AUDIT REPORT

Tennessee Housing Development Agency

For the Year Ended
June 30, 2007

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
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John G. Morgan
Comptroller

December 13, 2007

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 1114
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Housing Development Agency for the year ended June 30, 2007. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/to
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State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit
Tennessee Housing Development Agency
For the Year Ended June 30, 2007

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 2007

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Tennessee Housing Development Agency
For the Year Ended June 30, 2007

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

The agency's affairs are directed by a 19-member board of directors and are administered by an Executive Director. Directors of the agency serving ex officio are the State Treasurer, the Comptroller of the Treasury, the Commissioner of Finance and Administration, the Secretary of State, and a staff assistant to the Governor. Of the remaining 14 members, 12 are appointed by the Governor. The Speaker of the House of Representatives and the Speaker of the Senate each appoint one member. Of the 12 members appointed by the Governor, 9 are required to be representatives of local government, nonprofit corporations, or the housing, home-building, real estate, and mortgage-lending professions. The Governor appoints one additional member from the 1st, 2nd, or 3rd congressional districts, one from the 4th, 5th, or 6th congressional districts, and one from the 7th, 8th, or 9th congressional districts; these three are representatives of the public at large.

ORGANIZATION

The Tennessee Housing Development Agency has 15 divisions; all except for the Executive Division are managed by a division director. The Executive Division encompasses two Deputy Executive Directors, an Assistant Executive Director, the Chief Financial Officer, and the Legal Affairs function. Internal Audit, Single Family Programs, Business Development, Human Resources, Public Affairs, and all of the Executive Division, except the Legal Affairs area, report directly to the Executive Director. Legal Affairs is overseen by the Deputy Executive Director and General Counsel. A second Deputy Executive Director oversees Community Programs, Section 8 Contract Administration, Section 8 Rental Assistance, Multifamily Development, and Program Compliance. The Assistant Executive Director for Policy Development and Research oversees the Research, Planning, and Technical Services Division. The Chief Financial Officer has responsibility for Finance, Fiscal Administration, and Information Technology.

Business Development – This division develops relationships with partners such as lenders, realtors, non-profits, and employers in order to promote the use of THDA's programs to meet the housing needs of Tennesseans. Division staff conduct training classes, speak at informational sessions, and participate in housing and mortgage lending trade events throughout the state.

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

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

Research, Planning, and Technical Services – This division provides technical assistance to agencies, firms, and individuals; works with other agencies to coordinate community development activities; and conducts and oversees research on housing issues.

Internal Audit – This division performs internal audits of all Tennessee Housing Development Agency programs, grants, and servicing institutions.

Community Programs – This division is responsible for the federal HOME Investment Partnerships Program and the state HOUSE program, which provide funds for locally designed housing efforts.

Multifamily Development – This division administers the Low Income Housing Tax Credit Program for developers of rental properties and allocates multifamily bond authority to local issuers for a specific development.

Program Compliance – This division conducts on-site compliance reviews of properties receiving allocations of Low-Income Housing Credits and HOME and HOUSE grants; performs Management and Occupancy Reviews of properties that receive rental assistance subsidies from HUD; and has oversight responsibilities of multifamily mortgages made by HUD and their properties.

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

Section 8 Contract Administration – This division serves as the contract administrator for "project-based" Section 8 housing assistance payments under contract with the U.S. Department of Housing and Urban Development. Project-based contracts provide rental subsidies to specific rental properties.

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

Information Technology – This division is responsible for developing, implementing, and maintaining Tennessee Housing Development Agency's computer systems.

Single Family Programs − This division provides the link between funds available for single-family home loans and the individual prospective homeowners through a statewide network of participating lenders, and the underwriting of loans for qualified applicants. This division also oversees the collection of loans for THDA. It provides full in-house servicing of multifamily loans and oversees the single-family loan servicing through servicing agents.

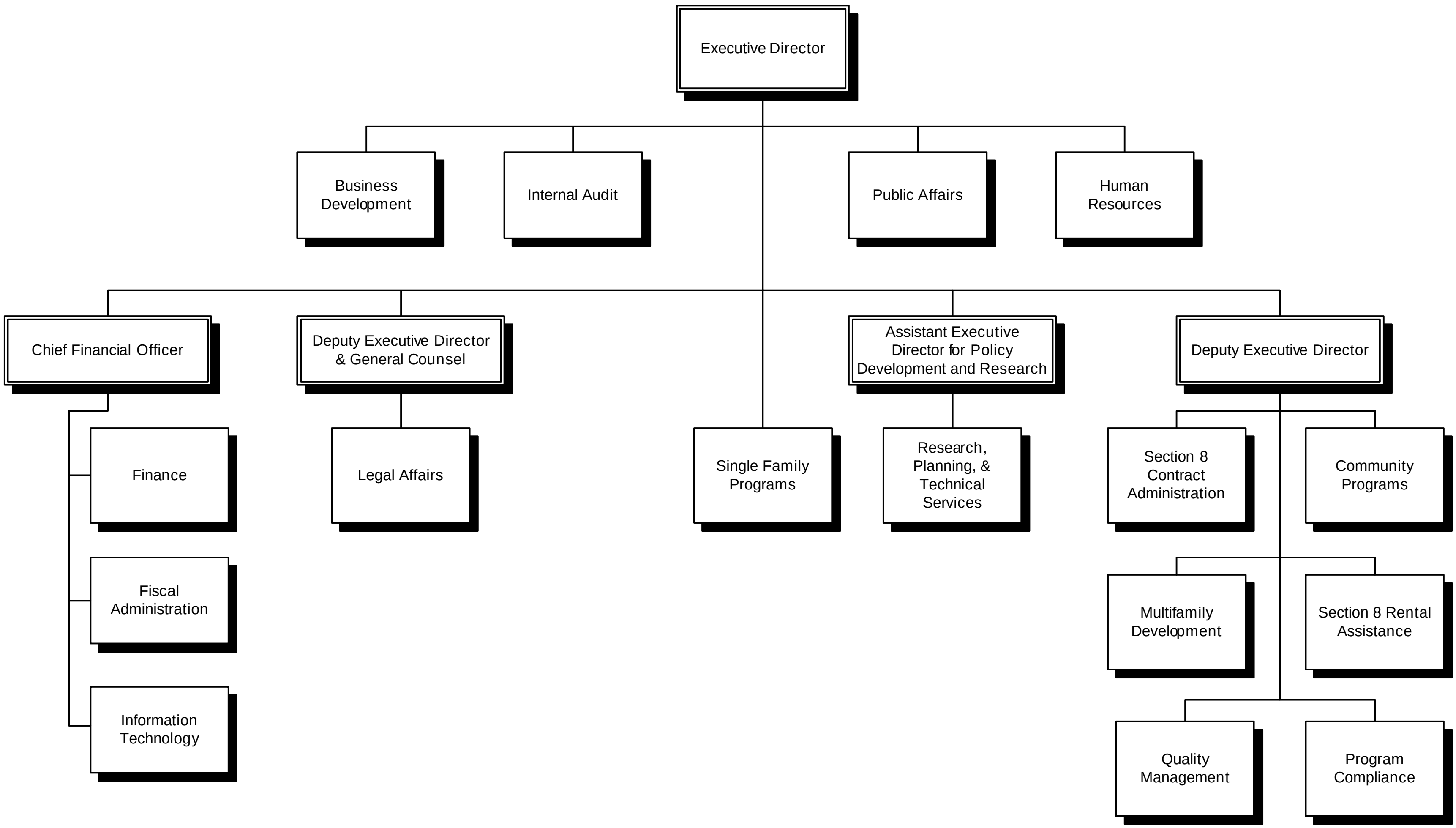
Fiscal Administration – This division is responsible for bond, state, and federal accounting; financial reporting; and general administrative areas such as purchasing and fiscal budget planning.

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

AUDIT SCOPE

The audit was limited to the period July 1, 2006, through June 30, 2007, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2007, and for comparative purposes, the year ended June

Tennessee Housing Development Agency
Organization Chart



30, 2006. The Tennessee Housing Development Agency is included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund 13 of the State of Tennessee Accounting and Reporting System (allotment code 316.20).

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* it is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

AUDIT COMMITTEE

On May 19, 2005, the Tennessee General Assembly enacted legislation known as the "State of Tennessee Audit Committee Act of 2005." This legislation requires the creation of audit committees for those entities that have governing boards, councils, commissions, or equivalent bodies that can hire and terminate employees and/or are responsible for the preparation of financial statements. Entities, pursuant to the act, are required to appoint the audit committee and develop an audit committee charter in accordance with the legislation. The ongoing responsibilities of an audit committee include, but are not limited to:

1. overseeing the financial reporting and related disclosures, especially when financial statements are issued;
2. evaluating management's assessment of risk and the agency's system of internal controls;
3. formally reiterating, on a regular basis, to the board, agency management, and staff their responsibility for preventing, detecting, and reporting fraud, waste, and abuse;
4. serving as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information it may receive pertinent to audit investigative matters;
5. informing the Comptroller of the Treasury of the results of assessment and controls to reduce the risk of fraud; and
6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

In compliance with its enabling legislation, the agency established an audit committee in 1992. To comply with the Audit Committee Act of 2005, the audit committee developed a charter; the charter was approved by the Comptroller of the Treasury on June 8, 2006. Additionally, the audit committee has reviewed the agency's conflict-of-interest policies, code of conduct, and risk assessments.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by October 1 each year. The agency filed its compliance report and implementation plan on September 27, 2007.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Tennessee Title VI Compliance Commission is responsible for monitoring and enforcement of Title VI.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Housing Development Agency's financial statements for the year ended June 30, 2007, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

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

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

October 9, 2007

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

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the

United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the agency's management in a separate letter.

Compliance and Other Matters

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

We did, however, note certain less significant instances of noncompliance, which we have reported to the agency's management in a separate letter.

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

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/to

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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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 on pages 13 through 26 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 on pages 47 through 51 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/to

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.

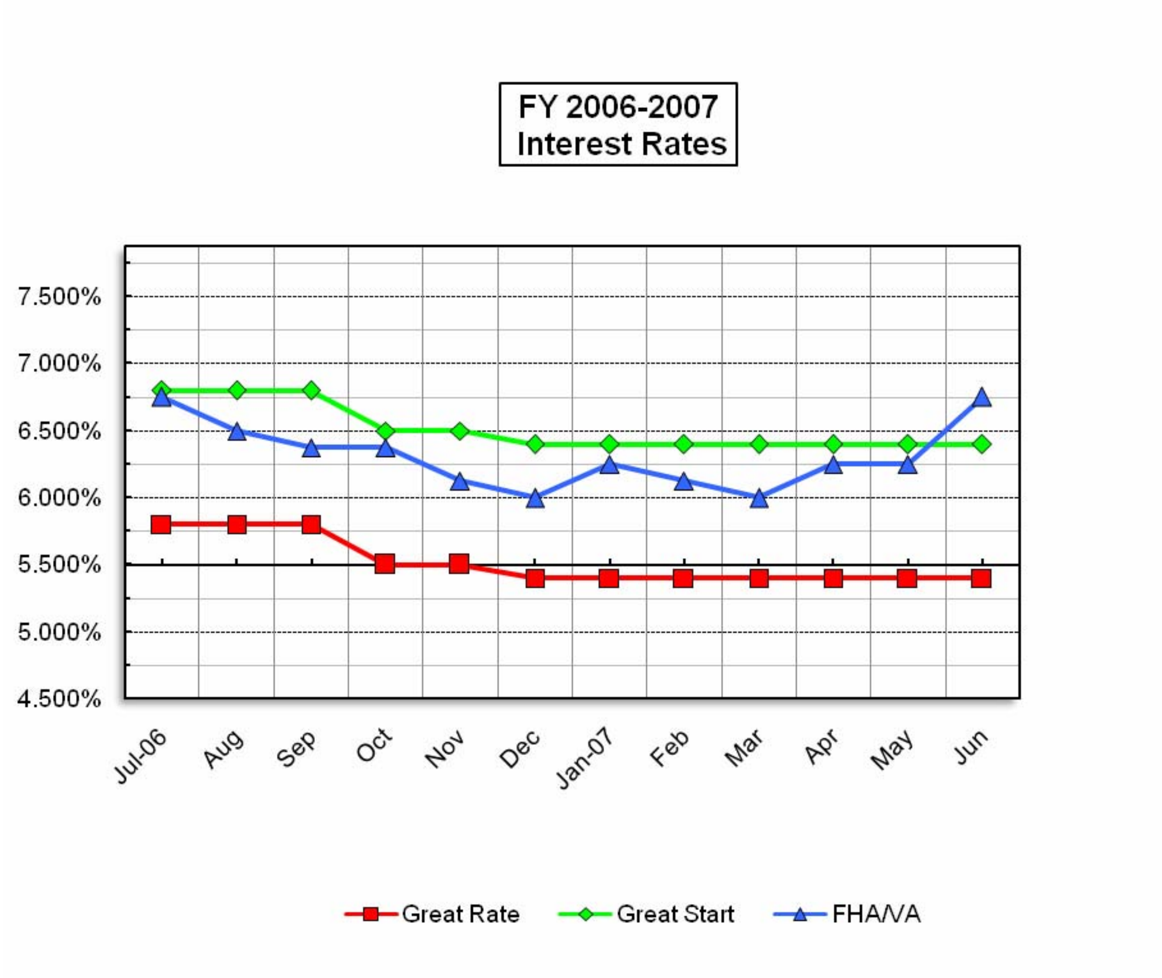
THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae through the Fannie Mae "My Community Mortgage" program or by Freddie Mac through the Freddie Mac "Home Possible" program. These loans must be approved through an automated 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

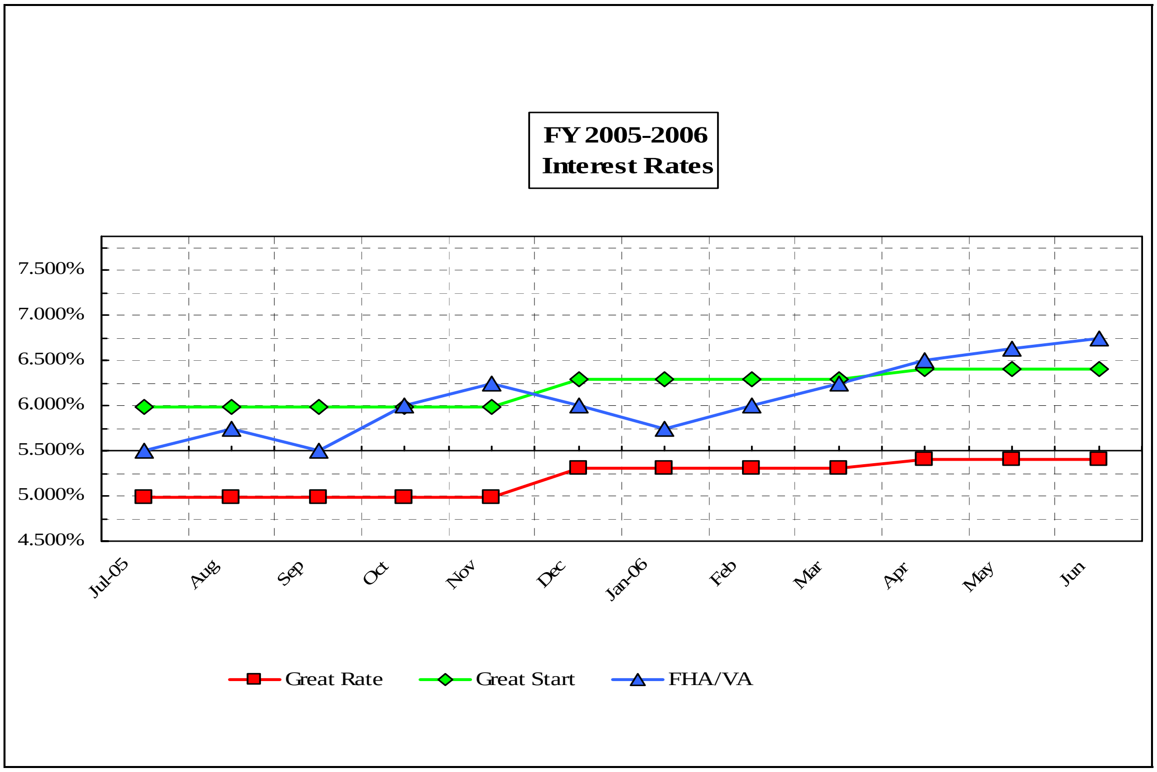
Fiscal year 2007 saw a continued rebound in mortgage loan rates. The Great Rate mortgage product offers a below market interest rate loan secured by a first mortgage. The Great Start program offers a loan at 100 basis points higher interest rate, but provides 4% of the loan amount as down payment and 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.

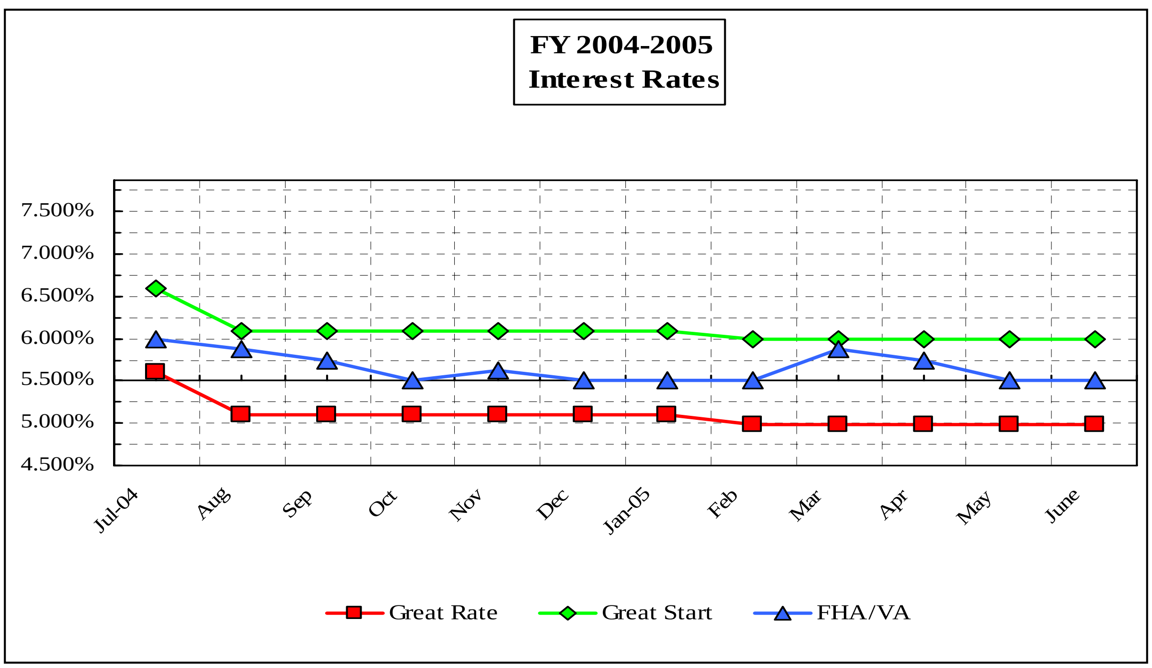
The following charts depict the Agency's mortgage loan rates as compared to the average FHA/VA loan rates during fiscal year 2007:



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.

Exhibit A

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.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2007
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership 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

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

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.