Tennessee Housing Development Agency

For the Year Ended
June 30, 2003

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For more information about the Comptroller of the Treasury, please visit our Web site at www.comptroller.state.tn.us.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

October 30, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Ms. Janice L. Myrick, 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, 2003. 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

John G. Morgan
Comptroller of the Treasury

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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, 2003

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 grants; 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 Highlights" is a summary of the audit report. To obtain the complete audit report, please contact

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Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 2003

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Tennessee Housing Development Agency
For the Year Ended June 30, 2003

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 the housing, home-building, real estate, and mortgage-lending professions. The Governor appoints one additional member from each of the three grand divisions of the state; these three are representatives of the public at large.

ORGANIZATION

The agency comprises 12 divisions, each of which is managed by a division director. The Executive; Research, Planning, and Technical Services; and Internal Audit divisions report directly to the executive director. Community Programs, Multi-family and Special Programs, Section 8 Rental Assistance, and Section 8 Contract Administration divisions report to the deputy executive director. The Finance, Management Information Systems, Mortgage Administration, Homeownership Mortgage, and Fiscal Administration divisions report to the chief financial officer.

<u>Executive Division</u> – This division is responsible for program development, legal affairs, and human resources.

<u>Research, Planning, and Technical Services Division</u> – 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.

<u>Internal Audit Division</u> – This division performs internal audits of all agency programs, grants, and servicing institutions, and is responsible for long-term compliance of the Housing Opportunities Using State Encouragement (HOUSE), HOME, and Tax Credit programs.

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

<u>Multi-family and Special Programs Division</u> – This division administers the Low Income Housing Tax Credit Program for developers of rental properties and allocates multi-family bond authority to local issuers for a specific development.

<u>Section 8 Rental Assistance Division</u> – 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.

<u>Section 8 Contract Administration Division</u> – 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.

<u>Finance Division</u> – This division is responsible for cash management of the agency. This division’s major functions are debt management and investment of funds.

<u>Management Information Systems Division</u> – This division is responsible for developing, implementing, and maintaining the agency’s computer systems.

Mortgage Administration Division – This division oversees the collection of loans for the agency. The division provides full in-house servicing of multi-family loans. Single-family loans are serviced by approved servicing agents under the direction of the mortgage administration division.

Homeownership Mortgage Division – This division provides the link between funds available for single-family home loans and the individual prospective homeowners through the development of a statewide network of participating lenders and the underwriting of loans for qualified applicants.

Fiscal Administration Division – 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, 2002, through June 30, 2003, 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, 2003, and for comparative purposes, the year ended June 30, 2002. The Tennessee Housing Development Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

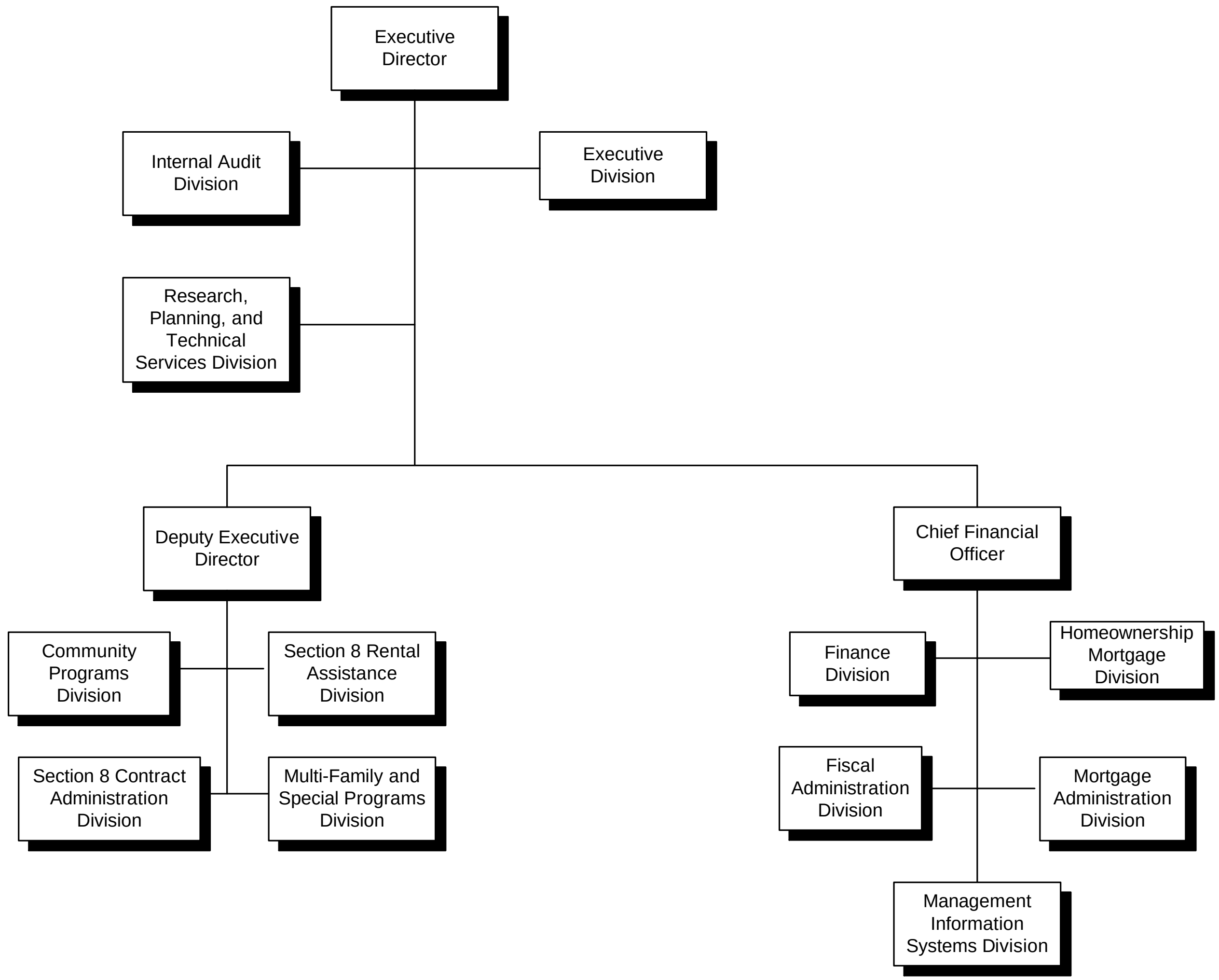
The audit covered fund 13 of the State of Tennessee Accounting and Reporting System (allotment code 316.20).

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;

Tennessee Housing Development Agency
Organization Chart



2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

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

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Tennessee Housing Development Agency filed its report with the Department of Audit on September 3, 2003. A follow-up of all prior audit findings was conducted as part of the current audit

The current audit disclosed that the agency has corrected previous audit findings concerning the Section 8 Contract Administration Division not following its policies and procedures, deposits and repurchase agreements not being adequately collateralized, checking account reconciliations not being properly performed or reviewed, and the escrow subsidiary ledger not agreeing to the general ledger.

OBSERVATIONS AND COMMENTS

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 each June 30. The agency filed its compliance report and implementation plan on June 27, 2003.

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 national 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 Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

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, 2003, we considered internal control over financial reporting to determine 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

The results of our audit tests disclosed no instances of noncompliance 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 agency's financial statements.

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

October 3, 2003

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, 2003, and have issued our report thereon dated October 3, 2003. 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.

Compliance

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 grants, 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 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management 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., CPA,
Director

AAH/th

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

October 3, 2003

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, 2003, and June 30, 2002, 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.

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, 2003, and June 30, 2002, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying supplementary information on pages 37 through 42 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 3, 2003, on our consideration of the agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/tlh

Our discussion and analysis of the Tennessee Housing Development Agency's financial performance provides an overview of the agency's financial activities for the years ended June 30, 2003 and June 30, 2002. Please read it in conjunction with the agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2003

- Cash and cash equivalents increased $101.5 million
- Investments decreased by $64.0 million
- Bonds and notes payable decreased $67.7 million
- The agency's total net assets increased $35.7 million
- The agency originated $158.9 million in mortgage loans

Year Ended June 30, 2002

- Cash and cash equivalents decreased $93.3 million
- Mortgage loans receivable increased $36.5 million
- Investments increased $33.0 million
- Bonds and notes payable decreased $47.0 million
- Total liabilities decreased $13.3 million
- The agency's total net assets decreased $4.2 million

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

FINANCIAL ANALYSIS OF THE AGENCY

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

	2003	2002	2001
Current assets	$ 486,913	$ 356,230	$ 483,400
Capital assets	-	5	11
Other noncurrent assets	1,813,491	2,014,871	1,905,188
Total assets	2,300,404	2,371,106	2,388,599
Long-term liabilities	1,586,424	1,733,060	1,710,108
Other liabilities	308,264	268,047	304,289
Total liabilities	1,894,688	2,001,107	2,014,397
Invested in capital assets	-	5	11
Restricted net assets	396,203	359,618	367,091
Unrestricted net assets	9,513	10,376	7,100
Total net assets	$ 405,716	$ 369,999	$ 374,202

2003 to 2002

- The agency's total net assets increased $35.7 million from $370.0 million at June 30, 2002 to $405.7 million at June 30, 2003. This increase resulted from the normal operations of the agency.

- Mortgage loans receivable decreased $111.1 million from $1,537.4 million at June 30, 2002 to $1,426.3 million at June 30, 2003. The decrease resulted from loan prepayments exceeding loan originations.

- Total liabilities decreased $106.4 million from $2,001.1 million at June 30, 2002 to $1,894.7 million at June 30, 2003. The decrease is primarily due to the retirement of debt.

2002 to 2001

The agency's total net assets decreased $4.2 million in part as a result of the following:

- Operating income for the year ended June 30, 2002 was $41.2 million.
- Payment to primary government – A payment was authorized from the agency's Asset Fund reported in the Operating Group component in the amount of $35.4 million under Chapter 825, Public Acts of 2002 and section 9. (2) of Chapter 827, Public Acts of 2002 for the sole purpose of meeting the requirements of funding the operations of the primary government for the fiscal year ended June 30, 2002.
- Grant expenses exceeded grant revenues by $10.0 million because of grant programs that were funded by the agency.

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

	2003	2002	2001
Operating revenues			
Mortgage interest income	$ 104,714	$ 107,134	$ 108,862
Investment income	48,538	45,131	54,437
Other	11,055	9,908	7,740
Total operating revenues	164,307	162,173	171,039
Operating expenses			
Interest expense	102,164	102,413	107,466
Other	19,772	18,569	16,553
Total operating expenses	121,936	120,982	124,019
Operating income	42,371	41,191	47,020
Nonoperating revenues (expenses)			
Grant revenues	138,123	127,611	62,309
Grant expenses	(144,777)	(137,638)	(70,938)
Payment to primary government	-	(35,367)	-
Total nonoperating revenues (expenses)	(6,654)	(45,394)	(8,629)
Changes in net assets	$ 35,717	$(4,203)	$ 38,391

2003 to 2002

- The change in net assets increased by $39.9 million from $(4.2) million at June 30, 2002 to $35.7 million at June 30, 2003. With no payment to the primary government in 2003, as was made in 2002, a significant change in the agency's net assets occurred.

- Mortgage interest income decreased $2.4 million from $107.1 million for the year ended June 30, 2002 to $104.7 million for the year ended June 30, 2003. The decrease resulted from the prepayments of higher yielding loans and a decrease in loans outstanding.

- Investment income increased $3.4 million from $45.1 million for the year ended June 30, 2002 to $48.5 million for the year ended June 30, 2003. The increase resulted from an increase in the fair value of investments.

- Federal grant revenue and expenses increased by $10.5 million, from $127.6 million for the year ended June 30, 2002 to $138.1 million for the year ended June 30, 2003. The agency was awarded additional contracts to administer under the Section 8 Project Based Program for the United States Department of Housing and Urban Development. Also, revenue and expenses increased in the HOME Program.

2002 to 2001

- The change in net assets decreased by $42.6 million, from $38.4 million at June 30, 2001 to $(4.2 million) at June 30, 2002. The decrease primarily resulted from a payment of $35.4 million to the primary government from the agency's Asset Fund reported in the Operating Group component.

- Total operating revenues decreased by $8.9 million, from $171.0 million at June 30, 2001 to $162.1 million at June 30, 2002. The increase in the fair value of investments was $9.5 million less than in the previous fiscal year which impacted the total operating revenues.

- Federal grant revenue and expenses increased by $65.3 million, from $62.3 million at June 30, 2001 to $127.6 million at June 30, 2002. The agency was awarded the contract to administer the Section 8 Project Based Program for the United States Department of Housing and Urban Development making only four months of housing assistance payments in fiscal year 2001. In fiscal year 2002, the agency recognized a full year of revenue and paid a full year of housing assistance payments.

DEBT ACTIVITY

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

	2003	2002	2001
Bonds payable	$1,769,506	$1,820,394	$1,850,495
Notes payable	51,070	67,909	84,865
Total bonds and notes payable	$1,820,576	$1,888,303	$1,935,360

Year Ended June 30, 2003

Total bonds and notes payable decreased $67.7 million due primarily to retirement of debt. During the fiscal year, the agency issued debt totaling $211.7 million, with activity arising from two bond issues totaling $135.0 million and two draws under the single family mortgage note program totaling $76.7 million.

Year Ended June 30, 2002

Total bonds and notes payable decreased $47.1 million due primarily to retirement of debt. During the fiscal year, the agency issued debt totaling $319.5 million, with activity arising from three bond issues totaling $209.5 million and two draws under the single family mortgage note program totaling $110.0 million.

More detailed information about the agency's bonds and notes payable activity is presented in Note 4 to the financial statements.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide the agency's stakeholders with a general overview of the agency's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Ted Fellman, CPA, Chief Financial Officer at (615) 741-1104 or via e-mail at Ted.fellman@state.tn.us.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2003 AND JUNE 30, 2002
(Expressed in Thousands)

	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 359,049	$ 258,413
Investments (Note 2)	56,671	29,009
Receivables:		
Accounts	14,594	10,902
Interest	15,071	15,605
First mortgage loans	32,388	33,368
Due from federal government	9,140	8,933
Total current assets	486,913	356,230
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	7,334	6,468
Investments (Note 2)	211,800	189,990
Investment interest receivable	2,627	2,470
Investments (Note 2)	184,108	297,531
First mortgage loans receivable	1,393,938	1,503,992
Deferred charges	11,107	11,923
Advance to local government	2,566	2,484
Other receivables	11	13
Capital assets:		
Furniture and equipment	71	71
Less accumulated depreciation	(71)	(66)
Total noncurrent assets	1,813,491	2,014,876
Total assets	2,300,404	2,371,106
LIABILITIES		
Current liabilities:		
Checks payable (Note 3)	565	2,276
Accounts payable	1,317	1,847
Accrued payroll and related liabilities	270	246
Investments purchased	4,104	1,998
Compensated absences	307	256
Due to primary government	-	35,420
Interest payable	47,005	48,767
Escrow deposits	753	579
Prepayments on mortgage loans	1,653	1,589
Notes payable (net of deferred amount on refundings) (Note 4)	-	67,909
Advance on bond sale	600	850
Bonds payable (Note 4)	251,690	106,310
Total current liabilities	308,264	268,047
Noncurrent liabilities:		
Notes payable (Note 4)	51,070	-
Bonds payable (net of deferred amount on refundings) (Note 4)	1,517,816	1,714,084
Compensated absences	320	267
Escrow deposits	14,549	14,054
Arbitrage rebate payable	2,277	3,935
Deferred revenue	392	720
Total noncurrent liabilities	1,586,424	1,733,060
Total liabilities	1,894,688	2,001,107
NET ASSETS		
Invested in capital assets	-	5
Restricted for single family bond programs (Note 5)	390,631	348,167
Restricted for grant programs (Note 5)	2,418	8,297
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154
Unrestricted (Note 7)	9,513	10,376
Total net assets	$ 405,716	$ 369,999

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, 2003 AND JUNE 30, 2002
(Expressed in Thousands)

	2003	2002
OPERATING REVENUES		
Mortgage interest income	$ 104,714	$ 107,134
Investment income:		
Interest	30,374	30,117
Net increase in the fair value of investments	18,164	15,014
Federal grant administration fees	8,869	8,457
Fees and other income	2,186	1,451
Total operating revenues	164,307	162,173
OPERATING EXPENSES		
Salaries and benefits	8,194	7,368
Contractual services	1,415	1,402
Materials and supplies	346	319
Rentals and insurance	822	771
Other administrative expenses	377	262
Other program expenses	2,399	2,193
Interest expense	102,164	102,413
Mortgage service fees	5,447	5,424
Issuance costs	767	825
Depreciation	5	5
Total operating expenses	121,936	120,982
Operating income	42,371	41,191
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	138,123	127,611
Federal grants expenses	(138,123)	(127,611)
Local grants expenses	(6,654)	(10,027)
Payment to primary government	-	(35,367)
Total nonoperating revenues (expenses)	(6,654)	(45,394)
Change in net assets	35,717	(4,203)
Total net assets, July 1	369,999	374,202
Total net assets, June 30	$ 405,716	$ 369,999

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, 2003 AND JUNE 30, 2002
(Expressed in Thousands)

	2003	2002
Cash flows from operating activities:		
Receipts from customers	$ 371,204	$ 293,741
Receipts from federal government	8,590	8,457
Other miscellaneous receipts	2,188	1,454
Acquisition of mortgage loans	(158,910)	(224,842)
Payments to service mortgages	(5,447)	(5,424)
Payments to suppliers	(4,883)	(3,429)
Payments to federal government	(1,196)	(3,941)
Payments to local government	-	(2,441)
Payments to employees	(8,341)	(7,481)
Net cash provided by operating activities	203,205	56,094
Cash flows from non-capital financing activities:		
Operating grants received	138,195	124,656
Payment to primary government	(35,368)	-
Negative cash balance implicitly financed (repaid)	(1,711)	26
Proceeds from sale of bonds	134,150	209,580
Proceeds from issuance of notes	76,730	67,985
Operating grants paid	(145,746)	(138,431)
Call premium paid	-	(1,929)
Advance on bond sale	600	850
Cost of issuance paid	(1,191)	(1,939)
Principal payments	(284,366)	(326,260)
Interest paid	(98,050)	(98,057)
Net cash used by non-capital financing activities	(216,757)	(163,519)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	754,576	472,674
Purchases of investments	(670,993)	(490,207)
Investment interest received	31,471	31,647
Net cash provided by investing activities	115,054	14,114
Net increase (decrease) in cash and cash equivalents	101,502	(93,311)
Cash and cash equivalents, July 1	264,881	358,192
Cash and cash equivalents, June 30	$ 366,383	$ 264,881

(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, 2003 AND JUNE 30, 2002
(Expressed in Thousands)

	2003	2002
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 42,371	$ 41,191
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	772	830
Changes in assets and liabilities:		
(Increase) in accounts receivable	(3,692)	(3,472)
(Increase) in mortgage interest receivable	(84)	(299)
(Increase) decrease in first mortgage loans receivable	110,955	(36,486)
(Increase) in due from federal government	(279)	-
Decrease in deferred charges	317	152
(Increase) decrease in other receivables	(1)	3
Increase (decrease) in accounts payable	1,132	(337)
Increase in accrued payroll/compensated absences	128	15
Increase (decrease) in due to primary government	(53)	4
(Decrease) in deferred revenue	(329)	(137)
(Decrease) in arbitrage rebate liability	(1,658)	(2,652)
Investment income included as operating revenue	(48,538)	(45,131)
Interest expense included as operating expense	102,164	102,413
Total adjustments	160,834	14,903
Net cash provided by operating activities	$ 203,205	$ 56,094
Noncash investing, capital, and financing activities:		
Accretion of deep discount bonds	$ 4,095	$ 4,111
Increase in fair value of investments	18,755	22,653
Total noncash investing, capital, and financing activities	$ 22,850	$ 26,764

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.

Agency operations are directed by a 19-member board of directors. The board consists of five members who serve *ex officio* (the State Treasurer, the Comptroller of the Treasury, the Commissioner of the Department of Finance and Administration, the Secretary of State, and a staff assistant to the Governor), and 14 appointed members -- 12 appointed by the Governor and one each by the Speaker of the House and the Speaker of the Senate. The board includes representatives of the housing, real estate, home-building, and mortgage-lending industries; representatives of local government and nonprofit organizations; and citizens from the public at-large.

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 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 follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. 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. New Accounting Standards Adopted

During the year ended June 30, 2002, the agency implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," as amended by Statement No. 37 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus" and implemented Statement No. 38, "Certain Financial Statement Note Disclosures." Statement No. 34, as amended and modified, commonly referred to as the new reporting model retained much of the old reporting and disclosure requirements under the prior reporting model, with certain modifications and newly added information. The most significant effects on the agency's financial statements were the addition of Management's Discussion and Analysis as required supplementary information and the reclassification of the prior equity section, including contributed capital and retained earnings, into three categories of net assets.

e. Capital Assets

The agency records furniture and office equipment at cost and follows the straight-line method of depreciating the assets over their estimated useful lives, which are determined considering physical factors as well as obsolescence factors. Capital assets are defined by the agency as assets with an initial, individual cost of $5,000 or more.

f. 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.

g. 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. The agency began using the interest method on July 1, 2002. Prior to that the agency used the bonds outstanding method. The change has no material effect on the results of operations. 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. 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.

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

h. 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.

i. 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.

j. Accrual of Interest Income

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

k. Mortgages

Mortgages are carried at their original amount less principal collected.

l. 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.

m. Changes in Classifications

In conjunction with the implementation of GASB Statement No. 34, the agency determined that certain assets should be shown as restricted assets and certain liabilities should be shown as noncurrent liabilities.

n. Direct Servicing

On May 1, 2003, the agency began a pilot program called Direct Servicing for servicing mortgages originated by the agency.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

At June 30, 2003, the carrying amount of the agency's deposits was $12,671,321 and the bank balances were $13,234,158. Of the bank balances, $1,272,376 was insured and $11,961,782 was collateralized with securities held by the pledging financial institution's agent but not in the agency's name. On several days during the year, the amounts collateralized with securities held by the pledging financial institution's agent but not in the agency's name significantly exceeded the amount at year-end. The agency and Wachovia Bank, the agency's trustee, established a procedure in which all uninvested cash balances were swept into a money market account at the close of each business day. After the end of the fiscal year ended June 30, 2003, it was discovered that not all of the agency's deposits were being swept into the money market account at the close of each business day. The agency and Wachovia are in the process of resolving this issue.

The laws of the State of Tennessee require that collateral be pledged at 105% of the value of uninsured deposits; however, collateral was pledged at 100%. The agency and Wachovia are in the process of resolving this issue. The agency's bond resolutions require deposits to be fully secured.

At June 30, 2002, the carrying amount of the agency's deposits was $45,129,125 and the bank balances were $45,516,142. Of the bank balances, $36,865,513 was covered by insurance or by collateral held by the agency's agent in the agency's name, and $8,650,629 was uninsured and uncollateralized. On the next day, July 1, 2002, the agency paid debt service on outstanding bonds, which reduced the bank balances well below the level of collateral. On October 2, 2002 the agency's trustee was changed to Wachovia Bank. The cash balances are swept daily into a U.S. Treasury Money Market Fund. This fund is a permitted investment under both bond resolutions. Cash balances remaining after the sweep are collateralized with securities held by the pledging financial institution's agent but not in the agency's name.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $5,139,728 on June 30, 2003. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $10,678,318 on June 30, 2002. The pool's custodial credit risk is 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

The agency's investments are categorized to indicate the level of custodial risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the agency's name. The agency's bond resolutions require repurchase agreements to be fully collateralized. On October 2, 2002 the agency's trustee was changed to Wachovia Bank. The new trustee has established an account in the agency's name for the purpose of holding collateral on repurchase agreements. This method will provide for easier monitoring of collateral than has been the case in the past. Investments are categorized as follows:

June 30, 2003

	Category			
	1	**2**	**3**	**Fair Value**
Cash equivalents				
Repurchase agreements	**$ 251,000,000**			**$ 251,000,000**
U S government securities	**51,095,028**			**51,095,028**
Total cash equivalents	**$ 302,095,028**			**$ 302,095,028**
Investments				
Repurchase agreements	**$ 38,000,000**			**$ 38,000,000**
U S government securities	**410,080,608**			**410,080,608**
State & local government securities	**457,808**			**457,808**
Total investments	**$ 448,538,416**			**$ 448,538,416**
Cash Equivalents and investments not subject to categorization:				
Money Market Mutual Fund				**$ 46,475,422**
Unsettled Investment Acquisitions				
U S government securities				**4,040,640**
Total cash equivalents and investments				**$ 801,149,506**

The agency's bond resolutions require that repurchase agreements be continuously and fully secured with collateral having a market value equal at all times to the repurchase agreement. The market value of securities underlying repurchase agreements fell significantly below this required level on a few occasions during the year, but no losses were incurred. The agency and Wachovia are in the process of resolving this issue.

June 30, 2002

	Category 1	Category 2	Category 3	Fair Value
Cash equivalents and short-term investments				
Repurchase agreements	**$ 167,807,894**		**$ 1,192,106**	**$ 169,000,000**
U S government securities	**69,084,050**		**0**	**69,084,050**
Total cash equivalents and short-term investments	**$ 236,891,944**		**$ 1,192,106**	**$ 238,084,050**
Long-term investments				
U S government securities	**$ 484,635,489**			**$ 484,635,489**
State & local government securities	**902,432**			**902,432**
Total long-term investments	**$ 485,537,921**			**$ 485,537,921**
Unsettled Investment Acquisitions				
U S government securities				**1,982,042**
Total cash equivalents and investments				**$ 725,604,013**

NOTE 3. CHECKS PAYABLE

This amount represents the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2003	Ending Balance 6/30/2002
MORTGAGE FINANCE PROGRAM BONDS					
1993A	1/1/99-7/1/2028	$265,910	4.70 to 5.95	$198,550	$217,915
1994A	1/1/96-7/1/2025	60,000	4.40 to 6.90	28,240	32,860
1994B	7/1/96-7/1/2025	100,000	4.50 to 6.60	46,815	56,310
1995A	1/1/97-7/1/2026	80,000	5.45 to 7.125	36,205	43,170
1995B/C	1/1/97-7/1/2026	100,000	4.80 to 6.55	52,740	60,405
Total Mortgage Finance Program Bonds		$605,910		$362,550	$410,660
Less: Deferred Amount on Refundings				(520)	(547)
Net Mortgage Finance Program Bonds				$362,030	$410,113

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2003	Ending Balance 6/30/2002
HOMEOWNERSHIP PROGRAM BONDS					
Issue G	7/1/89-7/1/2006	$ 24,845	5.25 to 7.65	$ -0-	$ 5
Issue K	7/1/92-7/1/2021	74,775	6.4 to 8.125	1	1
			Interest accretion	2	2
Issue WR	7/1/94-7/1/2017	49,900	4.25 to 6.80	17,775	28,500
Issue Y1/Z1	1/1/95-7/1/2024	50,000	3.50 to 6.10	18,460	22,640
Issue Y2/Z2	1/1/95-7/1/2024	30,000	3.50 to 5.75	12,770	15,790
1995-1	1/1/97-7/1/2026	65,000	4.35 to 6.48	22,140	24,920
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	27,280	30,705
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	45,295	51,630
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	34,665	38,660
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	40,370	46,140
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	49,255	54,065
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	47,575	52,165
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	42,240	46,945
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	56,937	60,730
			Interest accretion	20,426	17,388
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	41,630	46,910
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	24,095	27,560
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	65,670	73,480
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	33,355	37,590
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	83,635	92,605
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	85,690	102,845
2000-1	7/1/2001-7/1/2031	105,000	4.60 to 6.40	91,165	101,405
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	101,280	108,590
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	113,535	127,110
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	58,060	60,000
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	61,785	64,580
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	84,350	85,000
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	85,000	-0-
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	50,000	-0-
Total Homeownership Program Bonds		$1,931,383		$1,414,441	$1,417,961
Less: Deferred Amount on Refundings				(6,965)	(7,680)
Net Homeownership Program Bonds				1,407,476	1,410,281
Net Total All Issues				$1,769,506	$1,820,394

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2003 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2004	$ 241,029	$ 98,396	$ 339,425
2005	53,675	83,270	136,945
2006	59,207	82,648	141,855
2007	61,621	80,457	142,078
2008	63,315	78,023	141,338
2009 – 2013	249,781	327,058	576,839
2014 – 2018	252,610	257,695	510,305
2019 – 2023	300,395	179,367	479,762
2024 – 2028	284,300	96,537	380,837
2029 – 2033	186,425	24,231	210,656

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2034	4,205	108	4,313
Total	$1,756,563	$1,307,790	$3,064,353

The debt principal in the preceding table is $12.943 million less than that presented in the accompanying financial statements. Of this amount, $20.428 million represents the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2004-2017) in which the bonds mature. In addition, $7.485 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the year ended June 30, 2003, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $3,120,000 and in the Homeownership Program Bonds in the amount of $42,131,176. The respective carrying values of the bonds were $3,085,935 and $41,811,344. This resulted in an expense to the Mortgage Finance Program of $34,065 and the Homeownership Program of $319,832.

On July 1, 2002, the agency used $57,460,000 of Single Family Mortgage Program Notes, 2001CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $47,565,000 early redemption and $9,895,000 current maturities). The carrying amount of these bonds was $57,019,806. The refunding resulted in a difference of $440,194 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current year.

On July 31, 2002, the agency issued $85,000,000 in Homeownership Program Bonds, Issue 2002-2 A & B. On September 12, 2002, the agency used $56,600,000 of these bonds to partially refund the convertible drawdown notes, 2001CN-1, which was used July 1, 2002 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding increased the agency's debt service by $13,918,085 over the next 30.5 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $209,641.

On December 12, 2002, the agency drew down $11,385,000 of convertible drawdown notes, 2002CN-1. This amount was used to refund at maturity the 2001CN-1 drawdown notes on December 12, 2002.

On January 2, 2003, the agency drew down $65,110,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $55,725,000 early redemption and $9,385,000 current maturities). The carrying amount of these bonds was $64,626,178. The refunding resulted in a difference of $483,822 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current year. A portion of these notes were refunded with bonds after year-end; therefore, the full economic impact of the refunding was not determined as of June 30, 2003.

On March 1, 2003, the agency drew down $235,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Homeownership Program (this amount consists of $235,000 early redemption and $0 current maturities). The carrying amount of these bonds was $233,500. The refunding resulted in a difference of $1,500 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current year.

On February 27, 2003, the agency issued $50,000,000 in Homeownership Program Bonds, Issue 2003-1 A & B. On April 10, 2003, the agency used $25,660,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which was used on December 12, 2002 and January 2, 2003 to refund certain bonds and notes previously issued in the Mortgage Finance Program, the Homeownership Program, and the Single Family Mortgage Program Notes. The refunding decreased the agency's debt service by $14,401,030 over the next 30 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $12,308,243.

During the year ended June 30, 2002, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of $2,455,000 and in the Homeownership Program Bonds in the amount of $20,757,557. The respective carrying values of these bonds were $2,435,076 and $20,619,635. This resulted in an expense to the Mortgage Finance Program of $19,924 and the Homeownership Program of $137,922.

On July 1, 2001, the agency used $127,541,965 of Homeownership Program Bonds, Issue 2001-1 A, B, C, and D to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $117,171,965 early redemption and $10,370,000 current maturities). The carrying amount of these bonds was $126,587,522. A call premium of $1,929,039 was paid on the redemption of these bonds. The refunding resulted in a difference of $2,883,482 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2032. The refunding decreased the agency's debt service by $5,258,147 over the next 31 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $18,485,796.

Also on July 1, 2001, the agency used $8,980,000 of Single Family Mortgage Program Notes, 2000CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $900,000 early redemption and $8,080,000 current maturities). The carrying amount of these bonds was $8,973,222. The refunding resulted in a difference of $6,778 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current and following year. Because short-term notes were used to refund long-term bonds, neither the change in debt service nor the economic gain disclosures are appropriate.

On August 30, 2001, the agency issued $60,000,000 in Homeownership Program Bonds, Issue 2001-2 A and B. On October 1, 2001, the agency used $33,740,000 of these bonds to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was $33,489,296. The refunding resulted in a difference of $250,704 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. The refunding decreased the agency's debt service by $6,876,459 over the next 31 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $5,094,957.

On December 13, 2001, the agency issued $64,580,000 in Homeownership Program Bonds, Issue 2001-3 A & B to partially refund short-term convertible drawdown notes 2000CN-1, which was used on January 2, 2001 and on March 13, 2001 to refund certain bonds and notes previously issued in the Mortgage Finance Program and the Homeownership Program. Because long-term bonds were used to refund short-term notes, neither the change in debt service nor the economic gain disclosures are appropriate.

Also on December 13, 2001, the agency drew down $52,580,000 of short-term convertible drawdown notes, 2001CN-1. Of this amount, $20,285,000 was used to refund at maturity the 2000CN-1 draw down notes on December 15, 2001. The remaining $32,295,000 was used on January 2, 2002 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $23,660,000 early redemption and $8,635,000 current maturities). The carrying amount of these bonds was $32,142,210. The refunding resulted in a difference of $152,790 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current and following year. Because short-term notes were used to refund long-term bonds, neither the change in debt service nor the economic gain disclosures are appropriate.

On April 18, 2002, the agency issued $85,000,000 in Homeownership Program Bonds, Issue 2002-1 A and B. On June 13, 2002, the agency used $42,055,000 of these bonds to partially refund the convertible drawdown notes, 2001CN-1, which was used on December 13, 2001 and January 2, 2002 to refund certain bonds and notes previously issued in the Mortgage Finance Program, the Homeownership Program, and the Single Family Mortgage Note Program. Because long-term bonds were used to refund short-term notes, neither the change in debt service nor the economic gain disclosures are appropriate.

On June 13, 2002, the agency drew down $57,460,000 of the convertible drawdown notes 2001CN-1. These proceeds were used on July 1, 2002 to refund bonds previously issued in the Mortgage Finance Program in the amount of $21,145,000 and the Homeownership Program in the amount of $36,315,000.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 2003

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS							
07/01/2002	93A	$9,090,000	$9,073,269		($16,731)		Current Refunding
07/01/2002	94A	2,075,000	2,068,667		(6,333)		Current Refunding
07/01/2002	94B	4,905,000	4,869,450		(35,550)		Current Refunding
07/01/2002	95A	3,775,000	3,743,693		(31,307)		Current Refunding
07/01/2002	95BC	1,300,000	1,284,618		(15,382)		Current Refunding
07/01/2002	95BC	1,325,000	1,309,323		(15,677)		Prepayments
01/02/2003	93A	10,275,000	10,252,907		(22,093)		Current Refunding
01/02/2003	94A	2,545,000	2,533,001		(11,999)		Current Refunding
01/02/2003	94B	4,590,000	4,558,384		(31,616)		Current Refunding
01/02/2003	95A	3,190,000	3,165,373		(24,627)		Current Refunding
01/02/2003	95BC	1,580,000	1,563,814		(16,186)		Current Refunding
01/02/2003	95BC	1,795,000	1,776,612		(18,388)		Prepayments
	Sub-Total-	$46,445,000	$46,199,111	$-0-	($245,889)	($-0-)	
HOMEOWNERSHIP PROGRAM BONDS							
07/01/2002	G	$5,000	$5,000		($-0-)		Current Refunding
07/01/2002	91WX	5,330,000	5,261,435		(68,565)		Current Refunding
07/01/2002	91WX	1,145,000	1,130,271		(14,729)		Prepayments
07/01/2002	92Y1Z1	2,100,000	2,076,360		(23,640)		Current Refunding
07/01/2002	92Y2Z2	1,730,000	1,714,106		(15,894)		Current Refunding
07/01/2002	92Y2Z2	65,000	64,403		(597)		Prepayments
07/01/2002	95-1	860,000	857,445		(2,555)		Current Refunding
07/01/2002	95-1	275,000	274,183		(817)		Prepayments
07/01/2002	96-1	445,000	441,672		(3,328)		Current Refunding
07/01/2002	96-1	1,275,000	1,265,464		(9,536)		Prepayments
07/01/2002	96-2	1,080,000	1,070,465		(9,535)		Current Refunding
07/01/2002	96-2	1,190,000	1,179,494		(10,506)		Prepayments
07/01/2002	96-3	1,690,000	1,673,425		(16,575)		Current Refunding
07/01/2002	96-3	125,000	123,774		(1,226)		Prepayments
07/01/2002	96-4	1,890,000	1,870,048		(19,952)		Current Refunding
07/01/2002	96-4	695,000	687,663		(7,337)		Prepayments
07/01/2002	96-5	1,970,000	1,953,294		(16,706)		Current Refunding
07/01/2002	97-1	1,200,000	1,187,691		(12,309)		Current Refunding

Year Ended June 30, 2003 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)							
07/01/2002	97-1	95,000	94,026		(974)		Prepayments
07/01/2002	97-2	1,110,000	1,103,445		(6,555)		Current Refunding
07/01/2002	97-3	1,220,909	1,215,450		(5,459)		Prepayments
07/01/2002	98-1	1,000,000	989,385		(10,615)		Current Refunding
07/01/2002	98-2	965,000	955,136		(9,864)		Current Refunding
07/01/2002	98-3	1,955,000	1,943,186		(11,814)		Current Refunding
07/01/2002	98-3	620,000	616,253		(3,747)		Prepayments
07/01/2002	99-1	520,000	514,655		(5,345)		Current Refunding
07/01/2002	99-1	15,000	14,846		(154)		Prepayments
07/01/2002	99-2	2,335,000	2,320,566		(14,434)		Current Refunding
07/01/2002	99-3	6,305,000	6,244,180		(60,820)		Current Refunding
07/01/2002	99-3	405,000	401,093		(3,907)		Prepayments
07/01/2002	2000-1	3,320,000	3,299,001		(20,999)		Current Refunding
07/01/2002	2000-2	100,000	100,000		(-0-)		Current Refunding
07/01/2002	2000-2	3,130,000	3,104,459		(25,541)		Prepayments
07/01/2002	2001-1	6,030,000	5,996,279		(33,721)		Prepayments
07/01/2002	2001-2	365,000	360,102		(4,898)		Current Refunding
07/01/2002	2001-2	55,000	54,262		(738)		Prepayments
07/01/2002	2001-3	40,000	39,512		(488)		Current Refunding
07/01/2002	2001-3	20,000	19,756		(244)		Prepayments
01/02/2003	91WX	1,080,000	1,066,570		(13,430)		Current Refunding
01/02/2003	91WX	2,025,000	1,999,819		(25,181)		Prepayments
01/02/2003	92Y1Z1	565,000	561,996		(3,004)		Current Refunding
01/02/2003	92Y1Z1	985,000	976,894		(8,106)		Prepayments
01/02/2003	92Y2Z2	310,000	307,296		(2,704)		Current Refunding
01/02/2003	92Y2Z2	580,000	574,940		(5,060)		Prepayments
01/02/2003	95-1	1,175,000	1,171,655		(3,345)		Current Refunding
01/02/2003	96-1	290,000	287,882		(2,118)		Current Refunding
01/02/2003	96-1	675,000	670,070		(4,930)		Prepayments
01/02/2003	96-2	1,405,000	1,392,890		(12,110)		Current Refunding
01/02/2003	96-2	1,605,000	1,591,166		(13,834)		Prepayments
01/02/2003	96-3	1,610,000	1,595,289		(14,711)		Current Refunding
01/02/2003	96-4	1,830,000	1,811,156		(18,844)		Current Refunding
01/02/2003	96-4	460,000	455,263		(4,737)		Prepayments
01/02/2003	96-5	2,485,000	2,456,395		(28,605)		Current Refunding
01/02/2003	97-1	2,125,000	2,103,717		(21,283)		Current Refunding
01/02/2003	97-1	160,000	158,398		(1,602)		Prepayments
01/02/2003	97-2	1,925,000	1,911,561		(13,439)		Current Refunding
01/02/2003	97-2	960,000	953,298		(6,702)		Prepayments
01/02/2003	97-3	1,490,267	1,484,023		(6,244)		Prepayments
01/02/2003	98-1	2,170,000	2,146,388		(23,612)		Current Refunding
01/02/2003	98-1	1,315,000	1,300,691		(14,309)		Prepayments
01/02/2003	98-2	1,250,000	1,236,958		(13,042)		Current Refunding
01/02/2003	98-2	795,000	786,705		(8,295)		Prepayments
01/02/2003	98-3	2,220,000	2,206,857		(13,143)		Current Refunding
01/02/2003	98-3	1,775,000	1,764,491		(10,509)		Prepayments
01/02/2003	99-1	1,650,000	1,634,364		(15,636)		Current Refunding
01/02/2003	99-1	1,420,000	1,406,543		(13,457)		Prepayments
01/02/2003	99-2	3,480,000	3,457,471		(22,529)		Current Refunding
01/02/2003	99-2	1,890,000	1,877,764		(12,236)		Prepayments
01/02/2003	99-3	6,980,000	6,914,055		(65,945)		Current Refunding
01/02/2003	99-3	1,905,000	1,887,002		(17,998)		Prepayments
01/02/2003	2000-1	5,140,000	5,101,889		(38,111)		Current Refunding
01/02/2003	2000-1	990,000	982,660		(7,340)		Prepayments
01/02/2003	2000-2	410,000	405,075		(4,925)		Current Refunding
01/02/2003	2000-2	2,205,000	2,189,958		(15,042)		Prepayments
01/02/2003	2001-1	515,000	512,207		(2,793)		Current Refunding
01/02/2003	2001-1	4,335,000	4,311,492		(23,508)		Prepayments
01/02/2003	2001-2	1,325,000	1,310,962		(14,038)		Current Refunding
01/02/2003	2001-3	2,540,000	2,513,460		(26,540)		Current Refunding
01/02/2003	2002-1	450,000	446,606		(3,394)		Current Refunding

Year Ended June 30, 2003 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)							
01/02/2003	2002-1	200,000	198,491		(1,509)		Prepayments
03/01/2003	2000-2	235,000	233,500		(1,500)		Current Refunding
	Sub-Total	$121,611,176	$120,577,652	$-0-	($1,033,524)	($-0-)	
	Total	$168,056,176	$166,776,763	$-0-	($1,279,413)	($-0-)	

Year Ended June 30, 2002

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS							
07/01/2001	94A	$ 590,000	$ 587,252			($2,748)	Current Refunding
07/01/2001	94B	1,150,000	1,142,163			(7,837)	Current Refunding
07/01/2001	95A	1,215,000	1,204,447			(10,553)	Current Refunding
07/01/2001	95BC	740,000	733,909		($ 6,091)		Prepayments
07/01/2001	95BC	1,015,000	1,006,646			(8,354)	Current Refunding
10/01/2001	94A	1,500,000	1,493,124			(6,876)	Current Refunding
10/01/2001	94B	2,725,000	2,706,804			(18,196)	Current Refunding
10/01/2001	95A	1,980,000	1,963,143			(16,857)	Current Refunding
10/01/2001	95C	980,000	972,090			(7,910)	Current Refunding
10/01/2001	95C	1,555,000	1,542,449		(12,551)		Prepayments
01/02/2002	93A	4,990,000	4,970,404			(19,596)	Current Refunding
01/02/2002	94A	715,000	711,728			(3,272)	Current Refunding
01/02/2002	94B	990,000	983,434			(6,566)	Current Refunding
01/02/2002	95A	785,000	778,375			(6,625)	Current Refunding
01/02/2002	95BC	590,000	585,273			(4,727)	Current Refunding
01/02/2002	95BC	160,000	158,718		(1,282)		Prepayments
	Sub-Total-	$ 21,680,000	$21,539,959	$-0-	($19,924)	($120,117)	
HOMEOWNERSHIP PROGRAM BONDS							
07/01/2001	89MN	$ 25,345,000	$ 25,092,814	$ 253,450		($505,636)	Current Refunding
07/01/2001	89O	5,000	4,056	50		(994)	Current Refunding
07/01/2001	90P	16,081,965	16,036,893	321,639		(366,711)	Current Refunding
07/01/2001	90ST	46,335,000	45,921,999	931,200		(1,344,201)	Current Refunding
07/01/2001	91UV	21,135,000	20,957,990	422,700		(599,710)	Current Refunding
07/01/2001	92Y1Z1	610,000	605,408			(4,592)	Current Refunding
07/01/2001	92Y2Z2	290,000	287,814			(2,186)	Current Refunding
07/01/2001	96-1	380,000	377,708		($2,292)		Prepayments
07/01/2001	96-2	60,000	59,582		(418)		Prepayments
07/01/2001	96-3	955,000	946,907			(8,093)	Current Refunding
07/01/2001	96-4	1,360,000	1,347,510			(12,490)	Current Refunding
07/01/2001	96-5	625,000	618,651			(6,349)	Current Refunding
07/01/2001	97-3	292,315	290,814		(1,501)		Prepayments
07/01/2001	99-1	120,000	118,971			(1,029)	Current Refunding
07/01/2001	99-2	550,000	546,929			(3,071)	Current Refunding
07/01/2001	99-3	690,000	684,294			(5,706)	Current Refunding
07/01/2001	2000-2	95,000	94,633		(367)		Prepayments
10/01/2001	91WX	4,000,000	3,963,779			(36,221)	Current Refunding
10/01/2001	91WX	1,515,000	1,501,281		(13,719)		Prepayments
10/01/2001	92Y1Z1	4,565,000	4,531,282			(33,718)	Current Refunding
10/01/2001	92Y1Z1	330,000	327,563		(2,437)		Prepayments
10/01/2001	92Y2Z2	655,000	650,145			(4,855)	Current Refunding
10/01/2001	92Y2Z2	205,000	203,481		(1,519)		Prepayments
10/01/2001	95-1	875,000	872,752			(2,248)	Current Refunding
10/01/2001	96-1	600,000	596,443			(3,557)	Current Refunding
10/01/2001	96-1	620,000	616,325		(3,675)		Prepayments
10/01/2001	96-2	1,435,000	1,425,174			(9,826)	Current Refunding
10/01/2001	96-2	1,100,000	1,092,468		(7,532)		Prepayments
10/01/2001	96-3	740,000	733,820			(6,180)	Current Refunding
10/01/2001	96-4	1,435,000	1,422,185			(12,815)	Current Refunding
10/01/2001	96-4	420,000	416,249		(3,751)		Prepayments
10/01/2001	96-5	1,555,000	1,539,435			(15,565)	Current Refunding

Year Ended June 30, 2002 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)							
10/01/2001	97-1	1,440,000	1,427,754			(12,246)	Current Refunding
10/01/2001	97-1	380,000	376,769		(3,231)		Prepayments
10/01/2001	97-2	545,000	541,844			(3,156)	Current Refunding
10/01/2001	97-2	315,000	313,176		(1,824)		Prepayments
10/01/2001	98-1	1,040,000	1,030,656			(9,344)	Current Refunding
10/01/2001	98-1	345,000	341,900		(3,100)		Prepayments
10/01/2001	98-2	535,000	530,143			(4,857)	Current Refunding
10/01/2001	98-2	100,000	99,092		(908)		Prepayments
10/01/2001	98-3	1,305,000	1,298,475			(6,525)	Current Refunding
10/01/2001	98-3	990,000	985,050		(4,950)		Prepayments
10/01/2001	99-1	215,000	213,308			(1,692)	Current Refunding
10/01/2001	99-1	290,000	287,674		(2,326)		Prepayments
10/01/2001	99-2	1,895,000	1,884,559			(10,441)	Current Refunding
10/01/2001	99-2	1,010,000	1,004,435		(5,565)		Prepayments
10/01/2001	99-3	2,115,000	2,097,743			(17,257)	Current Refunding
10/01/2001	99-3	525,000	520,716		(4,284)		Prepayments
10/01/2001	2000-1	1,605,000	1,594,638			(10,362)	Current Refunding
10/01/2001	2000-1	175,000	173,870		(1,130)		Prepayments
10/01/2001	2000-2	165,000	164,105		(895)		Prepayments
01/02/2002	91WX	1,155,000	1,144,829		(10,171)		Prepayments
01/02/2002	92Y1Z1	300,000	297,806			(2,194)	Current Refunding
01/02/2002	92Y2Z2	1,110,000	1,101,835			(8,165)	Current Refunding
01/02/2002	95-1	555,000	553,584			(1,416)	Current Refunding
01/02/2002	95-1	40,000	39,898		(102)		Prepayments
01/02/2002	96-1	175,000	173,970			(1,030)	Current Refunding
01/02/2002	96-1	195,000	193,852		(1,148)		Prepayments
01/02/2002	96-2	570,000	566,125			(3,875)	Current Refunding
01/02/2002	96-2	440,000	437,008		(2,992)		Prepayments
01/02/2002	96-3	645,000	639,651			(5,349)	Current Refunding
01/02/2002	96-4	965,000	956,442			(8,558)	Current Refunding
01/02/2002	96-4	60,000	59,468		(532)		Prepayments
01/02/2002	96-5	715,000	707,882			(7,118)	Current Refunding
01/02/2002	97-1	905,000	897,353			(7,647)	Current Refunding
01/02/2002	97-2	395,000	392,747			(2,253)	Current Refunding
01/02/2002	97-2	250,000	248,574		(1,426)		Prepayments
01/02/2002	97-3	1,440,242	1,433,227		(7,015)		Prepayments
01/02/2002	98-1	490,000	485,661			(4,339)	Current Refunding
01/02/2002	98-1	380,000	376,635		(3,365)		Prepayments
01/02/2002	98-2	490,000	485,617			(4,383)	Current Refunding
01/02/2002	98-2	185,000	183,345		(1,655)		Prepayments
01/02/2002	98-3	1,135,000	1,129,361			(5,639)	Current Refunding
01/02/2002	98-3	1,075,000	1,069,659		(5,341)		Prepayments
01/02/2002	99-1	1,800,000	1,785,567			(14,433)	Current Refunding
01/02/2002	99-1	375,000	372,038		(2,962)		Prepayments
01/02/2002	99-2	2,285,000	2,272,578			(12,422)	Current Refunding
01/02/2002	99-2	695,000	691,222		(3,778)		Prepayments
01/02/2002	99-3	2,215,000	2,197,170			(17,830)	Current Refunding
01/02/2002	99-3	605,000	600,130		(4,870)		Prepayments
01/02/2002	2000-1	840,000	834,647			(5,353)	Current Refunding
01/02/2002	2000-1	295,000	293,120		(1,880)		Prepayments
01/02/2002	2000-2	585,000	581,886		(3,114)		Prepayments
01/02/2002	2001-1	3,670,000	3,647,853		(22,147)		Prepayments
	Sub-Total	$177,004,522	$175,622,002	$1,929,039	($137,922)	($3,173,637)	
	Total	$198,684,522	$197,161,961	$1,929,039	($157,846)	($3,293,754)	

Under the bond resolutions, the agency has the option to redeem bonds at an initial price of 103 percent and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years. Certain special redemption options, as governed by the bond resolutions, are permitted prior to that time.

The bonds are secured, as described in the applicable bond resolutions, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the resolutions.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2003.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2002	Additions	Reductions	Ending Balance June 30, 2003
Notes Payable	$-0-	$76,730	($25,660)	$51,070
Bonds Payable	1,828,621	139,095	(190,725)	1,776,991
Less: Deferred Amount on Refundings	(8,227)	(-0-)	742	(7,485)
Compensated Absences	523	453	(349)	627
Escrow Deposits	14,633	3,251	(2,582)	15,302
Arbitrage Rebate Payable	3,935	728	(2,386)	2,277
Deferred Revenue	720	3,959	(4,287)	392
Total	$1,840,205	$224,216	($225,247)	$1,839,174

The following table is a summary of the long-term liability activity for the year ended June 30, 2002.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2001	Additions	Reductions	Ending Balance June 30, 2002
Bonds Payable	$1,856,326	$213,691	($241,396)	$1,828,621
Less: Deferred Amount on Refundings	(5,831)	(3,134)	738	(8,227)
Compensated Absences	469	448	(394)	523
Escrow Deposits	14,829	1,779	(1,975)	14,633
Arbitrage Rebate Payable	6,587	1,289	(3,941)	3,935
Deferred Revenue	857	4,067	(4,204)	720
Total	$1,873,237	$218,140	($251,172)	$1,840,205

e. Notes Issued and Outstanding

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

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date. On December 1, 2002 the interest rate was changed to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2003.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2002	Additions	Reductions	Ending Balance 6/30/2003
SINGLE FAMILY MORTGAGE NOTES							
2001CN-1	12/12/2002	$200,000	1.608	$67,985	$ -0-	($67,985)	$ -0-
2002CN-1	12/8/2005	$450,000	1.054	-0-	76,730	(25,660)	51,070
Total Single Family Mortgage Notes				$67,985	$76,730	($93,645)	$51,070
Less: Deferred Amount on Refundings				(76)	-0-	76	-0-
Net Single Family Mortgage Notes				$67,909	$76,730	($93,569)	$51,070

The activity of the 2002CN-1 notes shown above is also included in the summary of long-term liability activity for the year ended June 30, 2003, in part d. of this note.

The following table is a summary of the note activity for the year ended June 30, 2002.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2001	Additions	Reductions	Ending Balance 6/30/2002
SINGLE FAMILY MORTGAGE NOTES							
2000CN-1	12/13/2001	$200,000	5.307	$84,865	$ -0-	($84,865)	$ -0-
2001CN-1	12/12/2002	$200,000	1.608	-0-	110,040	(42,055)	67,985
Total Single Family Mortgage Notes				$84,865	$110,040	($126,920)	$67,985
Less: Deferred Amount on Refundings				-0-	(159)	83	(76)
Net Single Family Mortgage Notes				$84,865	$109,881	($126,837)	$67,909

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 7.28% 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, 2003, 2002, and 2001, were $448,684, $353,618, and $313,976. 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. Claims Award Fund

The state has set aside assets for claim settlement in an internal service fund, the Claims Award 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 Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Claims Award 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 Claims Award 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, and bond proceeds were used to redeem bonds as indicated below:

July 1, 2003	Mortgage Finance Program	$ 56,570,000
	Homeownership Program	$148,973,222
	Total	$205,543,222

b. On July 1, 2003 a third drawdown was made on the Series 2002CN-1 Notes in the amount of $190,465,000.

c. Homeownership Program Bonds, Issue 2003-2, were sold on July 31, 2003. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2003-2	7/1/2004-1/1/2034	$60,000	1.10 to 4.40
TOTAL ALL ISSUES		$60,000	

d. On August 14, 2003 a principal redemption was made on the Series 2002CN-1 Notes in the amount of $27,070,000.

e. Mortgage Finance Program Bonds, Issue 2003-A, were sold on September 4, 2003. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2003-A	7/1/2004-7/1/2034	$191,885	1.70 to 5.35
TOTAL ALL ISSUES		$191,885	

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF NET ASSETS
June 30, 2003
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 5,185	$ 98,007	$ 204,761	$ 51,096	$ 359,049
Investments	-	13,714	42,957	-	56,671
Receivables:					
Accounts	-	1,848	12,746	-	14,594
Interest	-	4,212	10,859	-	15,071
First mortgage loans	75	9,929	22,384	-	32,388
Due from federal government	9,140	-	-	-	9,140
Total current assets	14,400	127,710	293,707	51,096	486,913
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	5,996	1,338	-	7,334
Investments	-	54,878	156,922	-	211,800
Investment Interest receivable	-	640	1,987	-	2,627
Investments	-	93,630	90,478	-	184,108
First mortgage loans receivable	515	243,742	1,149,681	-	1,393,938
Deferred charges	22	1,735	9,350	-	11,107
Advance to local government	2,563	-	3	-	2,566
Other receivables	-	-	11	-	11
Capital assets:					
Furniture and equipment	71	-	-	-	71
Less accumulated depreciation	(71)	-	-	-	(71)
Total noncurrent assets	3,100	400,621	1,409,770	-	1,813,491
Total assets	17,500	528,331	1,703,477	51,096	$ 2,300,404
LIABILITIES					
Current liabilities:					
Checks payable	-	415	150	-	$ 565
Accounts payable	1,277	-	-	40	1,317
Accrued payroll and related liabilities	270	-	-	-	270
Investments purchased	-	4,104	-	-	4,104
Compensated absences	307	-	-	-	307
Interest payable	-	10,986	35,991	28	47,005
Escrow deposits	41	712	-	-	753
Prepayments on mortgage loans	-	219	1,434	-	1,653
Advance on bond sale	-	-	600	-	600
Bonds payable	-	75,910	175,780	-	251,690
Total current liabilities	1,895	92,346	213,955	68	308,264
Noncurrent liabilities:					
Notes payable	-	-	-	51,070	51,070
Bonds payable (net of deferred amount on refundings)	-	286,120	1,231,696	-	1,517,816
Compensated absences	320	-	-	-	320
Escrow deposits	200	14,349	-	-	14,549
Arbitrage rebate payable	-	-	2,277	-	2,277
Deferred revenue	-	392	-	-	392
Total noncurrent liabilities	520	300,861	1,233,973	51,070	1,586,424
Total liabilities	2,415	393,207	1,447,928	51,138	1,894,688
NET ASSETS					
Restricted for single family bond programs	-	135,124	255,549	(42)	390,631
Restricted for grant programs	2,418	-	-	-	2,418
Restricted for Homebuyers Revolving Loan Program	3,154	-	-	-	3,154
Unrestricted	9,513	-	-	-	9,513
Total net assets	$ 15,085	$ 135,124	$ 255,549	$ (42)	$ 405,716

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	$ 34	$ 20,378	$ 84,302	$ -	$ 104,714
Investment income:					
Interest	419	10,403	19,551	1	30,374
Net increase in the fair value of investments	(555)	4,294	13,865	560	18,164
Federal grant administration fees	8,869	-	-	-	8,869
Fees and other income	1,363	816	7	-	2,186
Total operating revenues	10,130	35,891	117,725	561	164,307
OPERATING EXPENSES					
Salaries and benefits	8,194	-	-	-	8,194
Contractual services	1,415	-	-	-	1,415
Materials and supplies	346	-	-	-	346
Rentals and insurance	822	-	-	-	822
Other administrative expenses	377	-	-	-	377
Other program expenses	39	541	1,750	69	2,399
Interest expense	-	22,751	77,841	1,572	102,164
Mortgage service fees	-	958	4,489	-	5,447
Issuance costs	-	149	512	106	767
Depreciation	5	-	-	-	5
Total operating expenses	11,198	24,399	84,592	1,747	121,936
Operating income (loss)	(1,068)	11,492	33,133	(1,186)	42,371
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	138,123	-	-	-	138,123
Federal grants expenses	(138,123)	-	-	-	(138,123)
Local grants expenses	(4,444)	-	(2,210)	-	(6,654)
Total nonoperating revenues (expenses)	(4,444)	-	(2,210)	-	(6,654)
Income (loss) before transfers	(5,512)	11,492	30,923	(1,186)	35,717
Transfers (to) other funds	(1,235)	-	(410)	-	(1,645)
Transfers from other funds	-	595	-	1,050	1,645
Change in net assets	(6,747)	12,087	30,513	(136)	35,717
Total net assets, July 1	21,832	123,037	225,036	94	369,999
Total net assets, June 30	$ 15,085	$ 135,124	$ 255,549	$ (42)	$ 405,716

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(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	$ 1,392	$ 79,034	$ 290,778	$ -	$ 371,204
Receipts from federal government	8,590	-	-	-	8,590
Receipts from other funds	-	1,013	-	-	1,013
Other miscellaneous receipts	1,363	816	9	-	2,188
Acquisition of mortgage loans	-	(2,028)	(156,882)	-	(158,910)
Payments to service mortgages	-	(958)	(4,489)	-	(5,447)
Payments to suppliers	(2,378)	(546)	(1,957)	(2)	(4,883)
Payments to federal government	-	-	(1,129)	(67)	(1,196)
Payments to other funds	-	-	(988)	(25)	(1,013)
Payments to employees	(8,341)	-	-	-	(8,341)
Net cash provided (used) by operating activities	626	77,331	125,342	(94)	203,205
Cash flows from non-capital financing activities:					
Operating grants received	138,195	-	-	-	138,195
Payment to primary government	(35,368)				(35,368)
Transfers in (out)	(1,234)	807	340	87	-
Negative cash balance implicitly financed (repaid)	-	415	(2,126)	-	(1,711)
Proceeds from sale of bonds	-	-	134,150	-	134,150
Proceeds from issuance of notes	-	-	-	76,730	76,730
Operating grants paid	(143,536)	-	(2,210)	-	(145,746)
Advance on bond sale	-	-	600	-	600
Cost of issuance paid	-	-	(1,125)	(66)	(1,191)
Principal payments	-	(48,110)	(142,611)	(93,645)	(284,366)
Interest paid	-	(24,177)	(73,316)	(557)	(98,050)
Net cash used by non-capital financing activities	(41,943)	(71,065)	(86,298)	(17,451)	(216,757)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	35,073	382,137	450,989	-	868,199
Purchases of investments	-	(356,572)	(428,044)	-	(784,616)
Investment interest received	751	10,231	19,928	561	31,471
Net cash provided by investing activities	35,824	35,796	42,873	561	115,054
Net increase (decrease) in cash and cash equivalents	(5,493)	42,062	81,917	(16,984)	101,502
Cash and cash equivalents, July 1	10,678	61,941	124,182	68,080	264,881
Cash and cash equivalents, June 30	$ 5,185	$ 104,003	$ 206,099	$ 51,096	$ 366,383

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	$ (1,068)	$ 11,492	$ 33,133	$ (1,186)	$ 42,371
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	5	149	512	106	772
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	21	611	(4,324)	-	(3,692)
(Increase) decrease in mortgage interest receivable	14	428	(526)	-	(84)
Decrease in first mortgage loans receivable	1,296	54,963	54,696	-	110,955
(Increase) in due from federal government	(279)	-	-	-	(279)
Decrease in deferred charges	-	34	283	-	317
Decrease in other receivables	-	-	(1)		(1)
Decrease in interfund receivables	-	1,013	-	-	1,013
(Decrease) in interfund payables	-	-	(988)	(25)	(1,013)
Increase in accounts payable	426	605	101	-	1,132
Increase in accrued payroll/compensated absences	128	-	-	-	128
(Decrease) in due to primary government	(53)	-	-	-	(53)
Increase (decrease) in deferred revenue	-	21	(350)	-	(329)
(Decrease) in arbitrage rebate liability	-	(39)	(1,619)	-	(1,658)
Investment income included as operating revenue	136	(14,697)	(33,416)	(561)	(48,538)
Interest expense included as operating expense	-	22,751	77,841	1,572	102,164
Total adjustments	1,694	65,839	92,209	1,092	160,834
Net cash provided (used) by operating activities	$ 626	$ 77,331	$ 125,342	$ (94)	$ 203,205
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	$ -	$ -	$ 4,095	$ -	$ 4,095
Increase in fair value of investments	-	4,531	14,198	26	18,755
Total noncash investing, capital, and financing activities	$ -	$ 4,531	$ 18,293	$ 26	$ 22,850

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF NET ASSETS - OPERATING GROUP
JUNE 30, 2003
(Expressed in Thousands)

	Housing Program Fund	Direct Servicing	Operating Group Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 5,140	$ 45	$ 5,185
Receivables:			
First mortgage loans	75	-	75
Due from federal government	9,140	-	9,140
Total current assets	14,355	45	14,400
Noncurrent assets:			
First mortgage loans receivable	515	-	515
Deferred charges	22	-	22
Advance to local government	2,563	-	2,563
Capital assets:			
Furniture and equipment	71	-	71
Less accumulated depreciation	(71)	-	(71)
Total noncurrent assets	3,100	-	3,100
Total assets	17,455	45	17,500
LIABILITIES			
Current liabilities:			
Accounts payable	1,277	-	1,277
Accrued payroll and related liabilities	270	-	270
Compensated absences	307	-	307
Escrow deposits payable	-	41	41
Total current liabilities	1,854	41	1,895
Noncurrent liabilities:			
Compensated absences	320	-	320
Escrow deposits	200	-	200
Total noncurrent liabilities	520	-	520
Total liabilities	2,374	41	2,415
NET ASSETS			
Restricted for grant programs	2,418	-	2,418
Restricted for Homebuyers Revolving Loan Program	3,154	-	3,154
Unrestricted	9,509	4	9,513
Total net assets	$ 15,081	$ 4	$ 15,085

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2003
(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	$ 54,712	$ 41,280	$ 95,992	$ 2,015	$ 98,007
Investments	13,514	200	13,714	-	13,714
Receivables:					
Accounts	1,761	87	1,848	-	1,848
Interest	3,404	656	4,060	152	4,212
First mortgage loans	9,320	609	9,929	-	9,929
Due from other funds	-	375	375	-	375
Total current assets	82,711	43,207	125,918	2,167	128,085
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	5,996	-	5,996	-	5,996
Investments	54,878	-	54,878	-	54,878
Investment interest receivable	640	-	640	-	640
Investments	53,279	28,111	81,390	12,240	93,630
First mortgage loans receivable	236,272	7,470	243,742	-	243,742
Deferred charges	1,735	-	1,735	-	1,735
Total noncurrent assets	352,800	35,581	388,381	12,240	400,621
Total assets	435,511	78,788	514,299	14,407	528,706
LIABILITIES					
Current liabilities:					
Checks payable	378	-	378	37	415
Investments purchased	4,104	-	4,104	-	4,104
Interest payable	10,986	-	10,986	-	10,986
Escrow deposits	-	-	-	712	712
Prepayments on mortgage loans	206	13	219	-	219
Due to other funds	341	-	341	34	375
Bonds payable	75,910	-	75,910	-	75,910
Total current liabilities	91,925	13	91,938	783	92,721
Noncurrent liabilities:					
Bonds payable (net of deferred amount on refundings)	286,120	-	286,120	-	286,120
Escrow deposits	-	1,087	1,087	13,262	14,349
Deferred revenue	254	32	286	106	392
Total noncurrent liabilities	286,374	1,119	287,493	13,368	300,861
Total liabilities	378,299	1,132	379,431	14,151	393,582
NET ASSETS					
Restricted for single family bond programs	57,212	77,656	134,868	256	135,124
Total net assets	$ 57,212	$ 77,656	$ 134,868	$ 256	$ 135,124

* 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.