value of investments accounted for a net decrease of $20.0 million. When considered without these non-monetary components, net assets would have increased $20.8 million.

2005 to 2004

For the year ended June 30, 2005, total operating revenues increased $34.6 million from $105.9 million for the year ended June 30, 2004, to $140.5 million for the year ended June 30, 2005. The primary reasons for this increase are as follows:

- Mortgage interest income decreased $5.4 million, or 5.7%, from $93.8 million in 2004 to $88.4 million in 2005. This is due to mortgage loan prepayments of higher interest loans, as well as new loans originated at lower interest rates.

- Investment income increased $39 million, from a net loss of $67,000 in 2004 to a net gain of $39 million in 2005. This increase is primarily due to a net increase in the fair value of investments of $18.2 million in 2005 as compared to a net decrease of $22.2 million in 2004. In addition, new investments are yielding low interest rates due to current market conditions.

For the year ended June 30, 2005, total operating expenses decreased $5.4 million, or 5%, from $107.3 million in 2004 to $101.9 million in 2005. This decrease is primarily due to a decrease in interest expense of $2.0 million, from $83.3 million in 2004 to $81.3 million in 2005. This decrease occurred as a result of the Agency continuing to use mortgage loan prepayments to call higher-interest bonds.

While the total net assets for fiscal year 2005 increased $34.4 million from the previous year, the non-monetary accretion of deep discount bonds and the change in the fair value of investments contributed $12.4 million toward this increase. When considered without these non-monetary components, net assets increased $21.5 million.

CASH FLOWS

Cash flows for fiscal years ending 2006, 2005, and 2004 were as follows (expressed in thousands):

	2006	2005	2004
Cash and cash equivalents, July 1	$ 444,586	$ 376,297	$ 366,383
Net cash provided (used) by operating activities	(4,102)	100,663	97,401
Net cash provided (used) by non-capital financing activities	1,194	(98,539)	(157,673)
Net cash used by capital and related financing activities	(60)	(5)	(16)
Net cash provided (used) by investing activities	(16,828)	66,170	70,202
Net increase (decrease) in cash and cash equivalents	(19,796)	68,289	9,914
Cash and cash equivalents, June 30	$ 424,790	$ 444,586	$ 376,297

For the year ended June 30, 2006, the Agency's net cash decreased $19.8 million, as compared to positive cash flows in each of the prior two fiscal years. One major component of the Agency's cash flows is the amount of cash provided by, or used by, investing activities. As noted above, the Agency's investment activities in the current fiscal year resulted in a "use" of cash, whereas the previous two years resulted in a "source" of cash.

Another major component in the Agency's cash flows is the difference between mortgage loan originations (a use of operating cash) and mortgage loan prepayments (a source of operating cash). During the current fiscal year, the Agency initiated a marketing and outreach program that resulted in a rise in mortgage loan originations, which was a use of cash. The amounts of mortgage loan originations and prepayments are depicted in the following chart:

	2006	2005	2004
Mortgage Loan Prepayments (Source of cash)	$ 172,269	$ 190,060	$ 249,169
Mortgage Loan Originations (Use of cash)	(283,007)	(215,315)	(273,234)
Difference	$(110,738)	$ (25,255)	$ (24,065)

DEBT ACTIVITY

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

	2006	2005	2004
Bonds payable	$1,568,472	$1,433,430	$1,489,299
Notes payable	262,395	311,900	273,240
Total bonds and notes payable	$1,830,867	$1,745,330	$1,762,539

Year Ended June 30, 2006

Total bonds and notes payable increased $85.5 million, or 4.9%, due primarily to an increase in the origination of long-term bonds during the fiscal year. During 2006, the Agency issued debt totaling $545 million, with activity arising from three bond issues totaling $306.5 million and two draws under the single family mortgage note program totaling $238.5 million. The increase in mortgage loan production, which requires funds, resulted in the increase in long-term debt originations.

Year Ended June 30, 2005

Total bonds and notes payable decreased $17.2 million, or 1%, due primarily to retirement of debt. During the fiscal year, the Agency issued debt totaling $319 million, with activity arising from two bond issues totaling $203.5 million and three draws under the single family mortgage note program totaling $115.5 million.

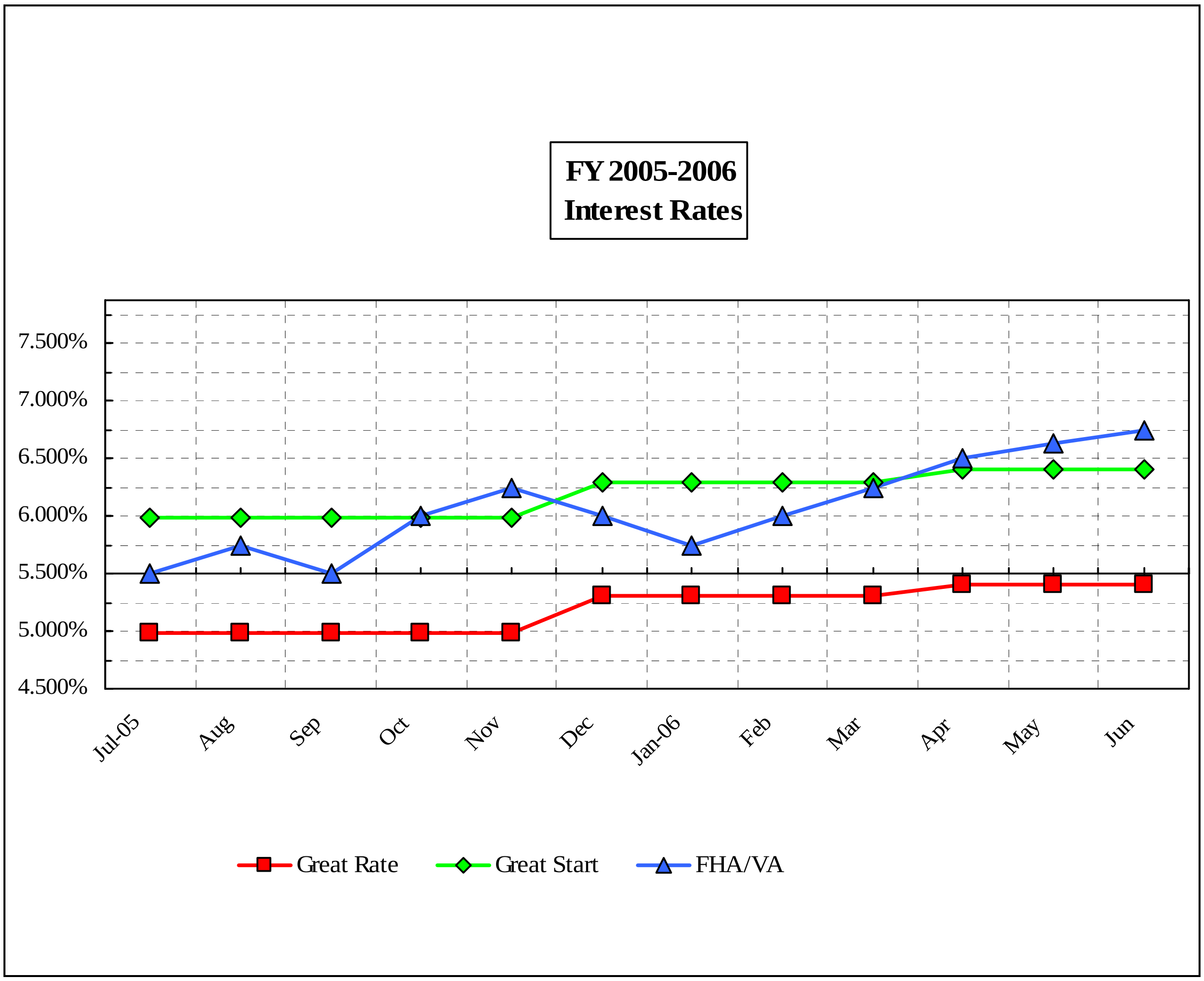
Note Authority

On March 18, 2004, the Agency's board of directors authorized the issuance of Single Family Mortgage Note, Series 2004CN-1. This $450 million drawdown note with a maturity of up to three years closed on August 31, 2004.

Additional information on the Agency's long-term debt is presented in Note 4 to the financial statements.

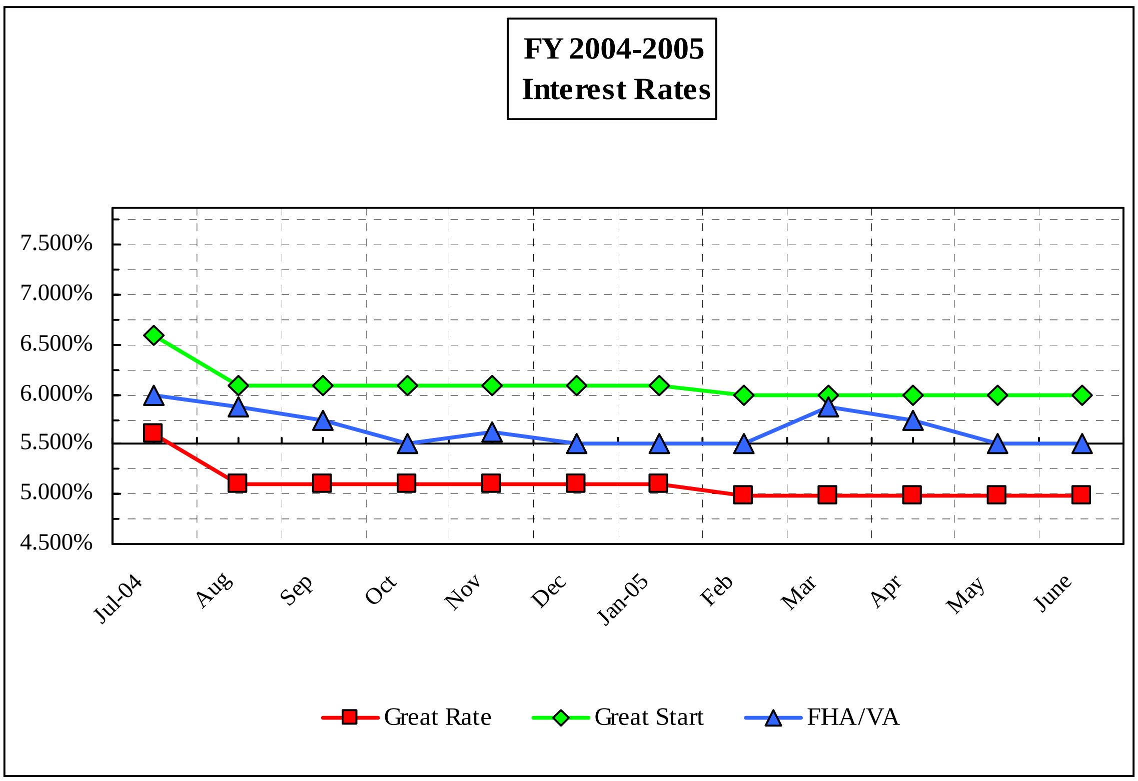
ECONOMIC FACTORS

Fiscal Year 2006 saw a slight rebound in mortgage loan rates. The Great Rate mortgage program offers a below market interest rate loan secured by a first mortgage. The Great Start program offers a loan at a slightly higher interest rate, secured by a first mortgage, but offers down payment and closing cost assistance. The following charts depict the Agency's mortgage loan rates as compared to the average FHA/VA loan rates during Fiscal Year 2006:



As noted above, the "Great Rate" at the end of the fiscal year was approximately 125 basis points below the average FHA/VA rates, thus making our rates very attractive to the market place. Conversely, the "Great Rate" as of the beginning of the fiscal year was only 50 basis points below the average FHA/VA rates. Historically, THDA's mortgage loan originations increase as the spread between our rates and the market rates increase. During the last half of the 2006 fiscal year, this spread began increasing. This increase, along with an increased marketing and outreach program, resulted in a higher production of mortgage loans. We anticipate that this spread will continue to be relatively wide during the early months of Fiscal Year 2007.

For comparison purposes, the chart of THDA rates, compared with the comparable FHA/VA average rates, for Fiscal Year 2005 is depicted below:



The Agency continued to use the proceeds from mortgage loan prepayments to call its bond debt. However, the decrease in the amount of prepayments, coupled with a continued increase in market investment rates, reduced the frequency and quantity of bond redemptions.

In accordance with the Agency's investment policy, the Agency typically invests in short-term collateralized repurchase agreements, as well as short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, the Agency uses the one, three, and five year Constant Maturity Treasury (CMT) rates as established by the United States Treasury. The following tables depict these rates for fiscal years 2006 and 2005:

For the Fiscal Year Ending June 30, 2006

Month	*1yr CMT*	*3yr CMT*	*5yr CMT*
June 30, 2006	5.16%	5.09%	5.07%
May 31, 2006	5.00%	4.97%	5.00%
April 30, 2006	4.90%	4.89%	4.90%
March 31, 2006	4.77%	4.74%	4.72%
February 28, 2006	4.68%	4.64%	4.57%
January 31, 2006	4.45%	4.35%	4.35%
December 31, 2005	4.35%	4.39%	4.39%
November 30, 2005	4.33%	4.43%	4.45%
October 31, 2005	4.18%	4.29%	4.33%
September 30, 2005	3.85%	3.96%	4.01%
August 31, 2005	3.87%	4.08%	4.12%
July 31, 2005	3.64%	3.91%	3.98%

For the Fiscal Year Ending June 30, 2005

Month	*1yr CMT*	*3yr CMT*	*5yr CMT*
June 30, 2005	3.36%	3.69%	3.77%
May 31, 2005	3.33%	3.72%	3.85%
April 30, 2005	3.32%	3.79%	4.00%
March 31, 2005	3.30%	3.91%	4.17%
February 28, 2005	3.03%	3.54%	3.77%
January 31, 2005	2.86%	3.39%	3.71%
December 31, 2004	2.67%	3.21%	3.60%
November 30, 2004	2.50%	3.09%	3.53%
October 31, 2004	2.23%	2.85%	3.35%
September 30, 2004	2.12%	2.83%	3.36%
August 31, 2004	2.02%	2.88%	3.47%
July 31, 2004	2.10%	3.05%	3.69%

While these benchmarks continued their rebound in fiscal year 2006 from the historically low rates as noted in the prior few years, the benchmarks remain below the median rates noted over the past two decades. Currently, the investments yields are often below the related bond yields, which results in negative arbitrage. The Agency monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's stakeholders with a general overview of the Agency'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) 532-9180 or via e-mail at Trent.Ridley@state.tn.us.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND JUNE 30, 2005
(Expressed in Thousands)

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 424,616	$ 444,096
Investments (Note 2)	34,370	-
Receivables:		
Accounts	10,431	12,054
Interest	11,612	12,006
First mortgage loans	34,269	32,939
Due from federal government	10,318	7,289
Total current assets	525,616	508,384
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	174	490
Investments (Note 2)	176,393	186,856
Investment interest receivable	2,475	2,367
Investments (Note 2)	172,249	165,474
First mortgage loans receivable	1,436,524	1,358,785
Deferred charges	11,619	11,124
Advance to local government	2,812	2,707
Other receivables	10	10
Capital assets:		
Furniture and equipment	153	93
Less accumulated depreciation	(93)	(77)
Total noncurrent assets	1,802,316	1,727,829
Total assets	2,327,932	2,236,213
LIABILITIES		
Current liabilities:		
Checks / warrants / wires payable (Note 3)	5,855	1,764
Accounts payable	1,183	746
Accrued payroll and related liabilities	323	279
Compensated absences	285	313
Due to primary government	84	42
Interest payable	37,917	35,315
Escrow deposits	969	1,485
Prepayments on mortgage loans	1,379	1,268
Notes payable (Note 4)	-	235,595
Bonds payable (Note 4)	111,525	78,730
Total current liabilities	159,520	355,537
Noncurrent liabilities:		
Notes payable (Note 4)	262,395	76,305
Bonds payable (Note 4)	1,456,947	1,354,700
Compensated absences	297	326
Escrow deposits	14,355	13,875
Arbitrage rebate payable	848	2,687
Deferred revenue	219	259
Total noncurrent liabilities	1,735,061	1,448,152
Total liabilities	1,894,581	1,803,689
NET ASSETS		
Invested in capital assets	60	16
Restricted for single family bond programs (Note 5)	425,218	421,584
Restricted for grant programs (Note 5)	385	460
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154
Unrestricted (Note 7)	4,534	7,310
Total net assets	$ 433,351	$ 432,524

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005
(Expressed in Thousands)

	2006	2005
OPERATING REVENUES		
Mortgage interest income	$ 87,118	$ 88,438
Investment income:		
Interest	23,626	20,779
Net increase (decrease) in the fair value of investments	(9,602)	18,228
Federal grant administration fees	9,903	9,861
Fees and other income	3,193	3,174
Total operating revenues	114,238	140,480
OPERATING EXPENSES		
Salaries and benefits	10,121	9,778
Contractual services	1,766	1,707
Materials and supplies	425	460
Rentals and insurance	1,083	996
Other administrative expenses	453	371
Other program expenses	2,547	1,566
Interest expense	86,566	81,294
Mortgage service fees	5,163	5,074
Issuance costs	527	703
Depreciation	17	5
Total operating expenses	108,668	101,954
Operating income	5,570	38,526
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	162,137	151,630
Federal grants expenses	(162,137)	(151,630)
Local grants expenses	(4,743)	(4,077)
Total nonoperating revenues (expenses)	(4,743)	(4,077)
Change in net assets	827	34,449
Total net assets, July 1	432,524	398,075
Total net assets, June 30	$ 433,351	$ 432,524

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005
(Expressed in Thousands)

	2006	2005
Cash flows from operating activities:		
Receipts from customers	$ 293,066	$ 329,852
Receipts from federal government	5,502	6,079
Other miscellaneous receipts	3,193	3,174
Acquisition of mortgage loans	(283,007)	(215,315)
Payments to service mortgages	(5,163)	(5,074)
Payments to suppliers	(5,311)	(4,625)
Payments to federal government	(1,927)	(3,423)
Payments to employees	(10,455)	(10,005)
Net cash provided (used) by operating activities	(4,102)	100,663
Cash flows from non-capital financing activities:		
Operating grants received	163,509	158,188
Negative cash balance implicitly financed	4,091	769
Proceeds from sale of bonds	306,515	203,534
Proceeds from issuance of notes	238,455	115,490
Operating grants paid	(166,629)	(155,889)
Call premium paid	-	(175)
Cost of issuance paid	(2,283)	(1,698)
Principal payments	(460,854)	(339,256)
Interest paid	(81,610)	(79,502)
Net cash provided (used) by non-capital financing activities	1,194	(98,539)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(60)	(5)
Net cash used by capital and related financing activities	(60)	(5)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	60,619	57,150
Purchases of investments	(113,448)	(18,366)
Investment interest received	36,001	27,386
Net cash provided (used) by investing activities	(16,828)	66,170
Net increase (decrease) in cash and cash equivalents	(19,796)	68,289
Cash and cash equivalents, July 1	444,586	376,297
Cash and cash equivalents, June 30	$ 424,790	$ 444,586

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005
(Expressed in Thousands)

		2006		2005
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	$	5,570	$	38,526
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization		544		708
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable		1,623		(283)
Decrease in mortgage interest receivable		456		1,294
(Increase) decrease in first mortgage loans receivable		(79,174)		25,205
(Increase) in due from federal government		(4,401)		(3,782)
Decrease in deferred charges		327		607
Increase (decrease) in accounts payable		262		(456)
Increase (decrease) in accrued payroll / compensated absences		(13)		68
Increase in due to primary government		41		-
(Decrease) in deferred revenue		(40)		(88)
(Decrease) in arbitrage rebate liability		(1,839)		(3,423)
Investment (income) included as operating revenue		(14,024)		(39,007)
Interest expense included as operating expense		86,566		81,294
Total adjustments		(9,672)		62,137
Net cash provided (used) by operating activities	$	(4,102)	$	100,663
Noncash investing, capital, and financing activities:				
Accretion of deep discount bonds	$	1,442	$	1,957
Increase (decrease) in fair value of investments		(21,450)		10,400
Total noncash investing, capital, and financing activities	$	(20,008)	$	12,357

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

f. Bond Issuance Costs, Refunding Costs, and Interest Accretion

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

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

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

4. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.

5. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

g. Cash and Cash Equivalents

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

h. Investments

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

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

l. Direct Servicing

On May 1, 2003, the agency began a pilot program called Direct Servicing for servicing mortgages originated by the agency. On March 17, 2005, the agency's Board of Directors voted to terminate the pilot program. The loans were sold to U. S. Bank, one of the agency's existing servicers, on July 1, 2005.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

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

At June 30, 2006, the bank balance was $2,805,343. At June 30, 2005, the bank balance was $2,683,008. All bank balances were insured. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $2,262,490 on June 30, 2005. The State Treasurer's pooled investment fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required disclosures are presented in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

b. Investments

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

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

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

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

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

	June 30, 2006		**June 30, 2005**	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$252,827,347	4.131	$232,415,639	4.944
U.S. Agency Discount	311,386,743	.027	78,542,489	0.389
U.S. Treasury Coupon	101,308,523	7.126	112,160,524	7.820
U.S Treasury Discount	0	NA	236,024,519	0.035
Municipal Securities	406,864	2.387	413,255	3.274
Variable Rate Securities	3,469,190	0.624	3,464,290	0.019
Repurchase Agreements	89,000,000	0.005	91,000,000	0.000
Municipal Discount Bonds	0	NA	500,000	0.000
Pass Through Securities	0	NA	1,277,526	4.397
Total	$758,398,667	2.242	$755,798,242	2.480

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

Collateralized Mortgage Obligations. The agency purchased $1,400,000 face value, mortgage-backed pass through securities on January 31, 2005, at .8125003 over par. The fair value of these securities on June 30, 2005, was $1,277,526. These securities were scheduled to mature on April 15, 2015; however, on January 15, 2006 all payments and interest were received liquidating this investment. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

Variable Rate Bonds.
The agency invested $2,000,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 95.125 of par on August 8, 2003, and mature August 6, 2015. The fair value of these securities on June 30, 2006, is $1,936,800 and on June 30, 2005, was $1,925,600 which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the six month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 6.625%, then the interest rate on the bond is 6.50%. If the LIBOR rate exceeds 6.625%, then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 6.625%. At June 30, 2006, the six-month LIBOR rate was 5.59%, and at June 29, 2005, the rate was 3.69%. At no time during fiscal years 2006 and 2005 did the LIBOR rate exceed 6.625%.

The agency invested $500,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on August 24, 2004, and mature August 24, 2009. The fair value of these securities on June 30, 2006, is $457,450 and on June 30, 2005, was $477,500 which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the six month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 5.00%, then the interest rate on the bond is 5.00% effective until August 24, 2007. Then the interest rate is 5.00% if the LIBOR rate does not exceed 6.00%. If the LIBOR rate exceeds 5.00% or 6.00% respectively, then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 5.00% currently. On March 3, 2006, the six-month LIBOR rate was 5.00% and it gradually increased during the remainder of the fiscal year to 5.59% on June 30, 2006.

The agency invested $1,500,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on September 27, 2005, and mature March 27, 2009. The fair value of these securities on June 30, 2006, is $1,352,850 which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the three month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 5.00%, then the interest rate on the bond is 6.00%. If the LIBOR rate exceeds 5.00% then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 5.00%. On March 31, 2006, the three-month LIBOR rate was 5.00% and it gradually increased during the remainder of the fiscal year to 5.48% on June 30, 2006.

The agency also invested $3,475,000 in variable rate bonds issued by Federal Home Loan Bank. It was purchased at 99.975 of par on February 22, 2005, and matures February 22, 2007. The fair value of these securities on June 30, 2006, is $3,469,190 and on June 30, 2005, was $3,464,290. The amount of the quarterly interest payment is calculated at Constant Maturing Treasury (CMT) minus a 0.40% spread. The CMT is reset quarterly on the interest payment dates.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2006 and June 30, 2005 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. Funds held in a money market mutual fund were rated AAAm by Standard and Poor's.

	June 30, 2006						
		U.S.	Credit Quality Rating				
Investment Type	**Fair Value**	**Treasury / Agency**[1]	**AAA**	**AA**	**A-1+**[2]	**AA-**	**Not Rated**[3]
U.S. Agency Coupon	$252,827,347		$240,088,740			$5,045,547	$7,693,060
U.S. Agency Discount	311,386,743				$311,386,743		
U.S. Treasury Coupon	101,308,523	$101,308,523					
Municipal Securities	406,864			$406,864			
Variable Rate Securities	3,469,190		3,469,190				
Repurchase Agreements	89,000,000		22,000,000				67,000,000
Total	$758,398,667	$101,308,523	$265,557,930	$406,864	$311,386,743	$5,045,547	$74,693,060

[1] Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.
[2] A-1+ is the highest rating category for short-term debt.
[3] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

	June 30, 2005						
		U.S.	Credit Quality Rating				
Investment Type	**Fair Value**	**Treasury / Agency**[1]	**AAA**	**AA**	**A-1+**[2]	**AA-**	**Not Rated**[3]
U.S. Agency Coupon	$232,415,639		$219,033,801			$5,679,063	$7,702,775
U.S. Agency Discount	78,542,489		2,099,327		$76,443,162		
U.S. Treasury Coupon	112,160,524	$112,160,524					
U.S Treasury Discount	236,024,519	236,024,519					
Municipal Securities	413,255			$413,255			
Variable Rate Securities	3,464,290		3,464,290				
Repurchase Agreements	91,000,000						91,000,000
Municipal Discount Bonds	500,000			500,000			
Pass Through Securities	1,277,526						1,277,526
Total	$755,798,242	$348,185,043	$224,597,418	$913,255	$76,443,162	$5,679,063	$99,980,301

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

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

	June 30, 2006		June 30, 2005	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$385,099,779	50.78	$169,383,650	22.41
Federal Home Loan Mortgage Corp	$62,034,048	08.18	$68,909,191	09.12
Federal National Mortgage Assoc	$101,271,612	13.35	$56,697,282	07.50
Repurchase Agreements – U.S. Agency	$89,000,000	11.74	$91,000,000	12.04

NOTE 3. CHECKS / WARRANTS / WIRES PAYABLE

This amount includes the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily. This amount also includes the sum of warrants and wires initiated by the agency at year-end in excess of the agency's balance in the State Pooled Investment Fund that have not completely processed through the banking system. These warrants and wires are for grant payments for the Section 8 grant programs and will be reimbursed by the U. S. Department of Housing and Urban Development.

[1] Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.
[2] A-1+ is the highest rating category for short-term debt.
[3] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 06/30/2006	Ending Balance 6/30/2005
MORTGAGE FINANCE PROGRAM BONDS					
1994B	7/1/96-7/1/2025	$100,000	4.50 to 6.60	$ -0-	$ 1,645
1995B/C	1/1/97-7/1/2026	100,000	4.80 to 6.55	4,990	8,605
2003A	7/1/2004-7/1/2034	191,885	1.70 to 5.35	167,475	182,690
Total Mortgage Finance Program Bonds		$391,885		172,465	192,940
Less: Deferred Amount on Refundings				(3,411)	(3,720)
Net Mortgage Finance Program Bonds				$ 169,054	$ 189,220
HOMEOWNERSHIP PROGRAM BONDS					
Issue K	7/1/92-7/1/2021	$74,775	6.4 to 8.125	$ -0-	$ 1
			Interest accretion	-0-	3
1995-1	1/1/97-7/1/2026	65,000	4.35 to 6.48	4,345	5,780
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	13,135	15,790
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	17,710	23,030
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	17,405	20,115
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	10,180	14,060
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	29,565	33,520
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	27,735	31,245
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	23,270	27,095
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	16,176	24,184
			Interest accretion	9,295	11,836
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	22,400	26,630
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	11,130	13,590
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	30,255	36,860
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	14,135	17,305
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	38,085	45,500
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	36,850	43,535
2000-1	7/1/2001-7/1/2031	105,000	4.60 to 6.40	20,535	29,240
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	51,900	63,370
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	79,855	85,195
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	37,030	43,395
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	38,295	45,385
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	53,910	62,050
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	62,970	70,535
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	41,585	46,325
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	52,555	57,300
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	66,165	71,155
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	73,560	78,075
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	95,185	100,000
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	95,910	100,000
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	100,000	-0-
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	100,000	-0-
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	100,000	-0-
Total Homeownership Program Bonds		$2,491,638		$ 1,391,126	$ 1,242,104
Plus: Unamortized Bond Premiums				14,139	8,689
Less: Deferred Amount on Refundings				(5,847)	(6,583)
Net Homeownership Program Bonds				1,399,418	1,244,210
Net Total All Issues				$ 1,568,472	$ 1,433,430

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2006 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2007	$105,865	$77,598	$183,463
2008	52,425	75,605	128,030
2009	48,651	69,991	118,642
2010	47,845	66,800	114,645
2011	48,450	64,620	113,070
2012 – 2016	196,411	292,324	488,735
2017 – 2021	135,831	253,469	389,300
2022 – 2026	226,131	212,593	438,724
2027 – 2031	169,426	160,645	330,071
2032 – 2036	458,215	94,142	552,357
2037	79,185	2,587	81,772
Total	$1,568,435	$1,370,374	$2,938,809

The debt principal in the preceding table is $37,000 less than that presented in the accompanying financial statements. Of this amount, $9,295,000 represents the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2007-2009) in which the bonds mature. Also, $9,258,000, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the year ended June 30, 2006, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $7,265,000 and in the Homeownership Program in the amount of $71,880,000. The respective carrying values of the bonds were $7,191,410 and $71,630,120. This resulted in an expense to the Mortgage Finance Program of $73,590 and the Homeownership Program of $249,880.

On July 1, 2005, a third drawdown was made on the Series 2004 CN-1 Notes in the amount of $34,620,000. These proceeds were used to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $16,185,000 early redemption and $18,435,000 current maturities). The carrying amount of these bonds was $34,595,966. The refunding resulted in a difference of $24,034 between the reacquisition price and the net carrying amount of the old debt. A portion of these notes were refunded with bonds on December 8, 2005 and after year-end.

On July 28, 2005, the agency issued $100,000,000 in Homeownership Bonds, Issue 2005-1. On August 11, 2005, the agency used $28,740,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003, November 3, 2003, January 2, 2004, and July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency’s debt service by $4,403,524 over the next 26.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,603,550.

On November 17, 2005, the agency issued $100,000,000 in Homeownership Bonds, Issue 2005-2. On December 8, 2005, the agency used $39,630,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used January 2, 2003, July 1, 2003, and April 1, 2004 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The agency also used $12,685,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used October 1, 2004, January 3, 2005, and July 1, 2005, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $11,380,279 over the next 27.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $7,375,779.

On December 8, 2005, a fourth drawdown was made on the Series 2004 CN-1 Notes in the amount of $203,835,000. Of these proceeds, $167,225,000 was used to refund 2002 CN-1 Notes at maturity. Also, $36,610,000 of these proceeds were used on January 1, 2006, to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($24,685,000 early redemption and $11,925,000 current maturities). The carrying amount of these bonds was $36,669,782. The refunding resulted in a difference of $59,782 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On April 27, 2006, the agency issued $100,000,000 in Homeownership Bonds, Issue 2006-1. On May 11, 2006, the agency used $39,680,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used October 1, 2004 and January 3, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $4,091,138 over the next 28 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $1,596,587.

During the year ended June 30, 2005, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $12,320,000 and in the Homeownership Program in the amount of $86,406,071. The respective carrying values of the bonds were $12,255,060 and $85,858,454. This resulted in an expense to the Mortgage Finance Program of $64,940 and the Homeownership Program of $547,617.

On July 1, 2004, the agency used $39,185,000 of Single Family Mortgage Program notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $27,955,000 early redemption and $11,230,000 current maturities). The carrying amount of these bonds was $38,994,680. The refunding resulted in a difference of $190,320 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On July 15, 2004, the agency issued $100,000,000 in Homeownership Program Bonds, Issue 2004-2. On August 1, 2004, the agency used $7,835,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $7,835,000 early redemption and $0 current maturities). The carrying amount of these bonds was $7,760,168. The refunding resulted in a difference of $74,832 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020. On August 12, 2004, the agency used $43,920,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $16,960,633 over the next 26 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $12,082,652.

On October 1, 2004, the agency used $34,145,000 of Single Family Mortgage Program Notes, 2004CN-1, drawn down on August 31, 2004, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $34,145,000 early redemption and $0 current maturities). The carrying amount of these bonds was $33,943,005. The refunding resulted in a difference of $201,995 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On January 3, 2005, the second drawdown was made on the Series 2004CN-1 Notes in the amount of $42,160,000. These proceeds were used to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($28,685,000 early redemption and $13,475,000 current maturities). The carrying amount of these bonds was $41,996,549. The refunding resulted in a difference of $163,451 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On January 13, 2005, a principal redemption was made on the Series 2002CN-1 Notes in the amount of $32,910,000.

On January 13, 2005, the agency issued $100,000,000 in Homeownership Program Bonds, Issue 2004-3. The agency used $32,910,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. On March 1, 2005, all outstanding Y1Z1 and Y2Z2 Series bonds in the amount of $18,175,000 were called. Of this amount, $700,000 were called at par and the Optional Redemption provision was used to call the remaining $17,475,000 bonds at 101 percent. Mortgage prepayments and excess reserves were used to call $1,175,000 of the bonds. The remaining $17,000,000 was refunded by 2004-3. The carrying amount of these bonds was $16,913,790. A call premium of $165,150 was paid on the redemption of these bonds. The refunding resulted in a difference of $251,360 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016. The refunding increased the agency's debt service by $586,997 over the next 26 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $7,701,042.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2006.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2005	Additions	Reductions	Ending Balance June 30, 2006	Amounts Due Within One Year
Notes Payable	$311,900	$238,455	($287,960)	$262,395	$-0-
Bonds Payable	1,435,044	301,441	(172,894)	1,563,591	111,525
Plus: Unamortized Bond Premiums	8,689	6,515	(1,065)	14,139	-0-
Less: Deferred Amount on Refundings	(10,303)	(42)	1,087	(9,258)	-0-
Compensated Absences	639	59	(116)	582	285
Escrow Deposits	15,360	3,723	(3,759)	15,324	969
Arbitrage Rebate Payable	2,687	2,027	(3,866)	848	-0-
Deferred Revenue	259	132	(172)	219	-0-
Total	$1,764,275	$552,310	($468,745)	$1,847,840	$112,779

The following table is a summary of the long-term liability activity for the year ended June 30, 2005.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Amounts Due Within One Year
Notes Payable	$273,240	$115,490	($76,830)	$311,900	$235,595
Bonds Payable	1,495,513	201,957	(262,426)	1,435,044	78,730
Plus: Unamortized Bond Premiums	4,655	4,534	(500)	8,689	-0-
Less: Deferred Amount on Refundings	(10,869)	(690)	1,256	(10,303)	-0-
Compensated Absences	572	496	(429)	639	313
Escrow Deposits	15,206	5,006	(4,852)	15,360	1,485
Arbitrage Rebate Payable	6,110	128	(3,551)	2,687	-0-
Deferred Revenue	347	108	(196)	259	-0-
Total	$1,784,774	$327,029	($347,528)	$1,764,275	$316,123

e. Notes Issued and Outstanding

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

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

The following table is a summary of the note activity for the year ended June 30, 2006.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2005	Additions	Reductions	Ending Balance 6/30/2006
SINGLE FAMILY MORTGAGE NOTES							
2002CN-1	12/8/2005	$ 450,000	2.753 to 3.853	$235,595	$-0-	($235,595)	$-0-
2004CN-1	8/9/2007	$ 450,000	2.990 to 4.983	76,305	238,455	(52,365)	262,395
Total Single Family Mortgage Notes				$311,900	$238,455	($287,960)	$262,395

The following table is a summary of the note activity for the year ended June 30, 2005.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2004	Additions	Reductions	Ending Balance 6/30/2005
SINGLE FAMILY MORTGAGE NOTES							
2002CN-1	12/8/2005	$ 450,000	1.010 to 2.753	$273,240	$39,185	($76,830)	$235,595
2004CN-1	8/9/2007	$ 450,000	1.466 to 2.990	-0-	76,305	(-0-)	76,305
Total Single Family Mortgage Notes				$273,240	$115,490	($76,830)	$311,900

The activity of the 2002CN-1 and 2004CN-1 notes shown above is also included in the summary of long-term liability activity in part d. of this note.

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 10.30% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2006, 2005, and 2004, were $771,350, $753,275, and $480,912. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims 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 POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 10. PAYMENTS TO PRIMARY GOVERNMENT

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

NOTE 11. SUBSEQUENT EVENTS

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

July 1, 2006	Mortgage Finance Program	$ 4,095,000
	Homeownership Program	$49,215,000
	Total	$53,310,000

b. Homeownership Program Bonds, Issue 2006-2, were sold on July 27, 2006. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2006-2	7/1/2007-1/1/2037	$100,000	3.90 to 5.75
TOTAL ALL ISSUES		$100,000	

On September 14, 2006, the agency used $46,605,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used January 3, 2005, and July 1, 2005, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2006
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 28,102	$ 133,122	$ 263,392	$ 424,616
Investments	-	13,701	20,669	-	34,370
Receivables:					
Accounts	-	2,957	7,474	-	10,431
Interest	-	2,528	9,084	-	11,612
First mortgage loans	75	7,598	26,596	-	34,269
Due from federal government	10,318	-	-	-	10,318
Due from other funds	-	44	-	-	44
Total current assets	10,393	54,930	196,945	263,392	525,660
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	20	154	-	174
Investments	-	38,324	138,069	-	176,393
Investment Interest receivable	-	556	1,919	-	2,475
Investments	-	73,158	99,091	-	172,249
First mortgage loans receivable	267	165,664	1,270,593	-	1,436,524
Deferred charges	23	1,010	8,599	1,987	11,619
Advance to local government	2,812	-	-	-	2,812
Other receivables	-	-	10	-	10
Capital assets:					
Furniture and equipment	153	-	-	-	153
Less accumulated depreciation	(93)	-	-	-	(93)
Total noncurrent assets	3,162	278,732	1,518,435	1,987	1,802,316
Total assets	13,555	333,662	1,715,380	265,379	2,327,976
LIABILITIES					
Current liabilities:					
Checks / warrants / wires payable	3,037	6	2,812	-	5,855
Accounts payable	1,098	26	59	-	1,183
Accrued payroll and related liabilities	323	-	-	-	323
Compensated absences	285	-	-	-	285
Due to primary government	84	-	-	-	84
Interest payable	-	4,011	33,082	824	37,917
Escrow deposits	-	969	-	-	969
Prepayments on mortgage loans	-	113	1,266	-	1,379
Due to other funds	-	-	44	-	44
Bonds payable	-	15,770	95,755	-	111,525
Total current liabilities	4,827	20,895	133,018	824	159,564
Noncurrent liabilities:					
Notes payable	-	-	-	262,395	262,395
Bonds payable	-	153,284	1,303,663	-	1,456,947
Compensated absences	297	-	-	-	297
Escrow deposits	298	14,057	-	-	14,355
Arbitrage rebate payable	-	-	848	-	848
Deferred revenue	-	219	-	-	219
Total noncurrent liabilities	595	167,560	1,304,511	262,395	1,735,061
Total liabilities	5,422	188,455	1,437,529	263,219	1,894,625
NET ASSETS					
Invested in capital assets	60	-	-	-	60
Restricted for single family bond programs	-	145,207	277,851	2,160	425,218
Restricted for grant programs	385	-	-	-	385
Restricted for Homebuyers Revolving Loan Program	3,154	-	-	-	3,154
Unrestricted	4,534	-	-	-	4,534
Total net assets	$ 8,133	$ 145,207	$ 277,851	$ 2,160	$ 433,351

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	$ -	$ 11,975	$ 75,143	$ -	$ 87,118
Investment income:					
Interest	351	6,003	17,271	1	23,626
Net increase (decrease) in the fair value of investments	-	(6,220)	(15,736)	12,354	(9,602)
Federal grant administration fees	9,903	-	-	-	9,903
Fees and other income	1,851	1,220	122	-	3,193
Total operating revenues	12,105	12,978	76,800	12,355	114,238
OPERATING EXPENSES					
Salaries and benefits	10,121	-	-	-	10,121
Contractual services	1,766	-	-	-	1,766
Materials and supplies	425	-	-	-	425
Rentals and insurance	1,083	-	-	-	1,083
Other administrative expenses	453	-	-	-	453
Other program expenses	10	808	1,638	91	2,547
Interest expense	-	8,528	65,648	12,390	86,566
Mortgage service fees	-	610	4,553	-	5,163
Issuance costs	-	77	434	16	527
Depreciation	17	-	-	-	17
Total operating expenses	13,875	10,023	72,273	12,497	108,668
Operating income (loss)	(1,770)	2,955	4,527	(142)	5,570
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	162,137	-	-	-	162,137
Federal grants expenses	(162,137)	-	-	-	(162,137)
Local grants expenses	(1,004)	(40)	(3,699)	-	(4,743)
Total nonoperating revenues (expenses)	(1,004)	(40)	(3,699)	-	(4,743)
Income (loss) before transfers	(2,774)	2,915	828	(142)	827
Transfers (to) other funds	(33)	(1,383)	-	(61)	(1,477)
Transfers from other funds	-	-	1,477	-	1,477
Change in net assets	(2,807)	1,532	2,305	(203)	827
Total net assets, July 1	10,940	143,675	275,546	2,363	432,524
Total net assets, June 30	$ 8,133	$ 145,207	$ 277,851	$ 2,160	$ 433,351

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	$ (407)	$ 45,087	$ 248,386	$ -	$ 293,066
Receipts from federal government	5,502	-	-	-	5,502
Receipts from other funds	-	-	44	-	44
Other miscellaneous receipts	1,851	1,220	122	-	3,193
Acquisition of mortgage loans	-	-	(283,007)	-	(283,007)
Payments to service mortgages	-	(610)	(4,553)	-	(5,163)
Payments to suppliers	(3,177)	(745)	(1,386)	(3)	(5,311)
Payments to federal government	-	-	(1,839)	(88)	(1,927)
Payments to other funds	-	(44)	-	-	(44)
Payments to employees	(10,455)	-	-	-	(10,455)
Net cash provided (used) by operating activities	(6,686)	44,908	(42,233)	(91)	(4,102)
Cash flows from non-capital financing activities:					
Operating grants received	163,509	-	-	-	163,509
Transfers in (out)	(33)	(1,374)	1,389	18	-
Negative cash balance implicitly financed	2,971	(497)	1,642	(25)	4,091
Proceeds from sale of bonds	-	-	306,515	-	306,515
Proceeds from issuance of notes	-	-	-	238,455	238,455
Operating grants paid	(162,890)	(40)	(3,699)	-	(166,629)
Call premium paid	-	-	-	-	-
Cost of issuance paid	-	-	(2,267)	(16)	(2,283)
Principal payments	-	(20,475)	(152,419)	(287,960)	(460,854)
Interest paid	-	(8,620)	(61,119)	(11,871)	(81,610)
Net cash provided (used) by non-capital financing activities	3,557	(31,006)	90,042	(61,399)	1,194
Cash flows from capital and related financing activities:					
Purchases of capital assets	(60)	-	-	-	(60)
Net cash used by capital and related financing activities	(60)	-	-	-	(60)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	34,714	67,913	-	102,627
Purchases of investments	-	(51,861)	(103,595)	-	(155,456)
Investment interest received	351	5,906	17,389	12,355	36,001
Net cash provided (used) by investing activities	351	(11,241)	(18,293)	12,355	(16,828)
Net increase (decrease) in cash and cash equivalents	(2,838)	2,661	29,516	(49,135)	(19,796)
Cash and cash equivalents, July 1	2,838	25,461	103,760	312,527	444,586
Cash and cash equivalents, June 30	$ -	$ 28,122	$ 133,276	$ 263,392	$ 424,790

(continued)

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	$ (1,770)	$ 2,955	$ 4,527	$ (142)	$ 5,570
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	17	77	434	16	544
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	-	(1,326)	2,949	-	1,623
Decrease in mortgage interest receivable	-	339	117	-	456
(Incease) decrease in first mortgage loans receivable	(1)	33,794	(112,967)	-	(79,174)
(Increase) in due from federal government	(4,401)	-	-	-	(4,401)
Decrease in deferred charges	4	74	249	-	327
(Increase) in interfund receivables	-	(44)	-	-	(44)
Increase in interfund payables	-	-	44	-	44
Increase (decrease) in accounts payable	(212)	334	140	-	262
(Decrease) in accrued payroll / compensated absences	(13)	-	-	-	(13)
Increase in due to primary government	41	-	-	-	41
(Decrease) in deferred revenue	-	(40)	-	-	(40)
(Decrease) in arbitrage rebate liability	-	-	(1,839)	-	(1,839)
Investment (income) loss included as operating revenue	(351)	217	(1,535)	(12,355)	(14,024)
Interest expense included as operating expense	-	8,528	65,648	12,390	86,566
Total adjustments	(4,916)	41,953	(46,760)	51	(9,672)
Net cash provided (used) by operating activities	$ (6,686)	$ 44,908	$ (42,233)	$ (91)	$ (4,102)
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	$ -	$ -	$ 1,442	$ -	$ 1,442
Increase (decrease) in fair value of investments	-	(6,306)	(16,042)	898	(21,450)
Total noncash investing, capital, and financing activities	$ -	$ (6,306)	$ (14,600)	$ 898	$ (20,008)

Exhibit D

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2006
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 19,885	$ 6,946	$ 26,831	$ 1,271	$ 28,102
Investments	12,960	-	12,960	741	13,701
Receivables:					
Accounts	2,957	-	2,957	-	2,957
Interest	1,936	464	2,400	128	2,528
First mortgage loans	7,178	420	7,598	-	7,598
Due from other funds	4	40	44	-	44
Total current assets	44,920	7,870	52,790	2,140	54,930
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	20	-	20	-	20
Investments	38,324	-	38,324	-	38,324
Investment interest receivable	556	-	556	-	556
Investments	40,372	21,948	62,320	10,838	73,158
First mortgage loans receivable	161,036	4,628	165,664	-	165,664
Deferred charges	1,010	-	1,010	-	1,010
Total noncurrent assets	241,318	26,576	267,894	10,838	278,732
Total assets	286,238	34,446	320,684	12,978	333,662
LIABILITIES					
Current liabilities:					
Checks / warrants / wires payable	-	-	-	6	6
Accounts payable	8	18	26	-	26
Interest payable	4,011	-	4,011	-	4,011
Escrow deposits	-	-	-	969	969
Prepayments on mortgage loans	110	3	113	-	113
Bonds payable	15,770	-	15,770	-	15,770
Total current liabilities	19,899	21	19,920	975	20,895
Noncurrent liabilities:					
Bonds payable	153,284	-	153,284	-	153,284
Escrow deposits	-	1,915	1,915	12,142	14,057
Deferred revenue	-	219	219	-	219
Total noncurrent liabilities	153,284	2,134	155,418	12,142	167,560
Total liabilities	173,183	2,155	175,338	13,117	188,455
NET ASSETS					
Restricted for single family bond programs	113,055	32,291	145,346	(139)	145,207
Total net assets	$ 113,055	$ 32,291	$ 145,346	$ (139)	$ 145,207

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

THDA
Affordable Housing

TENNESSEE HOUSING DEVELOPMENT AGENCY

FINANCIAL STATEMENTS

June 30, 2005

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

October 6, 2005

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2005, and June 30, 2004, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency; approving accounting policies of the state as prepared by the state's

Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to the bond finance committee of the Tennessee Housing Development Agency.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2005, and June 30, 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, following the notes to the financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2005, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/tlh

This section of the Tennessee Housing Development Agency's (Agency) annual financial statements presents management's discussion and analysis of the financial performance of the Agency for the years ended June 30, 2005 and June 20, 2004. This information is being presented to provide additional information regarding the activities of the Agency and to meet the disclosure requirements of the Governmental Accounting Standards Board Statement Number 34. *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This analysis should be read in conjunction with the Agency's financial statements, which follow this section.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The Tennessee Housing Development Agency was established by the Tennessee General Assembly in 1973,

> In order to promote the production of more affordable new housing units for very low, low and moderate income individuals and families in the state, to promote the preservation and rehabilitation of existing housing units for such persons, and to bring greater stability to the residential construction industry and related industries so as to assure a steady flow of production of new housing units… (*Tennessee Code Annotated* 13-23-102)

The mission of the Agency is to be the lead State Agency promoting sound and affordable housing for people who need help. THDA's goal is to provide housing assistance to those in need, and to do so by offering a variety of programs to serve various types of need. One of the primary ways the Agency assists people is by offering mortgages for first-time homebuyers at below conventional market interest rates. In 2002, the Agency celebrated the financing of the 80,000th homebuyer. The Agency also serves as the master servicer for all active mortgages funded by THDA. In addition to helping homebuyers, THDA administers the federal Section 8 rental assistance programs, including both tenant- and project-based assistance. 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 authorities for specific multifamily developments.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of the Agency at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about the Agency's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide useful information regarding the Agency's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. The Agency'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, other supplementary information is also included.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2005

- Total assets increased by $11.8 million, or .5 %.
- Total liabilities decreased $22.6 million, or 1.2%.
- Total assets exceeded total liabilities by $432.5 million. This is an increase of $34.4 million, or 8.6%, from fiscal year 2004.
- Cash and cash equivalents increased $68.2 million, or 18.1%.
- Total investments decreased $27 million, or 7.1%.
- Bonds and notes payable decreased $17.2 million, or 1%.
- The Agency originated $215.3 million in new loans, which is a decrease of $57.9 million, or 21.2% from the prior year.

Year Ended June 30, 2004

- Total assets decreased by $76 million, or 3.3 %.
- Total liabilities decreased by $68.4 million, or 3.6%.
- Total assets exceeded total liabilities by $398.1 million. This is a decrease of $7.6 million, or 1.9%, from fiscal year 2003.
- Cash and cash equivalents increased $9.9 million, or 2.7%.
- Total investments decreased $73.2 million, or 16.2%.
- Bonds and notes payable decreased $58.0 million, or 3.2%.
- The Agency originated $273.2 million in new loans, which is an increase of $114.3 million, or .72% from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

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

	2005	2004	2003
Current assets	$ 508,384	$ 459,245	$ 486,913
Capital assets	16	16	-
Other noncurrent assets	1,727,813	1,765,131	1,813,491
Total assets	2,236,213	2,224,392	2,300,404
Current liabilities	355,537	138,620	308,264
Noncurrent liabilities	1,448,152	1,687,697	1,586,424
Total liabilities	1,803,689	1,826,317	1,894,688
Invested in capital assets	16	16	-
Restricted net assets	425,198	388,913	396,203
Unrestricted net assets	7,310	9,146	9,513
Total net assets	$ 432,524	$ 398,075	$ 405,716

2005 to 2004

- The Agency's total net assets increased $34.4 million, or 8.6%, from $398.1 million at June 30, 2004 to $432.5 million at June 30, 2005. This primarily resulted from the increase in the fair value of investments.

- Mortgage loans receivable decreased $25.3 million, or 1.8%, from $1,417.0 million at June 30, 2004 to $1,391.7 million at June 30, 2005. The decrease resulted from loan prepayments exceeding loan originations.

- Total liabilities decreased $22.6 million, or 1.2%, from $1,826.3 million at June 30, 2004 to $1,803.7 million at June 30, 2005. The decrease is primarily due to the retirement of debt.

2004 to 2003

- The Agency's total net assets decreased $7.6 million, or 1.9%, from $405.7 million at June 30, 2003 to $398.1 million at June 30, 2004. This primarily resulted from the decrease in the fair value of investments.

- Mortgage loans receivable decreased $9.3 million, or .7%, from $1,426.3 million at June 30, 2003 to $1,417.0 million at June 30, 2004. The decrease resulted from loan prepayments exceeding loan originations.

- Total liabilities decreased $68.4 million, or 3.6%, from $1,894.7 million at June 30, 2003 to $1,826.3 million at June 30, 2004. The decrease is primarily due to the retirement of debt.

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

	2005	2004	2003
Operating revenues			
Mortgage interest income	$ 88,438	$ 93,763	$ 104,714
Investment income (loss)	39,007	(67)	48,538
Other	13,035	12,174	11,055
Total operating revenues	140,480	105,870	164,307
Operating expenses			
Interest expense	81,294	83,326	102,164
Other	20,660	24,005	19,772
Total operating expenses	101,954	107,331	121,936
Operating income (loss)	38,526	(1,461)	42,371
Nonoperating revenues (expenses)			
Grant revenues	151,630	143,630	138,123
Grant expenses	(155,707)	(149,810)	(144,777)
Total nonoperating revenues (expenses)	(4,077)	(6,180)	(6,654)
Changes in net assets	$ 34,449	$ (7,641)	$ 35,717

2005 to 2004

For the year ended June 30, 2005, total operating revenues increased $34.6 million from $105.9 million for the year ended June 30, 2004, to $140.5 million for the year ended June 30, 2005. The primary reasons for this increase are as follows:

- Mortgage interest income decreased $5.4 million, or 5.7%, from $93.8 million in 2004 to $88.4 million in 2005. This is due to mortgage loan prepayments of higher interest loans, as well as new loans originated at lower interest rates.

- Investment income increased $39 million, from a net loss of $67,000 in 2004 to a net gain of $39 million in 2005. This increase is primarily due to a net increase in the fair value of investments of $18.2 million in 2005 as compared to a net decrease of $22.2 million in 2004. In addition, new investments are yielding low interest rates due to current market conditions.

For the year ended June 30, 2005, total operating expenses decreased $5.4 million, or 5%, from $107.3 million in 2004 to $101.9 million in 2005. This decrease is primarily due to a decrease in interest expense of $2.0 million, from $83.3 million in 2004 to $81.3 million in 2005. This decrease occurred as a result of the Agency continuing to use mortgage loan prepayments to call higher-interest bonds.

While the total net assets for fiscal year 2005 increased $34.4 million from the previous year, the non-monetary accretion of deep discount bonds, and the change in the fair value of investments contributed $12.4 million toward this increase. When considered without these non-monetary components, net assets increased $21.5 million.

2004 to 2003

For the year ended June 30, 2004, total operating revenues decreased $58.4 million from $164.3 million for the year ended June 30, 2003 to $105.9 million for the year ended June 30, 2004. The primary reasons for this decrease are as follows:

- Mortgage interest income decreased $10.9 million, or 10.5%, from $104.7 million in 2003 to $93.8 million in 2004. This is due to mortgage loan prepayments of higher interest loans, as well as new loans originated at record-low rates.

- Investment income decreased $48.6 million, from $48.5 million in 2003 to a net loss of $67,000 in 2004. This decrease is due to a net decrease in the fair value of investments of $22.2 million in 2004 (as compared to a net increase of $18.1 million in 2003) as well as higher coupon investments that were called, which were subsequently re-invested into investments having a lower interest rate.

For the year ended June 30, 2004, total operating expenses decreased $14.6 million, or 12%, from $121.9 million in 2003 to $107.3 million in 2004. This decrease is primarily due to a decrease in interest expense of $18.8 million, from $102.1 million in 2003 to $83.3 million in

2004. This decrease occurred as a result of the Agency continuing to use mortgage loan prepayments to call higher-interest bonds.

While the total net assets for fiscal year 2004 decreased $7.6 million from the previous year, the non-monetary portion of accretion of deep discount bonds, and the change in the fair value of investments contributed $19.2 million toward this decrease. When considered without these non- monetary components, net assets increased $11.6 million.

CASH FLOWS

Cash flows for fiscal years ending 2005, 2004, and 2003 were as follows (expressed in thousands):

	2005	2004	2003
Cash, July 1	$ 376,297	$ 366,383	$ 264,881
Net cash provided by operating activities	100,663	97,401	203,205
Net cash used by non-capital financial activities	(98,539)	(157,673)	(216,757)
Cash flows from capital and related financing activities	(5)	(16)	-
Net cash provided by investing activities	66,170	70,202	115,054
Net increase in cash and cash equivalents	68,289	9,914	101,502
Cash and cash equivalents, June 30	$ 444,586	$ 376,297	$ 366,383

The Agency has generated positive cash flow for each of the past three years. The increase in cash and cash equivalents for fiscal year 2004 was reduced due to the Agency's aggressiveness in calling higher interest debt in the face of increasing mortgage prepayments.

Under Chapter 825, Public Acts of 2002 and section 9.(2) of Chapter 827, Public Acts of 2002, for the sole purpose of meeting the requirements of funding the operations of the primary government for fiscal year ended June 30, 2002, a payment in the amount of $35.4 million was authorized from the Agency's net assets. This transfer was established as a payable and as a non-operating expense for the year ended June 30, 2002, and a use of cash for the year ended June 30, 2003.

DEBT ACTIVITY

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

	2005	2004	2003
Bonds payable	$1,433,430	$1,489,299	$1,769,506
Notes payable	311,900	273,240	51,070
Total bonds and notes payable	$1,745,330	$1,762,539	$1,820,576

Year Ended June 30, 2005

Total bonds and notes payable decreased $17.2 million, or 1%, due primarily to retirement of debt. During the fiscal year, the Agency issued debt totaling $319 million, with activity arising from two bond issues totaling $203.5 million and three draws under the single family mortgage note program totaling $115.5 million.

Year Ended June 30, 2004

Total bonds and notes payable decreased $58.0 million, or 3.2%, due primarily to retirement of debt. During the fiscal year, the Agency issued debt totaling $741.0 million, with activity arising from four bond issues totaling $406.9 million and four draws under the single family mortgage note program totaling $334.1 million.

Note Authority

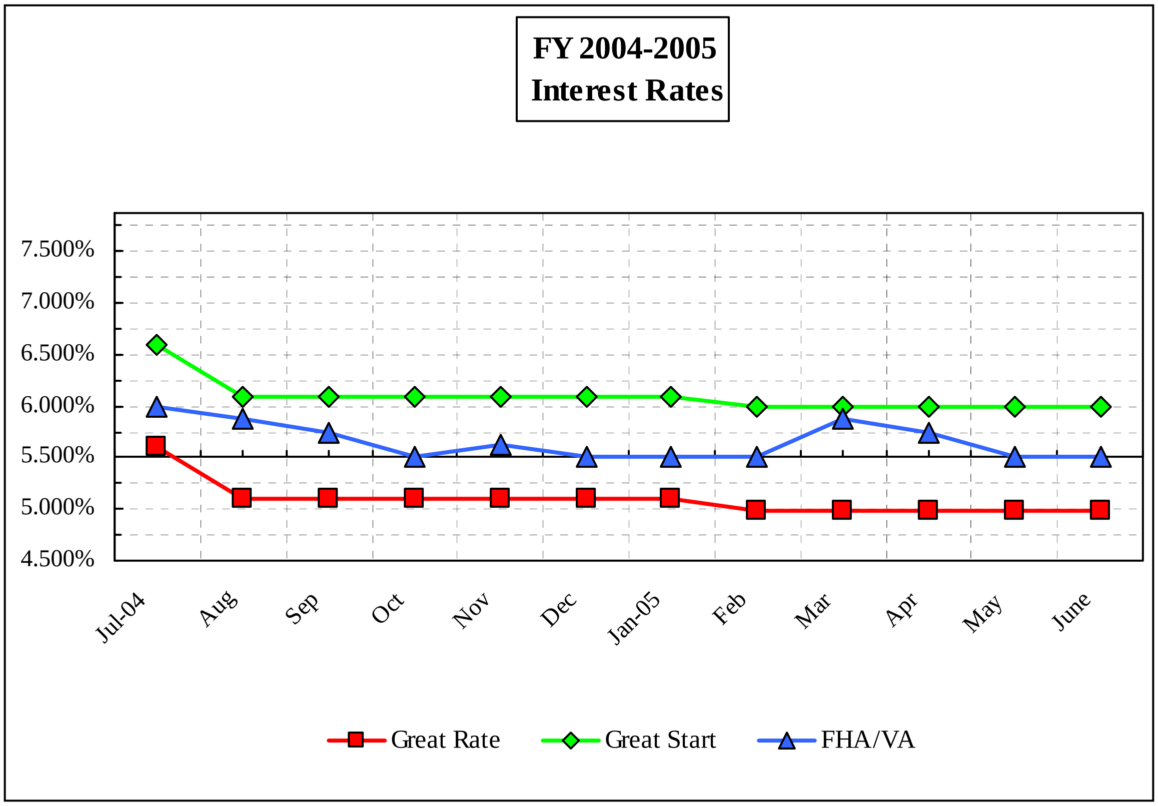
On March 18, 2004, the Agency's board of directors authorized the issuance of Single Family Mortgage Note, Series 2004CN-1. This $450 million drawdown note with a maturity of up to three years closed on August 31, 2004.

Additional information on the Agency's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS

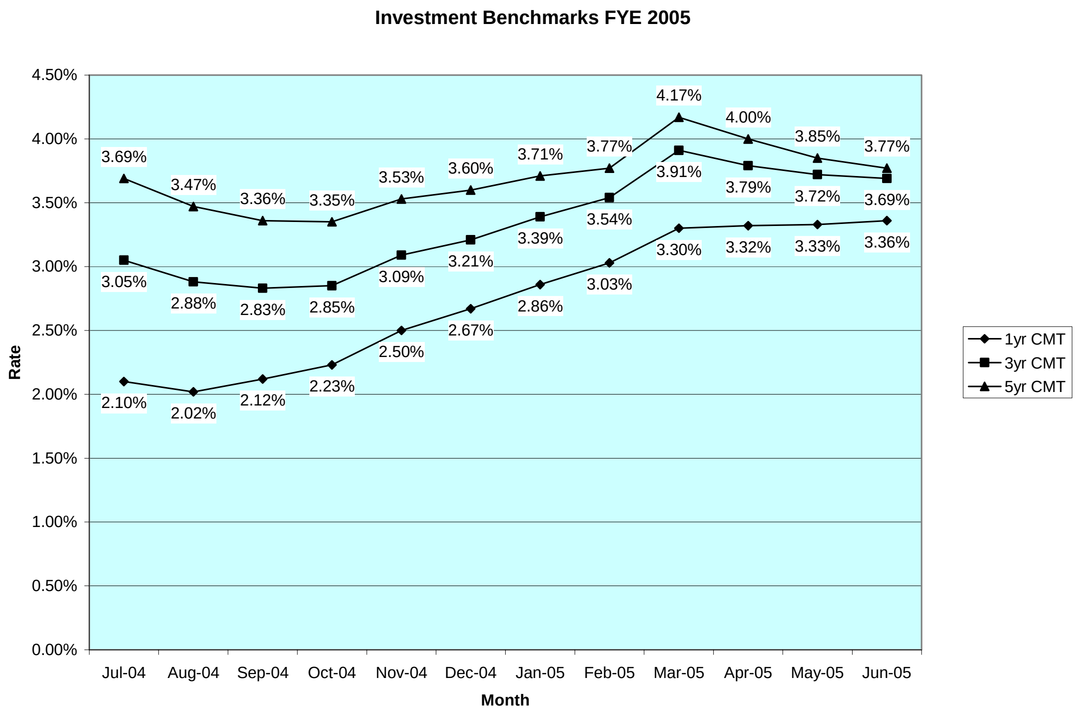
Fiscal Year 2005 saw considerable reduction in the amount of prepayments as compared to fiscal years 2004 and 2003. Prepayments for fiscal year 2005 were $190.1 million, which is a $59.1 million, or 23.7%, reduction from the $249.2 million as recorded in fiscal year 2004. Prepayments for fiscal year 2003 were $231.3 million.

New mortgage loan originations continued at below average interest rates. The following chart depicts the Agency's mortgage interest rates for fiscal year 2005, with the comparable FHA/VA rate:

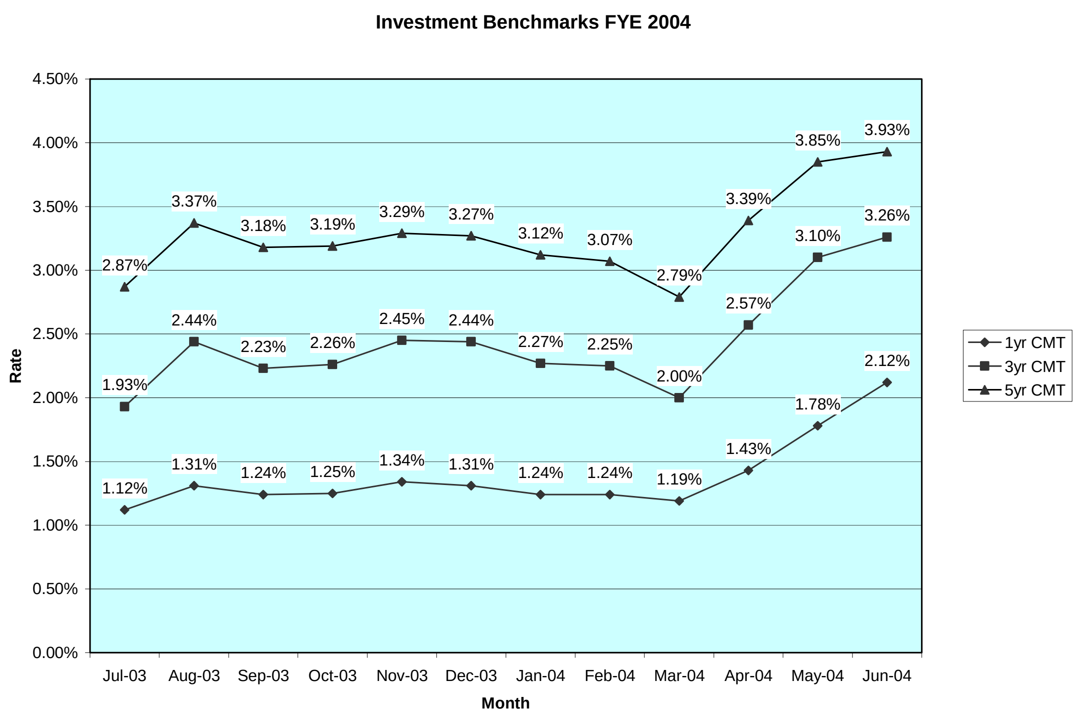


The Agency continued to use the proceeds from mortgage loan prepayments to call its bond debt on a quarterly basis. Additionally, mortgage loan repayments were reinvested into investments with lower yields, although not quite as low as was seen in the prior fiscal year. As a result, the Agency experienced a net increase in the fair value of investments of $18.2 million, as compared to a net decrease of $22.2 million for fiscal year 2004.

The change in market interest rates directly affects the rate of reinvestment of the Agency's cash. In general, the market rates for fiscal year 2005 were somewhat higher than those noted in fiscal year 2004, but still remain relatively low when considered with rates over the past two decades. The following charts depict the one, three, and five year Constant Maturity Treasury (CMT) rates:



Investment Benchmarks FYE 2005
Rate
Month
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
Jul-04
Aug-04
Sep-04
Oct-04
Nov-04
Dec-04
Jan-05
Feb-05
Mar-05
Apr-05
May-05
Jun-05
3.69%
3.47%
3.36%
3.35%
3.53%
3.60%
3.71%
3.77%
4.17%
4.00%
3.85%
3.77%
3.05%
2.88%
2.83%
2.85%
3.09%
3.21%
3.39%
3.54%
3.91%
3.79%
3.72%
3.69%
2.10%
2.02%
2.12%
2.23%
2.50%
2.67%
2.86%
3.03%
3.30%
3.32%
3.33%
3.36%
1yr CMT
3yr CMT
5yr CMT



Investment Benchmarks FYE 2004
Rate
Month
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
Jul-03
Aug-03
Sep-03
Oct-03
Nov-03
Dec-03
Jan-04
Feb-04
Mar-04
Apr-04
May-04
Jun-04
2.87%
3.37%
3.18%
3.19%
3.29%
3.27%
3.12%
3.07%
2.79%
3.39%
3.85%
3.93%
1.93%
2.44%
2.23%
2.26%
2.45%
2.44%
2.27%
2.25%
2.00%
2.57%
3.10%
3.26%
1.12%
1.31%
1.24%
1.25%
1.34%
1.31%
1.24%
1.24%
1.19%
1.43%
1.78%
2.12%
1yr CMT
3yr CMT
5yr CMT

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's stakeholders with a general overview of the Agency'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 Ted Fellman, CPA, Deputy Executive Director / Chief Financial Officer at (615) 741-1104 or via e-mail at Ted.Fellman@state.tn.us.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND JUNE 30, 2004
(Expressed in Thousands)

	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 444,096	$ 376,254
Investments (Note 2)	-	15,000
Receivables:		
Accounts	12,054	11,771
Interest	12,006	13,369
First mortgage loans	32,939	32,786
Due from federal government	7,289	10,065
Total current assets	508,384	459,245
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	490	43
Investments (Note 2)	186,856	184,336
Investment interest receivable	2,367	2,412
Investments (Note 2)	165,474	180,044
First mortgage loans receivable	1,358,785	1,384,193
Deferred charges	11,124	11,436
Advance to local government	2,707	2,657
Other receivables	10	10
Capital assets:		
Furniture and equipment	93	87
Less accumulated depreciation	(77)	(71)
Total noncurrent assets	1,727,829	1,765,147
Total assets	2,236,213	2,224,392
LIABILITIES		
Current liabilities:		
Checks payable	1,764	995
Accounts payable	746	1,355
Accrued payroll and related liabilities	279	278
Compensated absences	313	275
Due to primary government	42	42
Interest payable	35,315	36,423
Escrow deposits	1,485	1,343
Prepayments on mortgage loans	1,268	1,450
Advance on bond sale	-	1,000
Notes payable (Note 4)	235,595	-
Bonds payable (Note 4)	78,730	95,459
Total current liabilities	355,537	138,620
Noncurrent liabilities:		
Notes payable (Note 4)	76,305	273,240
Bonds payable (Note 4)	1,354,700	1,393,840
Compensated absences	326	297
Escrow deposits	13,875	13,863
Arbitrage rebate payable	2,687	6,110
Deferred revenue	259	347
Total noncurrent liabilities	1,448,152	1,687,697
Total liabilities	1,803,689	1,826,317
NET ASSETS		
Invested in capital assets	16	16
Restricted for single family bond programs (Note 5)	421,584	384,955
Restricted for grant programs (Note 5)	460	804
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154
Unrestricted (Note 7)	7,310	9,146
Total net assets	$ 432,524	$ 398,075

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004
(Expressed in Thousands)

	2005	2004
OPERATING REVENUES		
Mortgage interest income	$ 88,438	$ 93,763
Investment income:		
Interest	20,779	22,143
Net increase (decrease) in the fair value of investments	18,228	(22,210)
Federal grant administration fees	9,861	9,786
Fees and other income	3,174	2,388
Total operating revenues	140,480	105,870
OPERATING EXPENSES		
Salaries and benefits	9,778	8,702
Contractual services	1,707	1,560
Materials and supplies	460	559
Rentals and insurance	996	1,035
Other administrative expenses	371	382
Other program expenses	1,566	5,960
Interest expense	81,294	83,326
Mortgage service fees	5,074	5,135
Issuance costs	703	672
Depreciation	5	-
Total operating expenses	101,954	107,331
Operating income (loss)	38,526	(1,461)
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	151,630	143,630
Federal grants expenses	(151,630)	(143,630)
Local grants expenses	(4,077)	(6,180)
Total nonoperating revenues (expenses)	(4,077)	(6,180)
Change in net assets	34,449	(7,641)
Total net assets, July 1	398,075	405,716
Total net assets, June 30	$ 432,524	$ 398,075

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004
(Expressed in Thousands)

	2005	2004
Cash flows from operating activities:		
Receipts from customers	$ 329,852	$ 379,476
Receipts from federal government	6,079	6,916
Other miscellaneous receipts	3,174	2,389
Acquisition of mortgage loans	(215,315)	(273,234)
Payments to service mortgages	(5,074)	(5,135)
Payments to suppliers	(4,625)	(3,758)
Payments to federal government	(3,423)	(224)
Payments to employees	(10,005)	(9,029)
Net cash provided by operating activities	100,663	97,401
Cash flows from non-capital financing activities:		
Operating grants received	158,188	145,575
Negative cash balance implicitly financed	769	430
Proceeds from sale of bonds	203,534	411,066
Proceeds from issuance of notes	115,490	334,085
Operating grants paid	(155,889)	(150,127)
Call premium paid	(175)	(3,053)
Advance on bond sale	-	1,000
Cost of issuance paid	(1,698)	(3,194)
Principal payments	(339,256)	(802,459)
Interest paid	(79,502)	(90,996)
Net cash used by non-capital financing activities	(98,539)	(157,673)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(5)	(16)
Net cash used by capital and related financing activities	(5)	(16)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	57,150	326,259
Purchases of investments	(18,366)	(281,844)
Investment interest received	27,386	25,787
Net cash provided by investing activities	66,170	70,202
Net increase in cash and cash equivalents	68,289	9,914
Cash and cash equivalents, July 1	376,297	366,383
Cash and cash equivalents, June 30	$ 444,586	$ 376,297

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004
(Expressed in Thousands)

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$ 38,526	$ (1,461)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	708	672
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(283)	2,823
Decrease in mortgage interest receivable	1,294	744
Decrease in first mortgage loans receivable	25,205	9,253
(Increase) in due from federal government	(3,782)	(2,870)
Decrease in deferred charges	607	964
Decrease in other receivables	-	4
Increase (decrease) in accounts payable	(456)	96
Increase (decrease) in accrued payroll / compensated absences	68	(47)
Increase in due to primary government	-	42
(Decrease) in deferred revenue	(88)	(45)
Increase (decrease) in arbitrage rebate liability	(3,423)	3,833
Investment (income) loss included as operating revenue	(39,007)	67
Interest expense included as operating expense	81,294	83,326
Total adjustments	62,137	98,862
Net cash provided by operating activities	$ 100,663	$ 97,401
Noncash investing, capital, and financing activities:		
Accretion of deep discount bonds	$ 1,957	$ 2,180
Increase (decrease) in fair value of investments	10,400	(21,344)
Total noncash investing, capital, and financing activities	$ 12,357	$ (19,164)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

f. Bond Issuance Costs, Refunding Costs, and Interest Accretion

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

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

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

4. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.

5. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

g. Cash and Cash Equivalents

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

h. Investments

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

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

l. Direct Servicing

On May 1, 2003, the agency began a pilot program called Direct Servicing for servicing mortgages originated by the agency. On March 17, 2005, the agency's Board of Directors voted to terminate the pilot program. The loans will be sold to U. S. Bank, one of the agency's existing servicers, on July 1, 2005.

NOTE 2. DEPOSITS AND INVESTMENTS

The agency has implemented Governmental Accounting Standards Board Statement 40, *Deposit and Investment Risk Disclosures*, which established and modified the disclosure requirements for deposits and investments. Therefore, the 2004 deposit and investment disclosures have been presented in compliance with GASB 40, for comparative purposes.

a. Deposits

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

The laws of the State of Tennessee require that collateral be pledged at 105% of the value of uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

At June 30, 2005, $1,307,005 of the agency's bank balances of $2,683,008 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's agent but not in the agency's name.

At June 30, 2004, $2,066,355 of the agency's bank balances of $3,410,184 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's agent but not in the agency's name.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $2,262,490 on June 30, 2005. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $2,362,600 on June 30, 2004. The State Treasurer's pooled investment fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required disclosures are presented in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

b. Investments

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

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

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

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

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

	June 30, 2005		**June 30, 2004**	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$232,415,639	4.944	$252,424,864	3.949
U.S. Agency Discount	78,542,489	0.389	3,427,981	24.693
U.S. Treasury Coupon	112,160,524	7.820	107,590,269	8.131
U.S Treasury Discount	236,024,519	0.035	273,366,546	0.019
Municipal Securities	413,255	3.274	451,049	3.844
Variable Rate Securities	3,464,290	0.019	0	NA
Repurchase Agreements	91,000,000	0.000	95,000,000	0.000
Municipal Discount Bonds	500,000	0.000	486,855	0.987
Pass Through Securities	1,277,526	4.397	0	NA
Total	$755,798,242		$732,747,564	

As of June 30, 2005, the portfolios include the following investments (stated at par or face value) that have fair values highly sensitive to interest rate changes. These investments are recorded at fair value in the statement of net assets.

Collateralized Mortgage Obligations. The agency purchased $1,400,000 face value, mortgage-backed pass through securities on January 31, 2005, at .8125003 over par. The fair value of these securities on June 30, 2005, is $1,277,526. These securities will mature on April 15, 2015. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

Variable Rate Bonds.
The agency invested $2,000,000 in range bonds issued by Federal Home Loan Bank. It was purchased at 95.125 of par on August 8, 2003, and matures August 6, 2015. The fair value of these securities on June 30, 2005, is $1,925,600 which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the six month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 6.625%, then the interest rate on the bond is 6.50%. If the LIBOR rate exceeds 6.625%, then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 6.625%. At June 29, 2005, the LIBOR rate was 3.69%, and at no time during fiscal year 2005 did the LIBOR rate exceed 6.625%.

The agency also invested $3,475,000 in variable rate bonds issued by Federal Home Loan Bank. It was purchased at 99.975 of par on February 22, 2005, and matures February 22, 2007. The fair value of these securities on June 30, 2005, is $3,464,290. The amount of the quarterly interest payment is calculated at Constant Maturing Treasury (CMT) minus a 0.40% spread. The CMT is reset quarterly on the interest payment dates.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments.

The Agency's investments in securities of United States agencies were rated AAA by Standard & Poor's, and Aaa by Moody's Investors Service. The municipal securities were rated AA/Aa2. Funds held in a money market mutual fund were rated AAAm/Aaa. The agency's investments in repurchase agreements were collateralized by securities of United States agencies which were rated AAA by Standard & Poor's, and Aaa by Moody's Investors Service.

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

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

	June 30, 2005		June 30, 2004	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$169,383,650	22.41	$107,957,728	14.73
Federal Home Loan Mortgage Corp	$68,909,191	09.12	$70,636,286	09.64
Federal National Mortgage Assoc	$56,697,282	07.50	$55,746,328	07.61
Repurchase Agreements – U.S. Agency	$91,000,000	12.04	$95,000,000	12.96

NOTE 3. CHECKS PAYABLE

This amount includes the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 06/30/2005	Ending Balance 6/30/2004
MORTGAGE FINANCE PROGRAM BONDS					
1994A	1/1/96-7/1/2025	$60,000	4.40 to 6.90	$ -0-	$2,200
1994B	7/1/96-7/1/2025	100,000	4.50 to 6.60	1,645	7,335
1995B/C	1/1/97-7/1/2026	100,000	4.80 to 6.55	8,605	26,890
2003A	7/1/2004-7/1/2034	191,885	1.70 to 5.35	182,690	191,885
Total Mortgage Finance Program Bonds		$451,885		192,940	$228,310
Less: Deferred Amount on Refundings				(3,720)	(4,132)
Net Mortgage Finance Program Bonds				$189,220	$224,178
HOMEOWNERSHIP PROGRAM BONDS					
Issue K	7/1/92-7/1/2021	$74,775	6.4 to 8.125	$ 1	$ 1
			Interest accretion	3	3
Issue Y1/Z1	1/1/95-7/1/2024	50,000	3.50 to 6.10	-0-	13,095
Issue Y2/Z2	1/1/95-7/1/2024	30,000	3.50 to 5.75	-0-	8,885
1995-1	1/1/97-7/1/2026	65,000	4.35 to 6.48	5,780	11,035
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	15,790	19,695
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	23,030	29,495
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	20,115	24,975
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	14,060	22,255
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	33,520	38,980
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	31,245	37,755
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	27,095	32,995
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	24,184	30,473
			Interest accretion	11,836	12,561
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	26,630	33,230
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	13,590	17,670
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	36,860	46,470
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	17,305	23,790
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	45,500	58,120

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 06/30/2005	Ending Balance 6/30/2004
HOMEOWNERSHIP PROGRAM BONDS (cont.)					
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	43,535	55,660
2000-1	7/1/2001-7/1/2031	105,000	4.60 to 6.40	29,240	52,910
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	63,370	78,860
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	85,195	95,370
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	43,395	51,370
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	45,385	53,690
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	62,050	74,505
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	70,535	79,015
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	46,325	49,340
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	57,300	60,000
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	71,155	75,000
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	78,075	80,000
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	100,000	-0-
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	100,000	-0-
Total Homeownership Program Bonds		$2,271,638		$1,242,104	$1,267,203
Plus: Unamortized Bond Premiums				8,689	4,655
Less: Deferred Amount on Refundings				(6,583)	(6,737)
Net Homeownership Program Bonds				1,244,210	1,265,121
Net Total All Issues				$1,433,430	$1,489,299

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2005 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2006	$74,139	$72,049	$146,188
2007	50,330	70,616	120,946
2008	51,279	69,311	120,590
2009	46,369	63,687	110,056
2010	44,950	60,538	105,488
2011 – 2015	190,715	272,687	463,402
2016 – 2020	140,565	232,088	372,653
2021 – 2025	212,771	190,957	403,728
2026 – 2030	213,026	135,772	348,798
2031 – 2035	391,855	72,687	464,542
2036	15,895	389	16,284
Total	$1,431,894	$1,240,781	$2,672,675

The debt principal in the preceding table is $1.536 million less than that presented in the accompanying financial statements. Of this amount, $11.839 million represents the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2006-2010) in which the bonds mature. Also, $10.303 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the year ended June 30, 2005, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $12,320,000 and in the Homeownership Program in the amount of $86,406,071. The respective carrying values of the bonds were $12,255,060 and $85,858,454. This resulted in an expense to the Mortgage Finance Program of $64,940 and the Homeownership Program of $547,617.

On July 1, 2004, the agency used $39,185,000 of Single Family Mortgage Program notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $27,955,000 early redemption and $11,230,000 current maturities). The carrying amount of these bonds was $38,994,680. The refunding resulted in a difference of $190,320 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On July 15, 2004, the agency issued $100,000,000 in Homeownership Program Bonds, Issue 2004-2. On August 1, 2004, the agency used $7,835,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $7,835,000 early redemption and $0 current maturities). The carrying amount of these bonds was $7,760,168. The refunding resulted in a difference of $74,832 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020. On August 12, 2004, the agency used $43,920,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $16,960,633 over the next 26 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $12,082,652.

On October 1, 2004, the agency used $34,145,000 of Single Family Mortgage Program Notes, 2004CN-1, drawn down on August 31, 2004, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $34,145,000 early redemption and $0 current maturities). The carrying amount of these bonds was $33,943,005. The refunding resulted in a difference of $201,995 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On January 3, 2005, the second drawdown was made on the Series 2004CN-1 Notes in the amount of $42,160,000. These proceeds were used to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($28,685,000 early redemption and $13,475,000 current maturities). The carrying amount of these bonds was $41,996,549. The refunding resulted in a difference of $163,451 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On January 13, 2005, a principal redemption was made on the Series 2002CN-1 Notes in the amount of $32,910,000.

On January 13, 2005, the agency issued $100,000,000 in Homeownership Program Bonds, Issue 2004-3. The agency used $32,910,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. On March 1, 2005, all outstanding Y1Z1 and Y2Z2 Series bonds in the amount of $18,175,000 were called. Of this amount, $700,000 were called at par and the Optional Redemption provision was used to call the remaining $17,475,000 bonds at 101 percent. Mortgage prepayments and excess reserves were used to call $1,175,000 of the bonds. The remaining $17,000,000 was refunded by 2004-3. The carrying amount of these bonds was $16,913,790. A call premium of $165,150 was paid on the redemption of these bonds. The refunding resulted in a difference of $251,360 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016. The refunding increased the agency's debt service by $586,997 over the next 26 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $7,701,042.

During the year ended June 30, 2004, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $49,335,000 and in the Homeownership Program in the amount of $91,623,222. The respective carrying values of the bonds were $49,016,496 and $90,981,765. This resulted in an expense to the Mortgage Finance Program of $318,504 and the Homeownership Program of $641,457.

On July 1, 2003, the agency used $190,465,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $180,485,000 early redemption and $9,980,000 current maturities). The carrying amount of these bonds was $188,991,633. The refunding resulted in a difference of $1,473,367 between the reacquisition price and the net carrying amount of the old debt. A portion of these notes were refunded with bonds on November 13, 2003, March 11, 2004, August 12, 2004, and January 13, 2005.

On July 31, 2003, the agency issued $60,000,000 in Homeownership Program Bonds, Issue 2003-2 A & B. On August 14, 2003, the agency used $27,070,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding reduced the agency's debt service by $2,694,900 over the next 28 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $4,923,598.

On August 14, 2003 a principal redemption was made on the Series 2002CN-1 Notes in the amount of $27,070,000.

On September 4, 2003, the agency issued $191,885,000 in Mortgage Finance Program Bonds, Issue 2003A. On September 17, 2003, all outstanding 1993 Series A bonds were refunded by issue 2003A. Mortgage prepayments and excess reserves were used to call $39,250,000 of the bonds at par. The Optional Redemption provision was used to call the remaining $152,670,000 of bonds at 102 percent. The carrying amount of these bonds was $191,219,164. A call premium of $3,053,400 was paid on the redemption of these bonds. The refunding resulted in a difference of $3,754,236 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2028. The refunding increased the agency's debt service by $27,458,335 over the next 25 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $7,499,720.

On November 3, 2003, the agency used $89,355,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $89,355,000 early redemption and $0 current maturities). The carrying amount of these bonds was $88,675,883. The refunding resulted in a difference of $679,117 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On November 5, 2003, the agency issued $75,000,000 in Homeownership Program Bonds, Issue 2003-3 A & B. On November 13, 2003, the agency used $37,555,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 and July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding increased the agency's debt service by $6,527,806 over the next 30 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $4,000,240.

On November 13, 2003 a principal redemption was made on the Series 2002CN-1 Notes in the amount of $37,555,000.

On January 2, 2004, the agency used $27,700,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $22,955,000 early redemption and $4,745,000 current maturities). The carrying amount of these bonds was $27,534,157. The refunding resulted in a difference of $165,843 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On March 4, 2004, the agency issued $80,000,000 in Homeownership Program Bonds, Issue 2004-1. On March 11, 2004, the agency used $47,290,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program. The refunding increased the agency's debt service by $3,917,718 over the next 22.5 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $5,637,611.

On March 11, 2004 a principal redemption was made on the Series 2002CN-1 Notes in the amount of $47,290,000.

On April 1, 2004, the agency used $26,565,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $26,565,000 early redemption and $0 current maturities). The carrying amount of these bonds was $26,372,070. The refunding resulted in a difference of $192,930 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On June 10, 2004 the Series 2002CN-1 Notes were remarketed in the amount of $273,240,000.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2005.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Amounts Due Within One Year
Notes Payable	$273,240	$115,490	($76,830)	$311,900	$235,595
Bonds Payable	1,495,513	201,957	(262,426)	1,435,044	78,730
Plus: Unamortized Bond Premiums	4,655	4,534	(500)	8,689	-0-
Less: Deferred Amount on Refundings	(10,869)	(690)	1,256	(10,303)	-0-
Compensated Absences	572	496	(429)	639	313
Escrow Deposits	15,206	5,006	(4,852)	15,360	1,485
Arbitrage Rebate Payable	6,110	128	(3,551)	2,687	-0-
Deferred Revenue	347	108	(196)	259	-0-
Total	$1,784,774	$327,028	($347,527)	$1,764,275	$316,123

The following table is a summary of the long-term liability activity for the year ended June 30, 2004.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts Due Within One Year
Notes Payable	$51,070	$334,085	($111,915)	$273,240	$-0-
Bonds Payable	1,776,991	409,065	(690,543)	1,495,513	95,459
Plus: Unamortized Bond Premiums	-0-	4,781	(126)	4,655	-0-
Less: Deferred Amount on Refundings	(7,485)	(4,246)	862	(10,869)	-0-
Compensated Absences	627	334	(389)	572	275
Escrow Deposits	15,302	4,029	(4,125)	15,206	1,343
Arbitrage Rebate Payable	2,277	4,261	(428)	6,110	-0-
Deferred Revenue	392	977	(1,022)	347	-0-
Total	$1,839,174	$753,286	($807,686)	$1,784,774	$97,077

e. Notes Issued and Outstanding

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

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date. On December 1, 2002 the interest rate was changed to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2005.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2004	Additions	Reductions	Ending Balance 6/30/2005
SINGLE FAMILY MORTGAGE NOTES							
2002CN-1	12/8/2005	$ 450,000	1.010 to 2.753	$273,240	$39,185	($76,830)	$235,595
2004CN-1	8/9/2007	$ 450,000	1.466 to 2.990	-0-	76,305	(-0-)	76,305
Total Single Family Mortgage Notes				$273,240	$115,490	($76,830)	$311,900

The following table is a summary of the note activity for the year ended June 30, 2004.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2003	Additions	Reductions	Ending Balance 6/30/2004
SINGLE FAMILY MORTGAGE NOTES							
2002CN-1	12/8/2005	$450,000	.738 to 1.010	$51,070	$334,085	($111,915)	$273,240

The activity of the 2002CN-1 and 2004CN-1 notes shown above is also included in the summary of long-term liability activity in part d. of this note.

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 10.52% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2005, 2004, and 2003, were $753,275, $480,912, and $448,684. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims 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 POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 10. PAYMENTS TO PRIMARY GOVERNMENT

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

NOTE 11. SUBSEQUENT EVENTS

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

July 1, 2005	Mortgage Finance Program	$ 1,895,000
	Homeownership Program	$22,408,949
	Total	$24,303,949

b. On July 1, 2005 a third drawdown was made on the Series 2004CN-1 Notes in the amount of $34,620,000. These proceeds were used to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($16,185,000 early redemption and $18,435,000 current maturities).

c. Homeownership Program Bonds, Issue 2005-1, were sold on July 28, 2005. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2005-1	7/1/2006-1/1/2036	$100,000	2.75 to 5.00
TOTAL ALL ISSUES		$100,000	

On August 11, 2005, the agency used $28,740,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003, November 3, 2003, January 2, 2004, and July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

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

October 1, 2005	Mortgage Finance Program	$ 3,475,000
	Homeownership Program	$51,610,000
	Total	$55,085,000

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2005
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2,838	$ 25,014	$ 103,717	$ 312,527	$ 444,096
Receivables:					
Accounts	-	1,631	10,423	-	12,054
Interest	-	2,774	9,232	-	12,006
First mortgage loans	75	8,728	24,136	-	32,939
Due from federal government	7,289	-	-	-	7,289
Total current assets	10,202	38,147	147,508	312,527	508,384
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	447	43	-	490
Investments	-	41,189	145,667	-	186,856
Investment Interest receivable	-	551	1,816	-	2,367
Investments	-	73,069	92,405	-	165,474
First mortgage loans receivable	371	198,328	1,160,086	-	1,358,785
Deferred charges	27	1,169	7,639	2,289	11,124
Advance to local government	2,707	-	-	-	2,707
Other receivables	-	-	10	-	10
Capital assets:					
Furniture and equipment	93	-	-	-	93
Less accumulated depreciation	(77)	-	-	-	(77)
Total noncurrent assets	3,121	314,753	1,407,666	2,289	1,727,829
Total assets	13,323	352,900	1,555,174	314,816	2,236,213
LIABILITIES					
Current liabilities:					
Checks payable	66	503	1,170	25	1,764
Accounts payable	653	37	56	-	746
Accrued payroll and related liabilities	279	-	-	-	279
Compensated absences	313	-	-	-	313
Due to primary government	42	-	-	-	42
Interest payable	-	4,411	30,376	528	35,315
Escrow deposits	466	1,019	-	-	1,485
Prepayments on mortgage loans	-	139	1,129	-	1,268
Notes payable	-	-	-	235,595	235,595
Bonds payable	-	14,220	64,510	-	78,730
Total current liabilities	1,819	20,329	97,241	236,148	355,537
Noncurrent liabilities:					
Notes payable	-	-	-	76,305	76,305
Bonds payable	-	175,001	1,179,699	-	1,354,700
Compensated absences	326	-	-	-	326
Escrow deposits	238	13,636	1	-	13,875
Arbitrage rebate payable	-	-	2,687	-	2,687
Deferred revenue	-	259	-	-	259
Total noncurrent liabilities	564	188,896	1,182,387	76,305	1,448,152
Total liabilities	2,383	209,225	1,279,628	312,453	1,803,689
NET ASSETS					
Invested in capital assets	16	-	-	-	16
Restricted for single family bond programs	-	143,675	275,546	2,363	421,584
Restricted for grant programs	460	-	-	-	460
Restricted for Homebuyers Revolving Loan Program	3,154	-	-	-	3,154
Unrestricted	7,310	-	-	-	7,310
Total net assets	$ 10,940	$ 143,675	$ 275,546	$ 2,363	$ 432,524

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	$ -	$ 14,545	$ 73,893	$ -	$ 88,438
Investment income:					
Interest	135	4,999	15,644	1	20,779
Net increase in the fair value of investments	-	3,438	8,586	6,204	18,228
Federal grant administration fees	9,861	-	-	-	9,861
Fees and other income	2,315	859	-	-	3,174
Total operating revenues	12,311	23,841	98,123	6,205	140,480
OPERATING EXPENSES					
Salaries and benefits	9,778	-	-	-	9,778
Contractual services	1,707	-	-	-	1,707
Materials and supplies	460	-	-	-	460
Rentals and insurance	996	-	-	-	996
Other administrative expenses	371	-	-	-	371
Other program expenses	342	206	1,004	14	1,566
Interest expense	-	9,872	65,320	6,102	81,294
Mortgage service fees	-	736	4,338	-	5,074
Issuance costs	-	88	450	165	703
Depreciation	5	-	-	-	5
Total operating expenses	13,659	10,902	71,112	6,281	101,954
Operating income (loss)	(1,348)	12,939	27,011	(76)	38,526
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	151,630	-	-	-	151,630
Federal grants expenses	(151,630)	-	-	-	(151,630)
Local grants expenses	(1,082)	-	(2,995)	-	(4,077)
Total nonoperating revenues (expenses)	(1,082)	-	(2,995)	-	(4,077)
Income (loss) before transfers	(2,430)	12,939	24,016	(76)	34,449
Transfers (to) other funds	-	(16,758)	-		(16,758)
Transfers from other funds	250	-	16,077	431	16,758
Change in net assets	(2,180)	(3,819)	40,093	355	34,449
Total net assets, July 1	13,120	147,494	235,453	2,008	398,075
Total net assets, June 30	$ 10,940	$ 143,675	$ 275,546	$ 2,363	$ 432,524

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	$ 221	$ 56,028	$ 273,603	$ -	$ 329,852
Receipts from federal government	6,079	-	-	-	6,079
Receipts from other funds		14,441			14,441
Other miscellaneous receipts	2,315	859	-	-	3,174
Acquisition of mortgage loans	-	-	(215,315)	-	(215,315)
Payments to service mortgages	-	(736)	(4,338)	-	(5,074)
Payments to suppliers	(4,095)	(116)	(400)	(14)	(4,625)
Payments to federal government	-	(1,606)	(1,792)	(25)	(3,423)
Payments to other funds	(36)		(14,404)	(1)	(14,441)
Payments to employees	(10,005)	-	-	-	(10,005)
Net cash provided (used) by operating activities	(5,521)	68,870	37,354	(40)	100,663
Cash flows from non-capital financing activities:					
Operating grants received	158,188	-	-	-	158,188
Transfers in (out)	250	(16,715)	16,286	179	-
Negative cash balance implicitly financed	64	343	337	25	769
Proceeds from sale of bonds	-	-	203,534	-	203,534
Proceeds from issuance of notes	-	-	-	115,490	115,490
Operating grants paid	(152,894)	-	(2,995)	-	(155,889)
Call premium paid	-	-	(175)	-	(175)
Cost of issuance paid	-	-	(1,533)	(165)	(1,698)
Principal payments	-	(35,370)	(227,056)	(76,830)	(339,256)
Interest paid	-	(10,331)	(63,439)	(5,732)	(79,502)
Net cash provided (used) by non-capital financing activities	5,608	(62,073)	(75,041)	32,967	(98,539)
Cash flows from capital and related financing activities:					
Purchases of capital assets	(5)	-	-	-	(5)
Net cash used by capital and related financing activities	(5)	-	-	-	(5)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	21,785	51,906	-	73,691
Purchases of investments	-	(21,432)	(13,475)	-	(34,907)
Investment interest received	135	4,907	16,139	6,205	27,386
Net cash provided by investing activities	135	5,260	54,570	6,205	66,170
Net increase in cash and cash equivalents	217	12,057	16,883	39,132	68,289
Cash and cash equivalents, July 1	2,621	13,404	86,877	273,395	376,297
Cash and cash equivalents, June 30	$ 2,838	$ 25,461	$ 103,760	$ 312,527	$ 444,586

(continued)

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	$ (1,348)	$ 12,939	$ 27,011	$ (76)	$ 38,526
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	5	88	450	165	708
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	-	786	(1,069)	-	(283)
Decrease in mortgage interest receivable	-	441	853	-	1,294
(Incease) decrease in first mortgage loans receivable	-	40,466	(15,261)	-	25,205
(Increase) in due from federal government	(3,782)	-	-	-	(3,782)
(Increase) decrease in deferred charges	(6)	65	548	-	607
(Increase) in interfund receivables	(36)	-	(14,404)	(1)	(14,441)
Increase in interfund payables	-	14,441	-	-	14,441
(Decrease) in accounts payable	(287)	(97)	(72)	-	(456)
Increase in accrued payroll / compensated absences	68	-	-	-	68
(Decrease) in deferred revenue	-	(88)	-	-	(88)
(Decrease) in arbitrage rebate liability	-	(1,606)	(1,792)	(25)	(3,423)
Investment (income) included as operating revenue	(135)	(8,437)	(24,230)	(6,205)	(39,007)
Interest expense included as operating expense	-	9,872	65,320	6,102	81,294
Total adjustments	(4,173)	55,931	10,343	36	62,137
Net cash provided (used) by operating activities	$ (5,521)	$ 68,870	$ 37,354	$ (40)	$ 100,663
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	$ -	$ -	$ 1,957	$ -	$ 1,957
Increase in fair value of investments	-	2,911	7,489	-	10,400
Total noncash investing, capital, and financing activities	$ -	$ 2,911	$ 9,446	$ -	$ 12,357

Exhibit D

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - OPERATING GROUP
JUNE 30, 2005
(Expressed in Thousands)

	Housing Program Fund	Direct Servicing	Operating Group Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,263	$ 575	$ 2,838
Receivables:			
First mortgage loans	75	-	75
Due from federal government	7,289	-	7,289
Total current assets	9,627	575	10,202
Noncurrent assets:			
First mortgage loans receivable	371	-	371
Deferred charges	27	-	27
Advance to local government	2,707	-	2,707
Capital assets:			
Furniture and equipment	93	-	93
Less accumulated depreciation	(77)	-	(77)
Total noncurrent assets	3,121	-	3,121
Total assets	12,748	575	13,323
LIABILITIES			
Current liabilities:			
Checks payable	-	66	66
Accounts payable	652	1	653
Accrued payroll and related liabilities	279	-	279
Compensated absences	313	-	313
Due to primary government	42	-	42
Escrow deposits	-	466	466
Due to other funds	-	-	-
Total current liabilities	1,286	533	1,819
Noncurrent liabilities:			
Compensated absences	326	-	326
Escrow deposits	238	-	238
Total noncurrent liabilities	564	-	564
Total liabilities	1,850	533	2,383
NET ASSETS			
Invested in capital assets	16	-	16
Restricted for grant programs	460	-	460
Restricted for Homebuyers Revolving Loan Program	3,154	-	3,154
Unrestricted	7,268	42	7,310
Total net assets	$ 10,898	$ 42	$ 10,940

Exhibit E

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2005
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 20,011	$ 3,304	$ 23,315	$ 1,699	$ 25,014
Receivables:					
Accounts	1,631	-	1,631	-	1,631
Interest	2,157	497	2,654	120	2,774
First mortgage loans	8,255	473	8,728	-	8,728
Total current assets	32,054	4,274	36,328	1,819	38,147
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	447	-	447	-	447
Investments	41,189	-	41,189	-	41,189
Investment interest receivable	551	-	551	-	551
Investments	36,949	24,401	61,350	11,719	73,069
First mortgage loans receivable	193,321	5,007	198,328	-	198,328
Deferred charges	1,169	-	1,169	-	1,169
Total noncurrent assets	273,626	29,408	303,034	11,719	314,753
Total assets	305,680	33,682	339,362	13,538	352,900
LIABILITIES					
Current liabilities:					
Checks payable / Wires Payable	305	14	319	184	503
Accounts payable	9	28	37	-	37
Interest payable	4,411	-	4,411	-	4,411
Escrow deposits	-	-	-	1,019	1,019
Prepayments on mortgage loans	133	6	139	-	139
Bonds payable	14,220	-	14,220	-	14,220
Total current liabilities	19,078	48	19,126	1,203	20,329
Noncurrent liabilities:					
Bonds payable	175,001	-	175,001	-	175,001
Escrow deposits	-	1,408	1,408	12,228	13,636
Deferred revenue	-	219	219	40	259
Total noncurrent liabilities	175,001	1,627	176,628	12,268	188,896
Total liabilities	194,079	1,675	195,754	13,471	209,225
NET ASSETS					
Restricted for single family bond programs	111,601	32,007	143,608	67	143,675
Total net assets	$ 111,601	$ 32,007	$ 143,608	$ 67	$ 143,675

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