Tennessee Housing Development Agency

For the Year Ended
June 30, 2004

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STATE OF TENNESSEE
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John G. Morgan
Comptroller

January 20, 2005

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Members of the Board of Directors
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, 2004. 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 disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The agency's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
04/098

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, 2004

AUDIT OBJECTIVES

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

INTERNAL CONTROL AND COMPLIANCE FINDING

The Section 8 Contract Administration Division's Policies and Procedures for Contract/Funding Renewals and Rent Adjustments Are Inadequate, Resulting in Noncompliance with the HUD Contract and Related Guidelines
The policies and procedures developed by the Section 8 Contract Administration Division do not contain detailed information explaining how to process contract/funding renewals and rent adjustments. In addition, the division does not have an ongoing training program or plan for new or incumbent staff.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 2004

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Tennessee Housing Development Agency
For the Year Ended June 30, 2004

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. Finance, Management Information Systems, Mortgage Administration, Homeownership Mortgage, and Fiscal Administration divisions report to the chief financial officer.

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

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

Internal Audit Division – 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.

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

Multi-family and Special Programs Division – 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.

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

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

Finance Division – This division is responsible for cash management of the agency. This division's major functions are debt management and investment of funds.

Management Information Systems Division – 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 and some single family loans. Most 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, 2003, through June 30, 2004, 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, 2004, and for comparative purposes, the year ended June 30, 2003. 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).

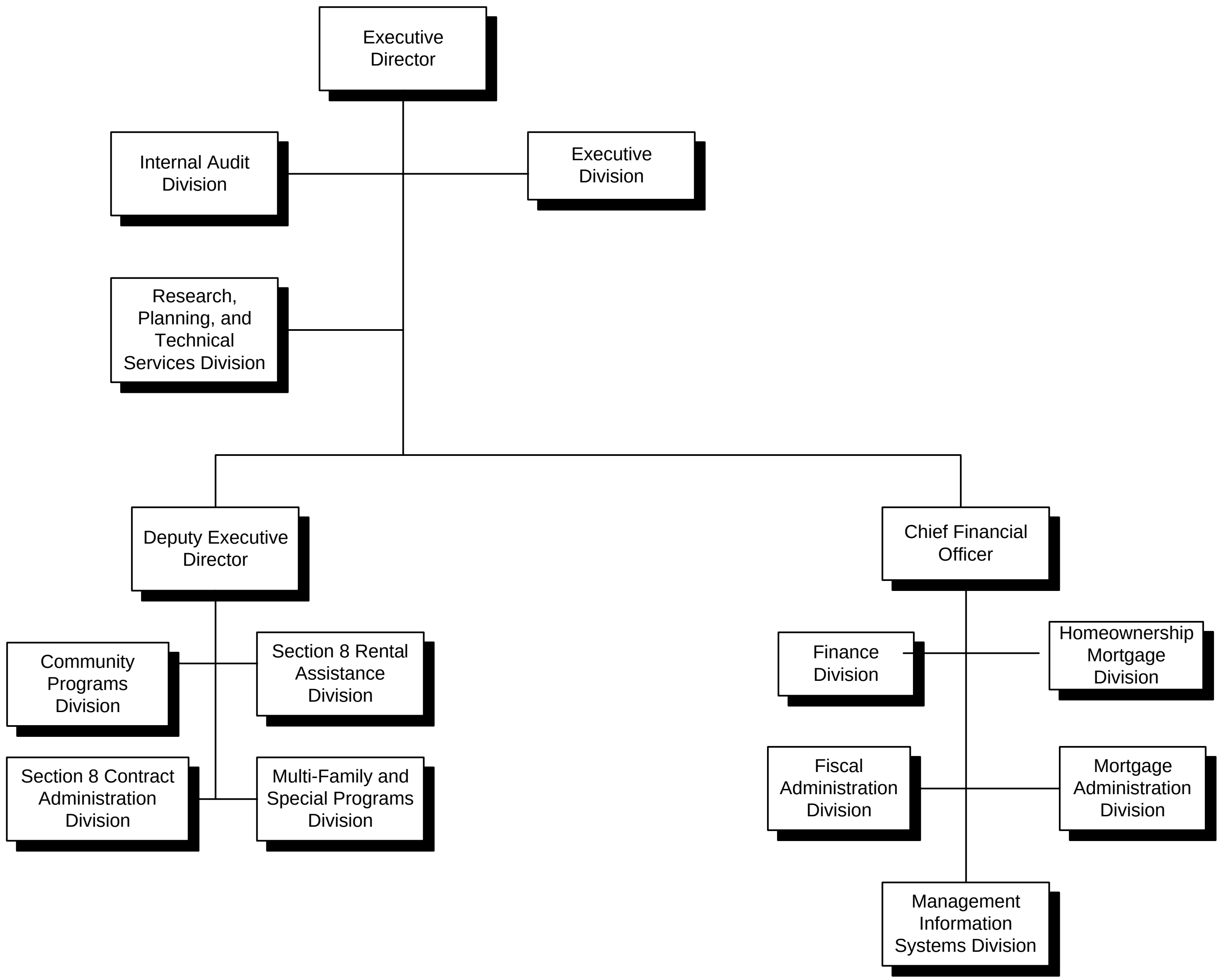
OBJECTIVES OF THE AUDIT

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;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

Tennessee Housing Development Agency
Organization Chart



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

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

FRAUD CONSIDERATIONS

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

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

AUDIT COMMITTEE RECOMMENDATIONS

As a result of the fraud-related business failures of companies such as Enron and WorldCom in recent years, Congress and the accounting profession have taken aggressive measures to try to detect and prevent future failures related to fraud. These measures have included the signing of the *Sarbanes-Oxley Act of 2002* by the President of the United States and the issuance of Statement on Auditing Standards No. 99 by the American Institute of Certified Public Accountants. This new fraud auditing standard has not only changed the way auditors perform audits but has also provided guidance to management and boards of directors on creating antifraud programs and controls. This guidance has included the need for an independent audit committee.

As a result of these developments, we are recommending that agencies with boards establish audit committees. Or, where agencies, such as the Tennessee Housing Development Agency, already have audit committees, we are recommending that those agencies reexamine the activities of the existing audit committees. The specific activities of any audit committee will depend on, among other things, the mission, nature, structure, and size of each agency. In creating or revising its charter, each board should examine its agency's particular circumstances. Anti-fraud literature notes that there are two categories of fraud: fraudulent financial reporting and misappropriation of assets. The audit committee should consider the risks of fraud in its agency in general as well as the history of its particular agency with regard to prior audit findings, previously disclosed weaknesses in internal control, and compliance issues. The audit committee should consider both the risk of fraudulent financial reporting and the risk of fraud due to misappropriation or abuse of agency assets. Also, the board and the audit committee should keep in mind that agencies receiving public funding should have a lower threshold of materiality than private sector entities with regard to fraud risks.

Boards should exercise professional judgment in establishing the duties, responsibilities, and authority of their audit committee. The factors noted below are not intended to be an exhaustive listing of those matters to be considered. The committee should not limit its scope to reacting to a preconceived set of issues and actions but rather should be proactive in its oversight of the agency as it concentrates on the internal control and audit-related activities of the entity. In fact, this individualized approach is one of the main benefits derived from an active audit committee.

At a minimum, audit committees should:

1. Develop a written charter that addresses the audit committee's purpose and mission, which should be, at a minimum, to assist the board in its oversight of the agency.

2. Formally reiterate, on a regular basis, to the board, agency management, and staff their responsibilities for preventing, detecting, and reporting fraud, waste, and abuse.

3. Serve as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in the agency's internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with the agency management and staff to ensure implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from agency management or staff.

4. Develop a formal process for assessing the risk of fraud at the agency, including documentation of the results of the assessments and assuring that internal controls are in place to adequately mitigate those risks.

5. Develop and communicate to staff of the agency their responsibilities to report allegations of fraud, waste, or abuse at the agency to the committee and the Comptroller of the Treasury's Office as well as a process for immediately reporting such information.

6. Immediately inform the Comptroller's Office when fraud is detected.

7. Develop and communicate to the board, agency management, and staff a written code of conduct reminding those individuals of the public nature of the agency and the need for all to maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities of the agency; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect agency assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies, and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the agency.

The charter of the audit committee should include, at a minimum, the following provisions:

1. The audit committee should be a standing committee of the board.

2. The audit committee should be composed of at least three members. The chair of the audit committee should preferably have some accounting or financial management background. Each member of the audit committee should have an adequate background and education to allow a reasonable understanding of the information presented in the financial reports of the agency and the comments of auditors with regard to internal control and compliance findings and other issues.

3. The members of the audit committee must be independent from any appearances of other interests that are in conflict with their duties as members of the audit committee.

4. An express recognition that the board, the audit committee, and the management and staff of the agency are responsible for taking all reasonable steps to prevent, detect, and report fraud, waste, and abuse.

5. The audit committee should meet regularly throughout the year. The audit committee can meet by telephone, if that is permissible for other committees. However, the audit committee is strongly urged to meet at least once a year in person. Members of the audit committee may be members of other standing committees of the board, but the audit committee meetings should be separate from the meetings of other committees of the board.

6. The audit committee should record minutes of its meetings.

The Division of State Audit will be available to discuss with the board any questions it might have about its particular audit committee. There are also other audit committees at other state agencies that the board may wish to contact for advice and further information.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The agency filed its compliance report and implementation plan on June 29, 2004.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Tennessee Title VI Compliance Commission is responsible for monitoring and enforcement of Title VI. 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, 2004, 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. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the finding and recommendation.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the agency's financial statements.

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

September 30, 2004

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, 2004, and have issued our report thereon dated September 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following reportable condition was noted:

- The Section 8 Contract Administration Division's policies and procedures for contract/funding renewals and rent adjustments are inadequate, resulting in noncompliance with the HUD contract and related guidelines

This condition is described in the Finding and Recommendation section of this report.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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

Compliance and Other Matters

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

We did, however, note an immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report. We also noted certain other less significant matters, which we have reported to the agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, 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

FINDING AND RECOMMENDATION

The Section 8 Contract Administration Division's policies and procedures for contract/funding renewals and rent adjustments are inadequate, resulting in noncompliance with the HUD contract and related guidelines

Finding

The Tennessee Housing Development Agency (THDA) contracts with the United States Department of Housing and Urban Development (HUD) to serve as the contract administrator for 384 Section 8 project-based Housing Assistance Payment (HAP) contracts. Project-based HAP contracts are associated with multi-family housing projects in which rent subsidies are paid to private, for-profit landlords and to nonprofit landlords. Under the terms of the contract, THDA assumed the duties of contract administrator from HUD in exchange for an administrative fee determined by the agency's attainment of applicable performance standards.

As contract administrator, THDA oversees HAP contracts for Section 8 projects by monitoring and enforcing the compliance of Section 8 owners with the terms of the HAP contract in accordance with HUD regulations and requirements based on the contract terms outlined in the Annual Contributions Contract. The agency accomplishes these objectives by conducting management and occupancy reviews; processing rental adjustments; processing renewal of expiring contracts (contract renewal); processing termination of HAP contracts; processing the annual funding of HAP contracts (funding renewal); verifying and certifying accuracy of monthly Section 8 vouchers; verifying and authorizing payment on valid Section 8 special claims; disbursing Section 8 payments to owners; responding to community/resident concerns; reporting contract administration activities to HUD; and following up on HUD's physical inspections. The Section 8 Contract Administration Division of the Tennessee Housing Development Agency has the responsibility for the administration of this program. This includes the establishment of policies and procedures for the day-to-day administration of the program.

The policies and procedures developed by the Section 8 Contract Administration Division do not contain detailed information explaining how to process contract/funding renewals and rent adjustments. Because the policies and procedures are general, the contract renewal specialists and contract renewal coordinator have made inconsistent interpretations of tasks to be performed and have developed varying procedures for accomplishing these tasks. The contract renewal specialist is the staff-level position that processes contract/funding renewals and rent adjustments. The contract renewal coordinator supervises the contract renewal specialists. When questioning the contract renewal specialists and the contract renewal coordinator about procedures, auditors received conflicting information on processes for contract renewals, funding renewals, and rent adjustments. In some cases, it appeared the employees were unaware of the proper procedures that should have been performed. As a result, the auditors requested from management a written description of the proper procedures that should be used so that the auditors could evaluate the agency's procedures. Instead, the agency prepared flowcharts for various procedures required for contract/funding renewals and rent adjustments.

The lack of detailed policies and procedures and the inconsistencies in procedures among THDA employees appear consistent with a finding related to training in the last two Annual Compliance and Reviews Reports prepared by HUD. HUD's finding stated that the Section 8 Contract Administration Division does not have an ongoing training program or plan for new or incumbent staff.

The absence of adequately detailed policies and procedures and the lack of formal training contributed to the following deficiencies noted in a sample of 50 property files tested for contract/funding renewals and/or rent adjustments.

- For eight files tested (16%), the dates of events such as renewal completions, funding requests, or package receipt in THDA's tracking log did not agree with the applicable dates in the property files. It was also noted during testwork that two files were incorrectly listed on the tracking log as pre-MAHRA (Multifamily Assisted Housing Reform and Affordability Act of 1997) contracts; they should have been listed as post-MAHRA contracts. Also, the contract expiration dates on the tracking log for two properties were incorrect. It appears the tracking log was not updated when these contracts were renewed. THDA's *Section 8 Contract Administration Policies and Procedures* requires that the appropriate tracking system entries be made during the processing of the contract or funding renewal and rent adjustment. The tracking log is the main internal control THDA appears to use to ensure compliance with the terms of its contract with HUD. In addition, it is the basis for the preparation of THDA's monthly, quarterly, and annual performance reports to HUD. These reports and the supporting tracking log are also the basis for the monthly invoices to HUD which detail the percentage of completion of the performance-based standards as outlined in the Annual Contributions Contract between THDA and HUD. Although THDA has a policy to make the appropriate entries, there are no policies or procedures to verify the information on the log is correct.

- For eight files tested (16%), the contract renewal specialists did not adequately document that they had verified with HUD that the property owner had not been debarred or suspended from contracting with HUD. THDA's *Section 8 Contract Administration Policies and Procedures*, Policy #245, Section VI.A.2., states, "The assigned staff member shall…check the HUD system for debarment/suspension of the owner or management agent. . . . The appropriate tracking system entry shall be made."

- For 38 of the 50 files tested, THDA was required to send written notification to the property owner of the expiration date of the contract or funding. Three of those 38 files (8%) did not contain documentation of this notification. Per THDA's *Section 8 Contract Administration Policies and Procedures*, Policy #245, Section VI.A.1., "THDA shall monitor contract expiration dates and notify owners in writing of pending contract renewals and submission requirements." Also, it was noted in the review of one property file that funding expired July 31, 2004. The Contract Renewal Request Form should have been received by April 2, 2004, 120 days prior to the expiration date. As of August 10, 2004, no paperwork has been received from the property owner, nor is there any indication that the contract renewal specialist has prepared the paperwork to start the funding renewal process. Although THDA has a policy to notify the owners of contract expiration, the policy does not detail when or for what type of contract this notification is required. During our audit, we received conflicting answers as to whether the policy required a notification 12 or 13 months before the renewal, or at some other point in time. Also, there appeared to be confusion by THDA staff as to whether the policy applies to both contract renewals and funding renewals. Finally, THDA has some contracts that are required to be renewed annually, but there were differing views by THDA staff as to whether this policy was required for that type of contract.

- For 25 of the 50 files tested, THDA should have obtained documentation of the one-year notification letters sent to the residents from the property owners stating their intent to renew or opt out of their Section 8 contract. Seven of those 25 files (28%) did not contain a one-year notification letter. The Annual Compliance and Reviews Reports for the past two years prepared by HUD also noted files missing this notice. HUD's *Section 8 Renewal Policy Guidebook*, Section 11-4, paragraph A, states, "Section 8(c)(8) of the United States Housing Act requires that Owners give a one-year written notice to tenants and HUD of the contract's termination or expiration. The one-year notification must state the owner's intentions (i.e., to renew or not renew) at the time of the contract's expiration." This is also a requirement of the Annual Contributions Contract between THDA and HUD. However, there was some uncertainty by some THDA staff as to whether this policy was required for contracts that renew annually.

- For 31 of the 50 files tested, THDA was required to calculate the increase in the monthly deposit to the reserve for replacement account for an Operating Cost Adjustment Factor (OCAF) rent adjustment. In 6 of those 31 files (19%), the increase in the monthly deposit to the reserve for replacement account was incorrectly calculated. This could result in the reserve being underfunded for future maintenance and repair projects. However, it does not change the amount paid by HUD for the property; it only changes the allocation between the amount sent to the property owner and the amount placed in the reserve. Per the HUD *Section 8 Renewal Policy Guidebook*, Section 4-3, paragraph A.2., "if a contract receives an OCAF rent adjustment, a proportionate amount of any OCAF-adjustment to the rent must be applied to the project's reserve for replacement account." It appears that some of the calculation errors were the result of various opinions among THDA staff on how or when the calculation of the reserve was to occur.

- For 39 of the 50 files tested, THDA was required to have a Rental Schedule (Form HUD 92458) completed, which documents the approved rents for the various types of units at the property. For one of those 39 files (3%), a Rental Schedule was not in the property file, and there was an increase to the rents. It was also noted in a preliminary review that one file contained a Rental Schedule that was not signed by THDA.

HUD's *Guidebook for Section 8 Contract Administration Initiative*, Section 3-5, states, "Upon receipt of the owner's signed Rental Schedule, the CA executes it and returns the original to the owner. . . ." THDA has no written policy or procedure to follow up on incomplete information in the property files.

- For five files tested (10%), the renewal start, renewal completion, or funding approval dates entered in the Real Estate Management System (REMS) did not agree with the dates in the property files. REMS is the computer system developed and maintained by HUD for THDA to report information to HUD. This resulted in incorrect information being provided to HUD through its electronic reporting system.

- For eight files tested (16%), the dates of events such as renewal completions, funding requests, or package receipt in the Monthly Report sent to HUD did not agree with the dates in the property files. THDA's *Section 8 Contract Administration Policies and Procedures*, Policy #260, Section VI.B.1., states, "The Reports Coordinator shall be responsible for processing all reports. The Reports Coordinator shall . . . review all reports and supporting documentation for accuracy and completeness prior to submission of any report to HUD." The submission of the monthly report to HUD is a requirement in the Annual Contributions Contract so that HUD can monitor and evaluate the program and agency performance.

- For 4 of 40 rent adjustment files tested (10%), some amounts on the rent adjustment worksheets were calculated incorrectly. The Annual Contributions Contract required THDA to approve the rent adjustment; therefore, verifying the accuracy of the calculation would be part of this approval. It appears that some of the calculation errors were the result of various opinions among THDA staff on the proper source to obtain the amounts used in the calculation. There appears to be no written THDA policy or procedure on how to perform this calculation.

Most of these deficiencies could have been eliminated through a system of management review and follow-up. However, the current written policies and procedures and the flowcharts developed for the auditors have no provisions for management review and follow-up.

Detailed written policies and procedures, essential to an effective system of internal control, are necessary to ensure the agency meets its duties as contract administrator. Without detailed written policies and procedures for all areas of operations, communication among management and other personnel may be impaired, and tasks may not be carried out consistently in accordance with management's goals and relevant requirements.

Recommendation

The Director of Contract Administration should strengthen internal control by developing detailed written policies and procedures for all internal operations and providing adequate training to employees. The director should then ensure that all policies and procedures, including updates, are communicated to employees. The director and contract renewal coordinator should also monitor employees' compliance with established policies and procedures and take appropriate corrective actions, as necessary, to improve compliance.

Management's Comment

Management has reviewed the finding related to the Section 8 Contract Administration (S8CA) Division's policies and procedures for contract/funding renewals and rent adjustments. We concur with the finding and the overall recommendation from State Audit. During this audit period, S8CA had policies and procedures in place addressing the general processing requirements for contract/funding renewals and rent adjustments. THDA has always adhered to a combination of its internally developed policies and HUD provided policies, statutes, regulations, notices, memos, and guidebooks in the processing of contract/funding renewals and rent adjustments. We recognize, as a result of this audit, that our current policies and procedures are not adequately detailed to support many of the processing actions required in performing these activities. This contributed to our contract renewal specialists making inconsistent interpretations of processing tasks at various stages. As the State Audit team conveyed during the exit conference, the contract/funding renewal and rent adjustment process encompasses a variety of complex and interrelated actions that are compressed into a pre-defined, HUD required timeframe. THDA is required to work jointly with property owners, management agents, and HUD staff (two Tennessee Field Offices) in order to successfully complete transactions and meet timeframes.

Strict and immediate attention to correct State Audit's concerns began in November 2004, with the following three-tiered approach:

Tier One involves S8CA rewriting all policies and procedures specific to the contract/funding and rent adjustment process. During State Audit's fieldwork, S8CA provided a series of flowcharts detailing all steps involved with each type of renewal and rent adjustment transaction. We fully understood that this was not a replacement for existing policies and procedures but instead was to be used as a tool for State Audit and staff to better identify the key steps in each process. Our revised policies and procedures will not only identify the key steps, but also the documentation, notification, dates, tracking systems, and monitoring systems that are essential to ensuring that contract/funding renewal and rent adjustment processing is timely, accurate, and compliant with HUD guidelines and expectations. THDA plans to complete and implement these revised policies and procedures by early Spring, 2005. We will include all appropriate S8CA staff, S8CA and THDA management, and HUD officials in the review and approval or acceptance of the revisions.

Tier Two involves the development and implementation of a more comprehensive training program for S8CA staff associated with contract/funding renewals and rent adjustments. New and existing staff will be consistently trained on the newly revised policies and procedures and, in addition, will thoroughly review and correct any weaknesses identified through our internal quality control processes. Staff will be able to utilize the revised policies and procedures as the primary resource document for performing their day to day work. All other HUD resource documents will continue to be used as necessary. Our division training coordinator and contract renewal coordinator will incorporate consistent delivery of in-service training on both contract/funding renewals and rent adjustments, as well as policy and procedure revisions, into the division training plan.

Tier Three involves improving the documentation process and organization within S8CA. THDA has always operated within HUD guidelines as the basis for processing contract/funding renewals and rent adjustments. HUD has provided guidance and/or direction in the form of verbal instruction on numerous occasions specific to various components of our processing. THDA recognizes that documentation of verbal instruction should be obtained either in the form of written instruction or THDA should follow up with a written confirmation to HUD. In addition, any HUD recommendations should be incorporated into formal policies and procedures as soon as practical. All HUD direction addressed in this manner will be immediately brought to the attention of staff by the contract renewal coordinator via in-service training and/or staff meetings.

The contract renewal section has already initiated bi-monthly staff meetings to discuss processing and any transactions that differ from routine as outlined in the policies and procedures. This will significantly enhance the level of consistent interpretation between the contract renewal coordinator and contract renewal staff. Internal review processes are being developed that directly focus on the accuracy of tracking logs, file data, calculations, and Real Estate Management System (REMS) entries. These processes are completed through a combination of internal quality control, external quality control, and supervisory review via checklists and file inspections.

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

September 30, 2004

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, 2004, and June 30, 2003, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to the bond finance committee of the Tennessee Housing Development Agency.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2004, and June 30, 2003, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 21 through 26 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying supplementary information on pages 50 through 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2004, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/th

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, 2004 and June 30, 2003. Please read it in conjunction with the agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2004

- Cash and cash equivalents increased $9.9 million
- Investments decreased by $73.2 million
- Bonds and notes payable decreased $58.0 million
- The agency's total net assets decreased $7.6 million
- The agency originated $273.2 million in mortgage loans

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

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):

	2004	2003	2002
Current assets	$ 459,245	$ 486,913	$ 356,230
Capital assets	16	-	5
Other noncurrent assets	1,765,131	1,813,491	2,014,871
Total assets	2,224,392	2,300,404	2,371,106
Long-term liabilities	1,784,774	1,839,174	1,840,205
Other liabilities	41,543	55,514	160,902
Total liabilities	1,826,317	1,894,688	2,001,107
Invested in capital assets	16	-	5
Restricted net assets	388,913	396,203	359,618
Unrestricted net assets	9,146	9,513	10,376
Total net assets	$ 398,075	$ 405,716	$ 369,999

2004 to 2003

- The agency's total net assets decreased $7.6 million from $405.7 million at June 30, 2003 to $398.1 million at June 30, 2004. This primarily resulted from the decrease in the fair value of investments.

- Mortgage loans receivable decreased $9.3 million from $1,426.3 million at June 30, 2003 to $1,417.0 million at June 30, 2004. The decrease resulted from loan prepayments exceeding loan originations.

- Total liabilities decreased $68.4 million from $1,894.7 million at June 30, 2003 to $1,826.3 million at June 30, 2004. The decrease is primarily due to the retirement of debt.

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 and an increase in the fair value of investments.

- 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.

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

	2004	2003	2002
Operating revenues			
Mortgage interest income	$ 93,763	$ 104,714	$ 107,134
Investment income (loss)	(67)	48,538	45,131
Other	12,174	11,055	9,908
Total operating revenues	105,870	164,307	162,173
Operating expenses			
Interest expense	83,326	102,164	102,413
Other	24,005	19,772	18,569
Total operating expenses	107,331	121,936	120,982
Operating income (loss)	(1,461)	42,371	41,191
Nonoperating revenues (expenses)			
Grant revenues	143,630	138,123	127,611
Grant expenses	(149,810)	(144,777)	(137,638)
Payment to primary government	-	-	(35,367)
Total nonoperating revenues (expenses)	(6,180)	(6,654)	(45,394)
Changes in net assets	$ (7,641)	$ 35,717	$ (4,203)

2004 to 2003

For the year ended June 30, 2004, total operating revenues decreased $58.4 million from $164.3 million for the year ended June 30, 2003 to $105.9 million for the year ended June 30, 2004. The primary reasons for this decrease are as follows:

- Mortgage interest income decreased $10.9 million, from $104.7 million in 2003 to $93.8 million in 2004. This is due to mortgage loan prepayments of higher interest loans, as well as new loans originated at record-low rates.

- Investment income decreased $48.6 million, from $48.5 million in 2003 to a net loss of $67,000 in 2004. This decrease is due to a net decrease in the fair value of investments of $22.2 million in 2004 (as compared to a net increase of $18.1 million in 2003) as well as higher coupon investments that were called, which were subsequently re-invested into investments having a lower interest rate.

For the year ended June 30, 2004, total operating expenses decreased $14.6 million, from $121.9 million in 2003 to $107.3 million in 2004. This decrease is primarily due to a decrease in interest expense of $18.8 million, from $102.1 million in 2003 to $83.3 million in 2004. This decrease occurred as a result of the Agency continuing to use mortgage loan prepayments to call higher-interest bonds.

2003 to 2002

For the year ended June 30, 2003 total operating revenues increased $2.1 million from $162.2 million for the year ended June 30, 2002 to $164.3 million for the year ended June 30, 2003. The primary reasons for this increase are as follows:

- 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.

For the year ended June 30, 2003, total operating expenses increased $.9 million, from $121.0 million in 2002 to $121.9 million in 2003.

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, a payment in the amount of $35.4 million was authorized from the agency's net assets. This transfer was reported as a non-operating expense for the year ended June 30, 2002.

DEBT ACTIVITY

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

	2004	2003	2002
Bonds payable	$1,489,299	$1,769,506	$1,820,394
Notes payable	273,240	51,070	67,909
Total bonds and notes payable	$1,762,539	$1,820,576	$1,888,303

Year Ended June 30, 2004

Total bonds and notes payable decreased $58.0 million due primarily to retirement of debt. During the fiscal year, the agency issued debt totaling $741.0 million, with activity arising from four bond issues totaling $406.9 million and four draws under the single family mortgage note program totaling $334.1 million.

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.

Note Authority

On March 18, 2004, the agency's board of directors authorized the issuance of Single Family Mortgage Note, Series 2004CN-1. This $450 million drawdown note with a maturity of up to three years closed on August 31, 2004.

ECONOMIC FACTORS

Fiscal Year 2004 saw a continuation of record-low interest rates. As a result, the agency continued to see mortgage loan prepayments, whereas new mortgages were originated at record low interest levels. Likewise, the agency continued to experience advanced calls of its bond investments. The proceeds from these calls were subsequently reinvested into investments with lower yields. In addition, market values of investments declined as a result of the drop in interest rates. Because of these external market influences, the agency continued to call higher-interest debt.

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, 2004 AND JUNE 30, 2003
(Expressed in Thousands)

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 376,254	$ 359,049
Investments (Note 2)	15,000	56,671
Receivables:		
Accounts	11,771	14,594
Interest	13,369	15,071
First mortgage loans	32,786	32,388
Due from federal government	10,065	9,140
Total current assets	459,245	486,913
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	43	7,334
Investments (Note 2)	184,336	211,800
Investment interest receivable	2,412	2,627
Investments (Note 2)	180,044	184,108
First mortgage loans receivable	1,384,193	1,393,938
Deferred charges	11,436	11,107
Advance to local government	2,657	2,566
Other receivables	10	11
Capital assets:		
Furniture and equipment	87	71
Less accumulated depreciation	(71)	(71)
Total noncurrent assets	1,765,147	1,813,491
Total assets	2,224,392	2,300,404
LIABILITIES		
Current liabilities:		
Checks payable (Note 3)	995	565
Accounts payable	1,355	1,317
Accrued payroll and related liabilities	278	270
Investments purchased	-	4,104
Compensated absences	275	307
Due to primary government	42	-
Interest payable	36,423	47,005
Escrow deposits	1,343	753
Prepayments on mortgage loans	1,450	1,653
Advance on bond sale	1,000	600
Bonds payable (Note 4)	95,459	251,690
Total current liabilities	138,620	308,264
Noncurrent liabilities:		
Notes payable (Note 4)	273,240	51,070
Bonds payable (Note 4)	1,393,840	1,517,816
Compensated absences	297	320
Escrow deposits	13,863	14,549
Arbitrage rebate payable	6,110	2,277
Deferred revenue	347	392
Total noncurrent liabilities	1,687,697	1,586,424
Total liabilities	1,826,317	1,894,688
NET ASSETS		
Invested in capital assets	16	-
Restricted for single family bond programs (Note 5)	384,955	390,631
Restricted for grant programs (Note 5)	804	2,418
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154
Unrestricted (Note 7)	9,146	9,513
Total net assets	$ 398,075	$ 405,716

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, 2004 AND JUNE 30, 2003
(Expressed in Thousands)

	2004	2003
OPERATING REVENUES		
Mortgage interest income	$ 93,763	$ 104,714
Investment income:		
Interest	22,143	30,374
Net increase (decrease) in the fair value of investments	(22,210)	18,164
Federal grant administration fees	9,786	8,869
Fees and other income	2,388	2,186
Total operating revenues	105,870	164,307
OPERATING EXPENSES		
Salaries and benefits	8,702	8,194
Contractual services	1,560	1,415
Materials and supplies	559	346
Rentals and insurance	1,035	822
Other administrative expenses	382	377
Other program expenses	5,960	2,399
Interest expense	83,326	102,164
Mortgage service fees	5,135	5,447
Issuance costs	672	767
Depreciation	-	5
Total operating expenses	107,331	121,936
Operating income (loss)	(1,461)	42,371
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	143,630	138,123
Federal grants expenses	(143,630)	(138,123)
Local grants expenses	(6,180)	(6,654)
Total nonoperating revenues (expenses)	(6,180)	(6,654)
Change in net assets	(7,641)	35,717
Total net assets, July 1	405,716	369,999
Total net assets, June 30	$ 398,075	$ 405,716

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, 2004 AND JUNE 30, 2003
(Expressed in Thousands)

	2004	2003
Cash flows from operating activities:		
Receipts from customers	$ 379,476	$ 371,204
Receipts from federal government	6,916	8,590
Other miscellaneous receipts	2,389	2,188
Acquisition of mortgage loans	(273,234)	(158,910)
Payments to service mortgages	(5,135)	(5,447)
Payments to suppliers	(3,758)	(4,883)
Payments to federal government	(224)	(1,196)
Payments to employees	(9,029)	(8,341)
Net cash provided by operating activities	97,401	203,205
Cash flows from non-capital financing activities:		
Operating grants received	145,575	138,195
Payment to primary government	-	(35,368)
Negative cash balance implicitly financed (repaid)	430	(1,711)
Proceeds from sale of bonds	411,066	134,150
Proceeds from issuance of notes	334,085	76,730
Operating grants paid	(150,127)	(145,746)
Call premium paid	(3,053)	-
Advance on bond sale	1,000	600
Cost of issuance paid	(3,194)	(1,191)
Principal payments	(802,459)	(284,366)
Interest paid	(90,996)	(98,050)
Net cash used by non-capital financing activities	(157,673)	(216,757)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(16)	-
Net cash used by capital and related financing activities	(16)	-
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	326,259	754,576
Purchases of investments	(281,844)	(670,993)
Investment interest received	25,787	31,471
Net cash provided by investing activities	70,202	115,054
Net increase in cash and cash equivalents	9,914	101,502
Cash and cash equivalents, July 1	366,383	264,881
Cash and cash equivalents, June 30	$ 376,297	$ 366,383

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2004 AND JUNE 30, 2003
(Expressed in Thousands)

	2004	2003
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$ (1,461)	$ 42,371
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	672	772
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	2,823	(3,692)
(Increase) decrease in mortgage interest receivable	744	(84)
Decrease in first mortgage loans receivable	9,253	110,955
(Increase) in due from federal government	(2,870)	(279)
Decrease in deferred charges	964	317
(Increase) decrease in other receivables	4	(1)
Increase in accounts payable	96	1,132
Increase (decrease) in accrued payroll / compensated absences	(47)	128
Increase (decrease) in due to primary government	42	(53)
(Decrease) in deferred revenue	(45)	(329)
Increase (decrease) in arbitrage rebate liability	3,833	(1,658)
Investment (income) loss included as operating revenue	67	(48,538)
Interest expense included as operating expense	83,326	102,164
Total adjustments	98,862	160,834
Net cash provided by operating activities	$ 97,401	$ 203,205
Noncash investing, capital, and financing activities:		
Accretion of deep discount bonds	$ 2,180	$ 4,095
Increase (decrease) in fair value of investments	(21,344)	18,755
Total noncash investing, capital, and financing activities	$ (19,164)	$ 22,850

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 operating budget, and provides some financial support. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency 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. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

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

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the interest method over the life of the related bond issue. 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. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

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

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

g. Cash and Cash Equivalents

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

h. Investments

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

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

l. Direct Servicing

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

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

At June 30, 2004, the carrying amount of the agency's deposits was $2,140,339 and the bank balances were $3,410,184. Of the balances, $1,343,829 was insured and $2,066,355 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.

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 laws of the State of Tennessee require that collateral be pledged at 105% of the value of uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $2,362,650 on June 30, 2004. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $5,139,728 on June 30, 2003. 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. Investments are categorized as follows:

June 30, 2004

	Category			
	1	**2**	**3**	**Fair Value**
Cash equivalents				
Repurchase agreements	**$ 80,000,000**			**$ 80,000,000**
U S government securities	**273,366,546**			**273,366,546**
Total cash equivalents	**$ 353,366,546**			**$ 353,366,546**
Investments				
Repurchase agreements	**$ 15,000,000**			**$ 15,000,000**
U S government securities	**363,929,969**			**363,929,969**
State & local government securities	**451,049**			**451,049**
Total investments	**$ 379,381,018**			**$ 379,381,018**
Cash equivalents and investments not subject to categorization:				
Money Market Mutual Fund				**18,427,969**
Total cash equivalents and investments				**$ 751,175,533**

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 ended June 30, 2003, but no losses were incurred.

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 06/30/2004	Ending Balance 6/30/2003
MORTGAGE FINANCE PROGRAM BONDS					
1993A	1/1/99-7/1/2028	$265,910	4.70 to 5.95	$ -0-	$198,550
1994A	1/1/96-7/1/2025	60,000	4.40 to 6.90	2,200	28,240
1994B	7/1/96-7/1/2025	100,000	4.50 to 6.60	7,335	46,815
1995A	1/1/97-7/1/2026	80,000	5.45 to 7.125	-0-	36,205
1995B/C	1/1/97-7/1/2026	100,000	4.80 to 6.55	26,890	52,740
2003A	7/1/2004-7/1/2034	191,885	1.70 to 5.35	191,885	-0-
Total Mortgage Finance Program Bonds		$797,795		$228,310	$362,550
Less: Deferred Amount on Refundings				(4,132)	(520)
Net Mortgage Finance Program Bonds				$224,178	$362,030

BONDS ISSUED AND OUTSTANDING, (cont'd)

HOMEOWNERSHIP PROGRAM BONDS

Issue K	7/1/92-7/1/2021	74,775	6.4 to 8.125	$ 1	$ 1
			Interest accretion	3	2
Issue WR	7/1/94-7/1/2017	49,900	4.25 to 6.80	-0-	17,775
Issue Y1/Z1	1/1/95-7/1/2024	50,000	3.50 to 6.10	13,095	18,460
Issue Y2/Z2	1/1/95-7/1/2024	30,000	3.50 to 5.75	8,885	12,770
1995-1	1/1/97-7/1/2026	65,000	4.35 to 6.48	11,035	22,140
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	19,695	27,280
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	29,495	45,295
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	24,975	34,665
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	22,255	40,370
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	38,980	49,255
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	37,755	47,575
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	32,995	42,240
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	30,473	56,937
			Interest accretion	12,561	20,426
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	33,230	41,630
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	17,670	24,095
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	46,470	65,670
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	23,790	33,355
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	58,120	83,635
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	55,660	85,690
2000-1	7/1/2001-7/1/2031	105,000	4.60 to 6.40	52,910	91,165
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	78,860	101,280
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	95,370	113,535
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	51,370	58,060
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	53,690	61,785
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	74,505	84,350
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	79,015	85,000
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	49,340	50,000
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	60,000	-0-
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	75,000	-0-
2004-1	1/1/2005-1/1/2035	$80,000	1.30 to 5.00	80,000	-0-
Total Homeownership Program Bonds		$2,121,538		$1,267,203	$1,414,441
Plus: Unamortized Bond Premiums				4,655	-0-
Less: Deferred Amount on Refundings				(6,737)	(6,965)
Net Homeownership Program Bonds				1,265,121	1,407,476
Net Total All Issues				$1,489,299	$1,769,506

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2004 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2005	$ 90,656	$ 73,426	$ 164,082
2006	51,568	72,984	124,552
2007	51,887	71,712	123,599
2008	50,166	70,279	120,445
2009	46,111	65,635	111,746
2010 – 2014	198,524	287,928	486,452
2015 – 2019	177,129	241,015	418,144
2020 – 2024	245,894	197,424	443,318
2025 – 2029	136,073	132,900	268,973
2030 – 2034	344,986	70,469	415,455
2035	94,610	2,492	97,102
Total	$1,487,604	$1,286,264	$2,773,868

The debt principal in the preceding table is $1.695 million less than that presented in the accompanying financial statements. Of this amount, $12.564 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 (2005-2009) in which the bonds mature. Also, $10.869 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, 2004, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $49,335,000 and in the Homeownership Program in the amount of $91,623,222. The respective carrying values of the bonds were $49,016,496 and $90,981,765. This resulted in an expense to the Mortgage Finance Program of $318,504 and the Homeownership Program of $641,457.

On July 1, 2003, the agency used $190,465,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $180,485,000 early redemption and $9,980,000 current maturities). The carrying amount of these bonds was $188,991,633. The refunding resulted in a difference of $1,473,367 between the reacquisition price and the net carrying amount of the old debt. A portion of these notes were refunded with bonds on November 13, 2003, March 11, 2004, and after year-end.

On July 31, 2003, the agency issued $60,000,000 in Homeownership Program Bonds, Issue 2003-2 A & B. On August 14, 2003, the agency used $27,070,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding reduced the agency's debt service by $2,694,900 over the next 28 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $4,923,598.

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

On September 4, 2003, the agency issued $191,885,000 in Mortgage Finance Program Bonds, Issue 2003A. On September 17, 2003, all outstanding 1993 Series A bonds were refunded by issue 2003A. Mortgage prepayments and excess reserves were used to call $39,250,000 of the bonds at par. The Optional Redemption provision was used to call the remaining $152,670,000 of bonds at 102 percent. The carrying amount of these bonds was $191,219,164. A call premium of $3,053,400 was paid on the redemption of these bonds. The refunding resulted in a difference of $3,754,236 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2028. The refunding increased the agency's debt service by $27,458,335 over the next 25 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $7,499,720.

On November 3, 2003, the agency used $89,355,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $89,355,000 early redemption and $0 current maturities). The carrying amount of these bonds was $88,675,883. The refunding resulted in a difference of $679,117 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On November 5, 2003, the agency issued $75,000,000 in Homeownership Program Bonds, Issue 2003-3 A & B. On November 13, 2003, the agency used $37,555,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 and July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding increased the agency's debt service by $6,527,806 over the next 30 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $4,000,240.

On November 13, 2003 a principal redemption was made on the Series 2002CN-1 Notes in the amount of $37,555,000.

On January 2, 2004, the agency used $27,700,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $22,955,000 early redemption and $4,745,000 current maturities). The carrying amount of these bonds was $27,534,157. The refunding resulted in a difference of $165,843 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On March 4, 2004, the agency issued $80,000,000 in Homeownership Program Bonds, Issue 2004-1. On March 11, 2004, the agency used $47,290,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program. The refunding increased the agency's debt service by $3,917,718 over the next 22.5 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $5,637,611.

On March 11, 2004 a principal redemption was made on the Series 2002CN-1 Notes in the amount of $47,290,000.

On April 1, 2004, the agency used $26,565,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $26,565,000 early redemption and $0 current maturities). The carrying amount of these bonds was $26,372,070. The refunding resulted in a difference of $192,930 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On June 10, 2004 the Series 2002CN-1 Notes were remarketed in the amount of $273,240,000.

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 were 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 on April 10, August 14, and November 13, 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 were 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 reduced the agency's debt service by $14,401,030 over the next 30 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $12,308,243.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 2004

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS							
07/01/2003	93A	$6,630,000	$6,630,000			$ (-0-)	Current Refunding
07/01/2003	94A	19,505,000	19,396,842			(108,158)	Current Refunding
07/01/2003	94B	5,735,000	5,690,175			(44,825)	Current Refunding
07/01/2003	95A	28,880,000	28,622,435			(257,565)	Current Refunding
07/01/2003	95BC	2,730,000	2,701,855			(28,145)	Current Refunding
07/01/2003	95BC	1,755,000	1,736,907		$ (18,093)		Prepayments
9/17/2003	93A	191,920,000	194,272,564	$3,053,400		(700,836)	Current Refunding
11/03/2003	94A	895,000	889,907			(5,093)	Current Refunding
11/03/2003	94B	6,655,000	6,595,741			(59,259)	Current Refunding
11/03/2003	95A	2,800,000	2,793,352			(6,648)	Current Refunding
11/03/2003	95BC	1,110,000	1,097,323			(12,677)	Current Refunding
11/03/2003	95BC	2,705,000	2,674,107		(30,893)		Prepayments
01/02/2004	94A	955,000	954,578			(422)	Current Refunding

Year Ended June 30, 2004 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
01/02/2004	94A	3,880,000	3,876,002		(3,998)		Prepayments
01/02/2004	94B	1,540,000	1,535,892			(4,108)	Current Refunding
01/02/2004	94B	17,850,000	17,729,805		(120,195)		Prepayments
01/02/2004	95A	1,190,000	1,189,416			(584)	Current Refunding
01/02/2004	95A	2,075,000	2,072,854		(2,146)		Prepayments
01/02/2004	95BC	460,000	456,722			(3,278)	Current Refunding
01/02/2004	95BC	10,195,000	10,098,147		(96,853)		Prepayments
04/01/2004	94A	805,000	804,598			(402)	Current Refunding
04/01/2004	94B	1,600,000	1,595,982			(4,018)	Current Refunding
04/01/2004	94B	6,100,000	6,084,682		(15,318)		Prepayments
04/01/2004	95A	1,210,000	1,209,152			(848)	Current Refunding
04/01/2004	95A	50,000	49,965		(35)		Prepayments
04/01/2004	95BC	520,000	516,591			(3,409)	Current Refunding
04/01/2004	95BC	4,725,000	4,694,027		(30,973)		Prepayments
	Sub-Total-	$324,475,000	$325,969,621	$3,053,400	($318,504)	($1,240,275)	
HOMEOWNERSHIP PROGRAM BONDS							
07/01/2003	91WX	$8,000,000	$7,934,812			($65,188)	Current Refunding
07/01/2003	91WX	825,000	818,277		($6,723)		Prepayments
07/01/2003	92Y1Z1	1,335,000	1,325,642		(9,358)		Prepayments
07/01/2003	92Y2Z2	700,000	693,831			(6,169)	Current Refunding
07/01/2003	92Y2Z2	510,000	505,506		(4,494)		Prepayments
07/01/2003	95-1	3,330,000	3,320,623			(9,377)	Current Refunding
07/01/2003	95-1	110,000	109,690		(310)		Prepayments
07/01/2003	96-1	2,070,000	2,055,357			(14,643)	Current Refunding
07/01/2003	96-1	1,025,000	1,017,749		(7,251)		Prepayments
07/01/2003	96-2	5,600,000	5,551,587			(48,413)	Current Refunding
07/01/2003	96-2	2,170,000	2,151,240		(18,760)		Prepayments
07/01/2003	96-3	4,995,000	4,948,673			(46,327)	Current Refunding
07/01/2003	96-4	8,485,000	8,394,729			(90,271)	Current Refunding
07/01/2003	96-4	950,000	939,893		(10,107)		Prepayments
07/01/2003	96-5	4,345,000	4,296,694			(48,306)	Current Refunding
07/01/2003	97-1	3,635,000	3,597,867			(37,133)	Current Refunding
07/01/2003	97-1	275,000	272,191		(2,809)		Prepayments
07/01/2003	97-2	3,170,000	3,147,949			(22,051)	Current Refunding
07/01/2003	97-2	385,000	382,322		(2,678)		Prepayments
07/01/2003	97-3	32,495,000	32,256,211			(238,789)	Current Refunding
07/01/2003	97-3	1,713,222	1,700,589		(12,633)		Prepayments
07/01/2003	98-1	1,500,000	1,482,991			(17,009)	Current Refunding
07/01/2003	98-1	40,000	39,546		(454)		Prepayments
07/01/2003	98-2	2,195,000	2,172,466			(22,534)	Current Refunding
07/01/2003	98-3	4,850,000	4,819,462			(30,538)	Current Refunding
07/01/2003	98-3	1,380,000	1,371,655		(8,345)		Prepayments
07/01/2003	99-1	2,390,000	2,365,596			(24,404)	Current Refunding
07/01/2003	99-1	865,000	856,168		(8,832)		Prepayments
07/01/2003	99-2	7,425,000	7,376,112			(48,888)	Current Refunding
07/01/2003	99-2	1,170,000	1,162,296		(7,704)		Prepayments
07/01/2003	99-3	9,640,000	9,549,974			(90,026)	Current Refunding
07/01/2003	99-3	660,000	653,836		(6,164)		Prepayments
07/01/2003	2000-1	12,930,000	12,834,726			(95,274)	Current Refunding
07/01/2003	2000-1	525,000	521,132		(3,868)		Prepayments
07/01/2003	2000-2	2,520,000	2,503,012			(16,988)	Current Refunding
07/01/2003	2000-2	2,905,000	2,885,417		(19,583)		Prepayments
07/01/2003	2001-1	6,035,000	6,007,135		(27,865)		Prepayments
07/01/2003	2001-2	1,400,000	1,384,272			(15,728)	Current Refunding
07/01/2003	2001-3	2,810,000	2,778,979			(31,021)	Current Refunding
07/01/2003	2002-1	995,000	990,936			(4,064)	Current Refunding
07/01/2003	2002-1	200,000	198,535		(1,465)		Prepayments
07/01/2003	2002-2	1,505,000	1,493,467			(11,533)	Current Refunding
07/01/2003	2002-2	140,000	138,927		(1,073)		Prepayments
11/03/2003	91WX	5,995,000	5,975,643			(19,357)	Current Refunding

Year Ended June 30, 2004 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
11/03/2003	91WX	1,735,000	1,729,398		(5,602)		Prepayments
11/03/2003	92Y1Z1	2,320,000	2,299,769		(20,231)		Prepayments
11/03/2003	92Y2Z2	1,425,000	1,414,721		(10,279)		Prepayments
11/03/2003	95-1	1,290,000	1,286,537			(3,463)	Current Refunding
11/03/2003	95-1	290,000	289,222		(778)		Prepayments
11/03/2003	96-1	540,000	536,253			(3,747)	Current Refunding
11/03/2003	96-1	1,625,000	1,613,723		(11,277)		Prepayments
11/03/2003	96-2	1,800,000	1,785,298			(14,702)	Current Refunding
11/03/2003	96-2	2,940,000	2,915,987		(24,013)		Prepayments
11/03/2003	96-3	2,645,000	2,620,666			(24,334)	Current Refunding
11/03/2003	96-3	130,000	128,804		(1,196)		Prepayments
11/03/2003	96-4	3,240,000	3,208,945			(31,055)	Current Refunding
11/03/2003	96-4	1,370,000	1,356,869		(13,131)		Prepayments
11/03/2003	96-5	3,150,000	3,115,157			(34,843)	Current Refunding
11/03/2003	96-5	145,000	143,396		(1,604)		Prepayments
11/03/2003	97-1	2,535,000	2,510,835			(24,165)	Current Refunding
11/03/2003	97-1	950,000	940,944		(9,056)		Prepayments
11/03/2003	97-2	1,695,000	1,683,658			(11,342)	Current Refunding
11/03/2003	97-2	1,205,000	1,196,937		(8,063)		Prepayments
11/03/2003	98-1	2,015,000	1,993,979			(21,021)	Current Refunding
11/03/2003	98-1	1,650,000	1,632,787		(17,213)		Prepayments
11/03/2003	98-2	1,820,000	1,801,593			(18,407)	Current Refunding
11/03/2003	98-2	550,000	544,438		(5,562)		Prepayments
11/03/2003	98-3	3,495,000	3,475,461			(19,539)	Current Refunding
11/03/2003	98-3	3,985,000	3,962,722		(22,278)		Prepayments
11/03/2003	99-1	1,460,000	1,446,171			(13,829)	Current Refunding
11/03/2003	99-1	1,795,000	1,777,998		(17,002)		Prepayments
11/03/2003	99-2	6,385,000	6,345,433			(39,567)	Current Refunding
11/03/2003	99-2	3,415,000	3,393,838		(21,162)		Prepayments
11/03/2003	99-3	9,800,000	9,710,948			(89,052)	Current Refunding
11/03/2003	99-3	2,655,000	2,630,874		(24,126)		Prepayments
11/03/2003	2000-1	13,575,000	13,478,237			(96,763)	Current Refunding
11/03/2003	2000-1	2,225,000	2,209,140		(15,860)		Prepayments
11/03/2003	2000-2	7,015,000	6,974,130			(40,870)	Current Refunding
11/03/2003	2000-2	3,465,000	3,444,813		(20,187)		Prepayments
11/03/2003	2001-1	25,000	24,868			(132)	Current Refunding
11/03/2003	2001-1	6,690,000	6,654,604		(35,396)		Prepayments
11/03/2003	2001-2	1,810,000	1,786,512			(23,488)	Current Refunding
11/03/2003	2001-2	360,000	355,328		(4,672)		Prepayments
11/03/2003	2001-3	2,235,000	2,209,277			(25,723)	Current Refunding
11/03/2003	2001-3	1,025,000	1,013,203		(11,797)		Prepayments
11/03/2003	2002-1	3,330,000	3,305,123			(24,877)	Current Refunding
11/03/2003	2002-1	1,465,000	1,454,055		(10,945)		Prepayments
11/03/2003	2002-2	2,040,000	2,024,836			(15,164)	Current Refunding
11/03/2003	2002-2	585,000	580,651		(4,349)		Prepayments
01/02/2004	92Y1Z1	75,000	74,343		(657)		Prepayments
01/02/2004	92Y2Z2	310,000	307,768		(2,232)		Prepayments
01/02/2004	95-1	2,735,000	2,725,926			(9,074)	Current Refunding
01/02/2004	95-1	995,000	991,699		(3,301)		Prepayments
01/02/2004	96-1	200,000	199,162			(838)	Current Refunding
01/02/2004	96-1	790,000	786,690		(3,310)		Prepayments
01/02/2004	96-2	600,000	595,130			(4,870)	Current Refunding
01/02/2004	96-2	425,000	421,550		(3,450)		Prepayments
01/02/2004	96-3	545,000	542,704			(2,296)	Current Refunding
01/02/2004	96-4	1,045,000	1,035,728			(9,272)	Current Refunding
01/02/2004	96-5A	1,065,000	1,055,821			(9,179)	Current Refunding
01/02/2004	97-1	815,000	809,358			(5,642)	Current Refunding
01/02/2004	97-2	570,000	566,210			(3,790)	Current Refunding
01/02/2004	97-2	415,000	412,241		(2,759)		Prepayments
01/02/2004	97-3	70,000	70,000			(-0-)	Current Refunding
01/02/2004	98-1	500,000	494,810			(5,190)	Current Refunding
01/02/2004	98-1	445,000	440,381		(4,619)		Prepayments

Year Ended June 30, 2004 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
01/02/2004	98-2	335,000	331,614			(3,386)	Current Refunding
01/02/2004	98-2	160,000	158,383		(1,617)		Prepayments
01/02/2004	98-3C	1,015,000	1,009,449			(5,551)	Current Refunding
01/02/2004	98-3C	1,165,000	1,158,629		(6,371)		Prepayments
01/02/2004	99-1	560,000	554,725			(5,275)	Current Refunding
01/02/2004	99-1	700,000	693,406		(6,594)		Prepayments
01/02/2004	99-2	1,950,000	1,937,989			(12,011)	Current Refunding
01/02/2004	99-2	1,040,000	1,033,594		(6,406)		Prepayments
01/02/2004	99-3	2,220,000	2,199,974			(20,026)	Current Refunding
01/02/2004	99-3	595,000	589,633		(5,367)		Prepayments
01/02/2004	2000-1	3,080,000	3,058,195			(21,805)	Current Refunding
01/02/2004	2000-1	545,000	541,142		(3,858)		Prepayments
01/02/2004	2000-2	1,810,000	1,800,624			(9,376)	Current Refunding
01/02/2004	2000-2	1,010,000	1,004,768		(5,232)		Prepayments
01/02/2004	2001-1	570,000	570,000			(-0-)	Current Refunding
01/02/2004	2001-1	2,480,000	2,470,092		(9,908)		Prepayments
01/02/2004	2001-2	1,295,000	1,281,069			(13,931)	Current Refunding
01/02/2004	2001-3	440,000	438,886			(1,114)	Current Refunding
01/02/2004	2002-1	1,035,000	1,025,692			(9,308)	Current Refunding
01/02/2004	2002-1	220,000	218,021		(1,979)		Prepayments
01/02/2004	2002-2	825,000	822,352			(2,648)	Current Refunding
01/02/2004	2003-1	275,000	272,131			(2,869)	Current Refunding
01/02/2004	2003-1	45,000	44,531		(469)		Prepayments
04/01/2004	92Y1Z1	825,000	817,973		(7,027)		Prepayments
04/01/2004	92Y2Z2	590,000	586,047		(3,953)		Prepayments
04/01/2004	95-1	1,795,000	1,789,419			(5,581)	Current Refunding
04/01/2004	95-1	40,000	39,876		(124)		Prepayments
04/01/2004	96-1	210,000	208,574			(1,426)	Current Refunding
04/01/2004	96-1	740,000	734,974		(5,026)		Prepayments
04/01/2004	96-2	490,000	486,076			(3,924)	Current Refunding
04/01/2004	96-2	660,000	654,714		(5,286)		Prepayments
04/01/2004	96-3	940,000	931,521			(8,479)	Current Refunding
04/01/2004	96-3	90,000	89,188		(812)		Prepayments
04/01/2004	96-4	1,775,000	1,755,984			(19,016)	Current Refunding
04/01/2004	96-4	375,000	370,983		(4,017)		Prepayments
04/01/2004	96-5	1,175,000	1,162,247			(12,753)	Current Refunding
04/01/2004	96-5	45,000	44,512		(488)		Prepayments
04/01/2004	97-1	570,000	564,671			(5,329)	Current Refunding
04/01/2004	97-1	200,000	198,130		(1,870)		Prepayments
04/01/2004	97-2	510,000	506,648			(3,352)	Current Refunding
04/01/2004	97-2	360,000	357,634		(2,366)		Prepayments
04/01/2004	98-1	780,000	772,007			(7,993)	Current Refunding
04/01/2004	98-1	595,000	588,903		(6,097)		Prepayments
04/01/2004	98-2	660,000	653,443			(6,557)	Current Refunding
04/01/2004	98-2	185,000	183,162		(1,838)		Prepayments
04/01/2004	98-3	945,000	939,887			(5,113)	Current Refunding
04/01/2004	98-3	1,070,000	1,064,210		(5,790)		Prepayments
04/01/2004	99-1	515,000	510,202			(4,798)	Current Refunding
04/01/2004	99-1	625,000	619,177		(5,823)		Prepayments
04/01/2004	99-2	1,730,000	1,718,930			(11,070)	Current Refunding
04/01/2004	99-2	920,000	914,113		(5,887)		Prepayments
04/01/2004	99-3	2,240,000	2,219,988			(20,012)	Current Refunding
04/01/2004	99-3	590,000	584,729		(5,271)		Prepayments
04/01/2004	2000-1	3,400,000	3,376,187			(23,813)	Current Refunding
04/01/2004	2000-1	575,000	570,973		(4,027)		Prepayments
04/01/2004	2000-2	965,000	958,526			(6,474)	Current Refunding
04/01/2004	2000-2	1,450,000	1,440,272		(9,728)		Prepayments
04/01/2004	2001-1	1,800,000	1,790,964		(9,036)		Prepayments
04/01/2004	2001-2	1,075,000	1,061,512			(13,488)	Current Refunding
04/01/2004	2001-2	210,000	207,365		(2,635)		Prepayments
04/01/2004	2001-3	685,000	677,245			(7,755)	Current Refunding
04/01/2004	2001-3	310,000	306,491		(3,509)		Prepayments
04/01/2004	2002-1	1,165,000	1,154,752			(10,248)	Current Refunding

Year Ended June 30, 2004 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
04/01/2004	2002-1	510,000	505,514		(4,486)		Prepayments
04/01/2004	2002-2	540,000	535,427			(4,573)	Current Refunding
04/01/2004	2002-2	150,000	148,730		(1,270)		Prepayments
04/01/2004	2003-1	265,000	262,501			(2,499)	Current Refunding
04/01/2004	2003-1	75,000	74,293		(707)		Prepayments
	Sub-Total	$342,488,222	$339,874,947	$-0-	($641,457)	($1,971,818)	
	Total	$666,963,222	$665,844,568	$3,053,400	($959,961)	($3,212,093)	

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
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
7/01/2002	2001-2	55,000	54,262		(738)		Prepayments

Year Ended June 30, 2003 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
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
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-)	

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, 2004.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004
Notes Payable	$51,070	$334,085	($111,915)	$273,240
Bonds Payable	1,776,991	409,065	(690,543)	1,495,513
Plus: Unamortized Bond Premiums	-0-	4,781	(126)	4,655
Less: Deferred Amount on Refundings	(7,485)	(4,246)	862	(10,869)
Compensated Absences	627	334	(389)	572
Escrow Deposits	15,302	4,029	(4,125)	15,206
Arbitrage Rebate Payable	2,277	4,261	(428)	6,110
Deferred Revenue	392	977	(1,022)	347
Total	$1,839,174	$753,286	($807,686)	$1,784,774

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

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, 2004.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2003	Additions	Reductions	Ending Balance 6/30/2004
SINGLE FAMILY MORTGAGE NOTES							
2002CN-1	12/8/2005	$ 450,000	1.206	$51,070	$334,085	($111,915)	$273,240
Total Single Family Mortgage Notes				$51,070	$334,085	($111,915)	$273,240
Less: Deferred Amount on Refundings				-0-	(-0-)	-0-	(-0-)
Net Single Family Mortgage Notes				$51,070	$334,085	($111,915)	$273,240

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 in part d. of this note.

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 7.27% 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, 2004, 2003, and 2002, were $480,912, $448,684, and $353,618. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

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

c. Employee Group Insurance Fund

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

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 10. PAYMENTS TO PRIMARY GOVERNMENT

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

NOTE 11. SUBSEQUENT EVENTS

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

July 1, 2004	Mortgage Finance Program	$ 3,390,000
	Homeownership Program	$34,441,071
	Total	$37,831,071

b. On July 1, 2004 a seventh drawdown was made on the Series 2002CN-1 Notes in the amount of $39,185,000. These proceeds were used to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($27,955,000 early redemption and $11,230,000 current maturities).

c. Homeownership Program Bonds, Issue 2004-2, were sold on July 15, 2004. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2004-2	7/1/2005-1/1/2035	$100,000	1.85 to 5.25
TOTAL ALL ISSUES		$100,000	

On August 12, 2004, the agency used $43,920,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

d. Bond proceeds were used to redeem bonds as indicated below:

August 1, 2004	Mortgage Finance Program	$ -0-
	Homeownership Program	$7,835,000
	Total	$7,835,000

e. On August 31, 2004 the first drawdown was made on the Series 2004CN-1 Notes in the amount of $34,145,000.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF NET ASSETS
JUNE 30, 2004
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2,621	$ 13,401	$ 86,837	$ 273,395	$ 376,254
Investments	-	4,600	10,400	-	15,000
Receivables:					
Accounts	-	2,417	9,354	-	11,771
Interest	-	3,113	10,256	-	13,369
First mortgage loans	75	9,577	23,134	-	32,786
Due from federal government	10,065	-	-	-	10,065
Due from other funds	-	14,441	-	-	14,441
Total current assets	12,761	47,549	139,981	273,395	473,686
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	3	40	-	43
Investments	-	39,642	144,694	-	184,336
Investment Interest receivable	-	532	1,880	-	2,412
Investments	-	66,960	113,084	-	180,044
First mortgage loans receivable	421	237,945	1,145,827	-	1,384,193
Deferred charges	21	1,365	8,013	2,037	11,436
Advance to local government	2,657	-	-	-	2,657
Other receivables	-	-	10	-	10
Capital assets:					
Furniture and equipment	87	-	-	-	87
Less accumulated depreciation	(71)	-	-	-	(71)
Total noncurrent assets	3,115	346,447	1,413,548	2,037	1,765,147
Total assets	15,876	393,996	1,553,529	275,432	2,238,833
LIABILITIES					
Current liabilities:					
Checks payable	2	160	833	-	995
Accounts payable	1,343	12	-	-	1,355
Accrued payroll and related liabilities	278	-	-	-	278
Compensated absences	275	-	-	-	275
Due to primary government	42	-	-	-	42
Interest payable	-	5,284	30,981	158	36,423
Escrow deposits	280	1,063	-	-	1,343
Prepayments on mortgage loans	-	193	1,257	-	1,450
Advance on bond sale	-	-	1,000	-	1,000
Due to other funds	36	-	14,404	1	14,441
Bonds payable	-	17,535	77,924	-	95,459
Total current liabilities	2,256	24,247	126,399	159	153,061
Noncurrent liabilities:					
Notes payable	-	-	-	273,240	273,240
Bonds payable	-	206,642	1,187,198	-	1,393,840
Compensated absences	297	-	-	-	297
Escrow deposits	203	13,660	-	-	13,863
Arbitrage rebate payable	-	1,606	4,479	25	6,110
Deferred revenue	-	347	-	-	347
Total noncurrent liabilities	500	222,255	1,191,677	273,265	1,687,697
Total liabilities	2,756	246,502	1,318,076	273,424	1,840,758
NET ASSETS					
Invested in capital assets	16	-	-	-	16
Restricted for single family bond programs	-	147,494	235,453	2,008	384,955
Restricted for grant programs	804	-	-	-	804
Restricted for Homebuyers Revolving Loan Program	3,154	-	-	-	3,154
Unrestricted	9,146	-	-	-	9,146
Total net assets	$ 13,120	$ 147,494	$ 235,453	$ 2,008	$ 398,075

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	$ -	$ 17,268	$ 76,495	$ -	$ 93,763
Investment income:					
Interest	1	6,264	15,878	-	22,143
Net increase (decrease) in the fair value of investments	-	(6,257)	(18,228)	2,275	(22,210)
Federal grant administration fees	9,786	-	-	-	9,786
Fees and other income	2,077	311	-	-	2,388
Total operating revenues	11,864	17,586	74,145	2,275	105,870
OPERATING EXPENSES					
Salaries and benefits	8,702	-	-	-	8,702
Contractual services	1,560	-	-	-	1,560
Materials and supplies	559	-	-	-	559
Rentals and insurance	1,035	-	-	-	1,035
Other administrative expenses	382	-	-	-	382
Other program expenses	268	2,068	3,575	49	5,960
Interest expense	-	13,791	67,259	2,276	83,326
Mortgage service fees	-	851	4,284	-	5,135
Issuance costs	-	104	460	108	672
Total operating expenses	12,506	16,814	75,578	2,433	107,331
Operating income (loss)	(642)	772	(1,433)	(158)	(1,461)
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	143,630	-	-	-	143,630
Federal grants expenses	(143,630)	-	-	-	(143,630)
Local grants expenses	(1,459)	(981)	(3,740)	-	(6,180)
Total nonoperating revenues (expenses)	(1,459)	(981)	(3,740)	-	(6,180)
Income (loss) before transfers	(2,101)	(209)	(5,173)	(158)	(7,641)
Transfers (to) other funds	-	-	(14,923)		(14,923)
Transfers from other funds	136	12,579	-	2,208	14,923
Change in net assets	(1,965)	12,370	(20,096)	2,050	(7,641)
Total net assets, July 1	15,085	135,124	255,549	(42)	405,716
Total net assets, June 30	$ 13,120	$ 147,494	$ 235,453	$ 2,008	$ 398,075

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(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	$ 242	$ 69,224	$ 310,010	$ -	$ 379,476
Receipts from federal government	6,916	-	-	-	6,916
Receipts from other funds	36	-	14,404	1	14,441
Other miscellaneous receipts	2,077	311	1	-	2,389
Acquisition of mortgage loans	-	(46,482)	(226,752)	-	(273,234)
Payments to service mortgages	-	(851)	(4,284)	-	(5,135)
Payments to suppliers	(3,098)	(132)	(504)	(24)	(3,758)
Payments to federal government	-	-	(224)	-	(224)
Payments to other funds	-	(14,441)	-	-	(14,441)
Payments to employees	(9,029)	-	-	-	(9,029)
Net cash provided (used) by operating activities	(2,856)	7,629	92,651	(23)	97,401
Cash flows from non-capital financing activities:					
Operating grants received	145,575	-	-	-	145,575
Transfers in (out)	136	13,119	(13,426)	171	-
Negative cash balance implicitly financed (repaid)	2	(255)	683	-	430
Proceeds from sale of bonds	-	191,920	219,146	-	411,066
Proceeds from issuance of notes	-	-	-	334,085	334,085
Operating grants paid	(145,406)	(981)	(3,740)	-	(150,127)
Call premium paid	-	(3,053)	-	-	(3,053)
Advance on bond sale	-	-	1,000	-	1,000
Cost of issuance paid	-	(1,293)	(1,753)	(148)	(3,194)
Principal payments	-	(326,125)	(364,419)	(111,915)	(802,459)
Interest paid	-	(19,387)	(69,463)	(2,146)	(90,996)
Net cash provided (used) by non-capital financing activities	307	(146,055)	(231,972)	220,047	(157,673)
Cash flows from capital and related financing activities:					
Purchases of capital assets	(16)	-	-	-	(16)
Net cash used by capital and related financing activities	(16)	-	-	-	(16)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	156,809	244,507	-	401,316
Purchases of investments	-	(116,143)	(240,758)	-	(356,901)
Investment interest received	1	7,161	16,350	2,275	25,787
Net cash provided by investing activities	1	47,827	20,099	2,275	70,202
Net increase (decrease) in cash and cash equivalents	(2,564)	(90,599)	(119,222)	222,299	9,914
Cash and cash equivalents, July 1	5,185	104,003	206,099	51,096	366,383
Cash and cash equivalents, June 30	$ 2,621	$ 13,404	$ 86,877	$ 273,395	$ 376,297

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2004
(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)	$ (642)	$ 772	$ (1,433)	$ (158)	$ (1,461)
Adjustments to reconcile operating income to					
net cash provided (used) by operating activities:					
Depreciation and amortization	-	104	460	108	672
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	-	(569)	3,392	-	2,823
Decrease in mortgage interest receivable	-	303	441	-	744
Decrease in first mortgage loans receivable	-	6,149	3,104	-	9,253
(Increase) in due from federal government	(2,870)	-	-	-	(2,870)
Decrease in deferred charges	1	318	645	-	964
Decrease in other receivables	-	-	4	-	4
(Increase) in interfund receivables	-	(14,441)	-	-	(14,441)
Increase in interfund payables	36	-	14,404	1	14,441
Increase (decrease) in accounts payable	625	(352)	(177)	-	96
(Decrease) in accrued payroll / compensated absences	(47)	-	-	-	(47)
Increase in due to primary government	42	-	-	-	42
(Decrease) in deferred revenue	-	(45)	-	-	(45)
Increase in arbitrage rebate liability	-	1,606	2,202	25	3,833
Investment (income) loss included as operating revenue	(1)	(7)	2,350	(2,275)	67
Interest expense included as operating expense	-	13,791	67,259	2,276	83,326
Total adjustments	(2,214)	6,857	94,084	135	98,862
Net cash provided (used) by operating activities	$ (2,856)	$ 7,629	$ 92,651	$ (23)	$ 97,401
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	$ -	$ -	$ 2,180	$ -	$ 2,180
Increase (decrease) in fair value of investments	-	(4,399)	(17,073)	128	(21,344)
Total noncash investing, capital, and financing activities	$ -	$ (4,399)	$ (14,893)	$ 128	$ (19,164)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF NET ASSETS - OPERATING GROUP
JUNE 30, 2004
(Expressed in Thousands)

	Housing Program Fund	Direct Servicing	Operating Group Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,363	$ 258	$ 2,621
Receivables:			
First mortgage loans	75	-	75
Due from federal government	10,065	-	10,065
Total current assets	12,503	258	12,761
Noncurrent assets:			
First mortgage loans receivable	421	-	421
Deferred charges	21	-	21
Advance to local government	2,657	-	2,657
Capital assets:			
Furniture and equipment	87	-	87
Less accumulated depreciation	(71)	-	(71)
Total noncurrent assets	3,115	-	3,115
Total assets	15,618	258	15,876
LIABILITIES			
Current liabilities:			
Checks payable	-	2	2
Accounts payable	1,343	-	1,343
Accrued payroll and related liabilities	278	-	278
Compensated absences	275	-	275
Due to primary government	42	-	42
Escrow deposits	-	280	280
Due to other funds	-	36	36
Total current liabilities	1,938	318	2,256
Noncurrent liabilities:			
Compensated absences	297	-	297
Escrow deposits	203	-	203
Total noncurrent liabilities	500	-	500
Total liabilities	2,438	318	2,756
NET ASSETS			
Invested in capital assets	16	-	16
Restricted for grant programs	804	-	804
Restricted for Homebuyers Revolving Loan Program	3,154	-	3,154
Unrestricted	9,206	(60)	9,146
Total net assets	$ 13,180	$ (60)	$ 13,120

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2004
(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	$ 12,515	$ 525	$ 13,040	$ 361	$ 13,401
Investments	4,600		4,600	-	4,600
Receivables:					
Accounts	2,417	-	2,417	-	2,417
Interest	2,383	605	2,988	125	3,113
First mortgage loans	9,070	507	9,577	-	9,577
Due from other funds	-	16,725	16,725	483	17,208
Total current assets	30,985	18,362	49,347	969	50,316
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	3	-	3	-	3
Investments	39,642	-	39,642	-	39,642
Investment interest receivable	532	-	532	-	532
Investments	25,744	28,720	54,464	12,496	66,960
First mortgage loans receivable	231,738	6,207	237,945	-	237,945
Deferred charges	1,365	-	1,365	-	1,365
Total noncurrent assets	299,024	34,927	333,951	12,496	346,447
Total assets	330,009	53,289	383,298	13,465	396,763
LIABILITIES					
Current liabilities:					
Checks payable	160	-	160	-	160
Accounts payable	-	12	12	-	12
Interest payable	5,284	-	5,284	-	5,284
Escrow deposits	-	-	-	1,063	1,063
Prepayments on mortgage loans	183	10	193	-	193
Due to other funds	2,767	-	2,767	-	2,767
Bonds payable	17,535	-	17,535	-	17,535
Total current liabilities	25,929	22	25,951	1,063	27,014
Noncurrent liabilities:					
Bonds payable	206,642	-	206,642	-	206,642
Escrow deposits	-	1,131	1,131	12,529	13,660
Arbitrage rebate payable	1,606	-	1,606	-	1,606
Deferred revenue	-	307	307	40	347
Total noncurrent liabilities	208,248	1,438	209,686	12,569	222,255
Total liabilities	234,177	1,460	235,637	13,632	249,269
NET ASSETS					
Restricted for single family bond programs	95,832	51,829	147,661	(167)	147,494
Total net assets	$ 95,832	$ 51,829	$ 147,661	$ (167)	$ 147,494

* 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.