AUDIT REPORT

Tennessee Housing Development Agency

For the Year Ended
June 30, 2008

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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February 5, 2009

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Members of the Board of Directors
Tennessee Housing Development Agency
and
Mr. Ted Fellman, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 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, 2008. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj
08/092

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, 2008

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 2008

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Tennessee Housing Development Agency
For the Year Ended June 30, 2008

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

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

ORGANIZATION

The Tennessee Housing Development Agency (THDA) has 14 divisions; all except for the Executive division are managed by a division director. The Executive division encompasses two Deputy Executive Directors, the Chief Financial Officer, and the Chief Strategy Officer. Internal Audit, Single Family Programs, Human Resources, Public Affairs, and all of the Executive division report directly to the Executive Director. Legal matters are overseen by the Deputy Executive Director and General Counsel. A second Deputy Executive Director oversees Community Programs, Section 8 Contract Administration, Section 8 Rental Assistance, Multifamily Development, and Program Compliance. The Chief Strategy Officer oversees the Research, Planning, and Technical Services division. The Chief Financial Officer has responsibility for Finance, Fiscal Administration, and Information Technology.

Community Programs Division – This division is responsible for the federal HOME Investment Partnership Program and the various programs funded by the Housing Trust Fund: Competitive Grants, the USDA Rural Repair Program, the Emergency Repair Program for the Elderly, and the Ramp Program. The division also administers the federal Emergency Shelter Grant Program to assist the homeless, and a loan program in partnership with the Department of Finance and Administration's Division of Mental Retardation Services to construct community-based housing for the developmentally disabled. The division reviews loan proposals and certifies eligibility of nonprofit housing entities under the Department of Revenue's Community Investment Tax Credit Program, whereby financial institutions can obtain a credit against their Franchise and Excise Tax liability when qualified loans, investments, grants, or contributions are extended for low-income housing activities.

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

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.

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

Information Technology Division – This division is responsible for developing, implementing, and maintaining THDA's computer systems.

Internal Audit – This division performs internal audits and reviews of all THDA programs and servicing institutions.

Multi-family Development 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 specific developments.

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

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

Quality Management – This division performs reviews of the work performed by those divisions with federally funded programs to ensure that the governing rules and regulations are adhered to, THDA's internal processes and procedures are followed, and all timelines are met. This division is also responsible for the quality control aspects of the Section 8 Management Assessment Program (SEMAP) indicators for the Section 8 Rental Assistance division.

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.

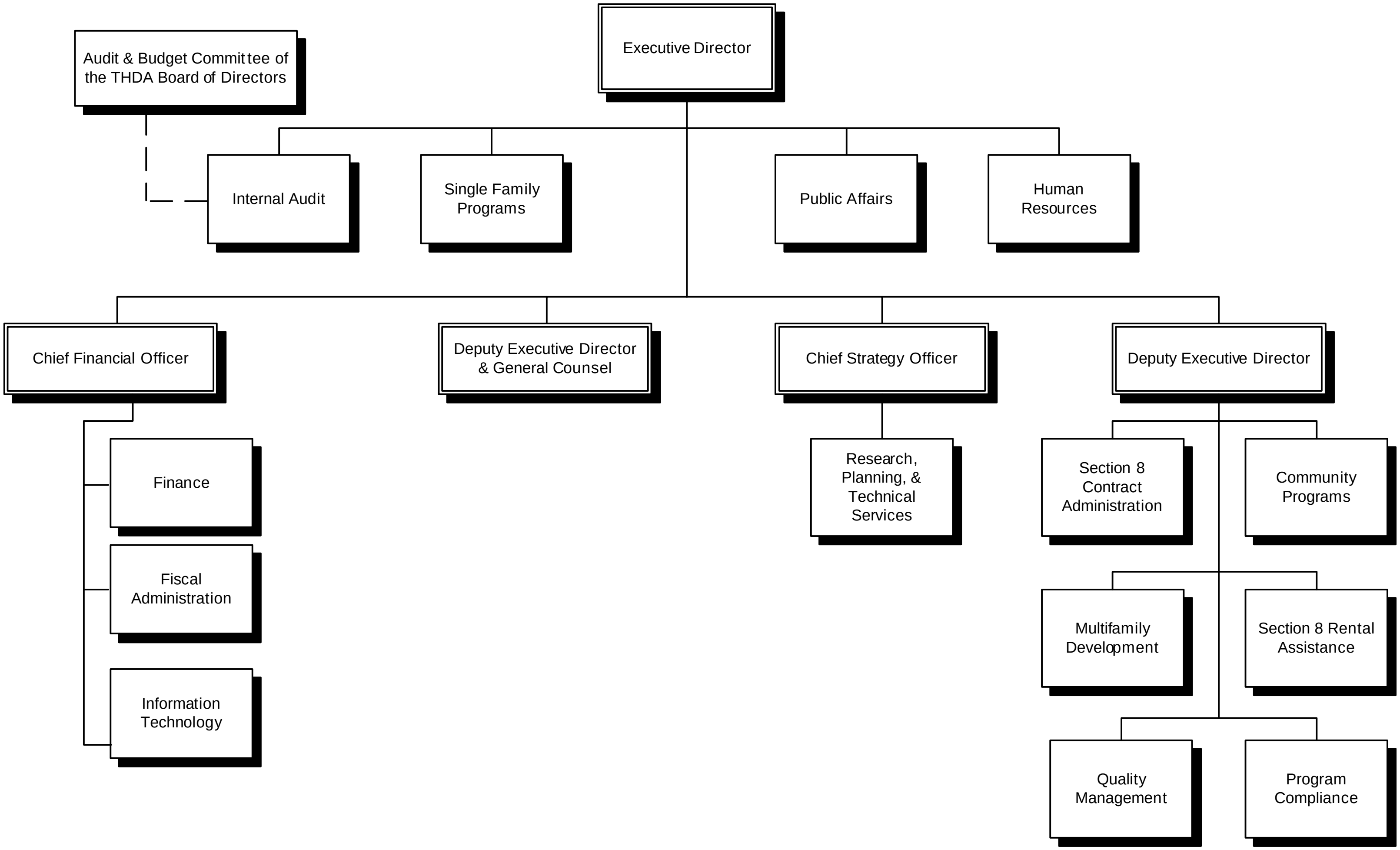
Section 8 Contract Administration Division – This division serves as the contract administrator for "project-based" Section 8 housing assistance payments under contract with the U.S. Department of Housing and Urban Development. Project-based contracts provide rental subsidies to specific rental properties.

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.

Single Family Programs – This division provides the link between funds available for single-family home loans and the individual prospective homeowners through a statewide network of participating lenders, and the underwriting of loans for qualified applicants. This division also oversees loan servicing and collection of loans for THDA through servicing agents. In addition, the division is responsible for the BUILD program, which makes short-term loans available to nonprofit organizations.

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

Tennessee Housing Development Agency
Organization Chart



AUDIT SCOPE

The audit was limited to the period July 1, 2007, through June 30, 2008, 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 generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2008, and for comparative purposes, the year ended June 30, 2007. 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 as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

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

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by October 1 each year. The agency filed its compliance report and implementation plan on September 29, 2008.

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Housing Development Agency's financial statements for the year ended June 30, 2008, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. 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 generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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

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

October 31, 2008

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Members of the Board of Directors
Tennessee Housing Development Agency
and
Mr. Ted Fellman, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1114
Nashville, Tennessee 37243

Ladies and Gentlemen:

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, 2008, and have issued our report thereon dated October 31, 2008. As discussed in Note 1.l. to the financial statements, the agency implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tennessee Housing Development 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 generally accepted government auditing standards.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

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

October 31, 2008

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Members of the Board of Directors
Tennessee Housing Development Agency
and
Mr. Ted Fellman, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1114
Nashville, Tennessee 37243

Ladies and Gentlemen:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2008, and June 30, 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.1. to the financial statements, during the year ended June 30, 2008, the agency implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*

The management's discussion and analysis on pages 14 through 25 and the schedule of funding progress on page 49 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information on pages 50 through 54 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated October 31, 2008, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

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

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2008

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

Year Ended June 30, 2007

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

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

FINANCIAL ANALYSIS OF THE AGENCY

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

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

2008 to 2007

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

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

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

2007 to 2006

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

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

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

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

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

2008 to 2007

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

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

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

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

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

2007 to 2006

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

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

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

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

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

CASH FLOWS

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

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

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

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

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

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

DEBT ACTIVITY

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

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

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

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

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

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

GRANT PROGRAMS

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

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

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

Note: The amounts for FY 2009 are projected.

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

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

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

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

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

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

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

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

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

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

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

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

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

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

ECONOMIC FACTORS

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

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

For the Fiscal Year Ended June 30, 2008

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

For the Fiscal Year Ended June 30, 2007

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

For the Fiscal Year Ended June 30, 2006

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

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

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

CONTACTING THDA's FINANCIAL MANAGEMENT

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

Exhibit A

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

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

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

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

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

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

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

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

(continued)

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

c. Basis of Accounting and Measurement Focus

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

d. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

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

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

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

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

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

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

g. Cash and Cash Equivalents

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

h. Investments

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

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

l. Accounting Change

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

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

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

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

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

b. Investments

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

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

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

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

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

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

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

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

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

The agency invested $1,500,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on September 27, 2005, and mature March 27, 2009. Although these securities were scheduled to mature on March 27, 2009, these bonds were called on December 27, 2007. The fair value of these securities on June 30, 2007, was $1,435,650, which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the three month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 5.00%, then the interest rate on the bond is 6.00%. If the LIBOR rate exceeds 5.00% then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 5.00%. During fiscal year 2007, the LIBOR rate gradually decreased to 5.36% on June 29, 2007. During fiscal year 2008, the LIBOR rate gradually decreased to 5.13% on December 27, 2007, which is the date the bonds were called.

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

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

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

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

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

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

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

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

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

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

June 30, 2008

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

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

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

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

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

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

NOTE 3. WARRANTS / WIRES PAYABLE

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

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

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

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

BONDS ISSUED AND OUTSTANDING
(Thousands)

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

b. Debt Service Requirements

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

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

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

c. Redemption of Bonds and Notes

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

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

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

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

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

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

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

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

During the year ended June 30, 2007, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $9,260,000 and in the Homeownership Program in the amount of $50,700,000. The respective carrying values of the bonds were $9,169,555 and $50,785,575. This resulted in an expense to the Mortgage Finance Program of $90,445 and in income to the Homeownership Program of $85,575.

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

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

On October 31, 2006, the agency issued $100,000,000 in Homeownership Bonds, Issue 2006-3. On November 9, 2006, the agency used $51,475,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used January 3, 2005 and December 8, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $784,104 over the next 24.75 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $984,375.

On December 14, 2006, a sixth drawdown was made on the Series 2004 CN-1 Notes in the amount of $52,300,000. These proceeds were used on January 2, 2007 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $39,385,000 early redemption and $12,915,000 current maturities). The carrying amount of these bonds was $52,439,622. The refunding resulted in a difference of $139,622 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On March 13, 2007, the agency issued $100,000,000 in Homeownership Bonds, Issue 2007-1. On April 12, 2007, the agency used $51,715,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $21,735,173 over the next 23 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $12,714,883.

On June 6, 2007, the agency issued $120,000,000 in Homeownership Bonds, Issue 2007-2. On July 2, 2007, the agency will use $14,725,000 of these bonds to refund certain bonds previously issued in the Homeownership program. On July 12, 2007, the agency will use $55,960,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund the convertible drawdown notes, 2002 CN-1, at maturity. The convertible drawdown notes, 2002 CN-1 were used January 2, 2004, April 1, 2004, and July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. A portion of these bonds were used to refund maturities and redemptions on July 2, 2007, and July 12, 2007; therefore, the full economic impact of the refunding was not determined as of June 30, 2007.

On June 14, 2007, a seventh drawdown was made on the Series 2004 CN-1 Notes in the amount of $31,535,000. These proceeds were used on July 2, 2007 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $21,220,000 early redemption and $10,315,000 current maturities). Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

d. Long-term Liability Activity

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

Long-term Liabilities
(Thousands)

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

The following table is a summary of the long-term liability activity for the year ended June 30, 2007.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Amounts Due Within One Year
Notes Payable	$262,395	$135,075	($149,795)	$247,675	$247,675
Bonds Payable	1,563,591	420,886	(188,890)	1,795,587	108,104
Plus: Unamortized Bond Premiums	14,139	12,743	(1,872)	25,010	-0-
Less: Deferred Amount on Refundings	(9,258)	(-0-)	928	(8,330)	-0-
Compensated Absences	582	743	(487)	838	401
Escrow Deposits	15,324	3,762	(6,095)	12,991	847
Arbitrage Rebate Payable	848	945	(260)	1,533	-0-
Deferred Revenue	219	216	(128)	307	12
Total	$1,847,840	$574,370	($346,599)	$2,075,611	$357,039

e. Notes Issued and Outstanding

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

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

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

NOTES ISSUED AND OUTSTANDING
(Thousands)

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

The following table is a summary of the note activity for the year ended June 30, 2007.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2006	Additions	Reductions	Ending Balance 6/30/2007
SINGLE FAMILY MORTGAGE NOTES							
2004CN-1	8/9/2007	$ 450,000	4.983 to 5.150	$262,395	$135,075	($149,795)	$247,675

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

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

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

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 13.51% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2008, 2007, and 2006, were $1,297,298, $1,175,459, and $771,350. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

Since the amount of net assets restricted for single family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net assets for this purpose. Notwithstanding, the agency designated the total amount of loan loss reserves from unrestricted net assets for FY 2007.

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2008, and June 30, 2007, are presented in the *Tennessee Comprehensive Annual Financial Report*. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

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

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans available to THDA employees−the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (TCA) 8-27-201. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205(b), retirees not eligible for Medicare pay a percentage of the total state premium under the state employee group plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the state employee group plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the state employee group plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the state employee group plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the state employee group plan. Contributions for the state plan for the year ended

June 30, 2008, were $1,803,834 which consisted of $1,485,845 from THDA and $317,989 from the employees.

Annual OPEB Cost and Net OPEB Obligation
(Thousands)

	State Employee Group Plan
Annual Required Contribution (ARC)	$ 443
Interest on the Net OPEB Obligation	-0-
Adjustment to the ARC	-0-
Annual OPEB cost	443
Amount of contribution	(162)
Increase in Net OPEB Obligation	281
Net OPEB obligation-beginning of year	-0-
Net OPEB obligation-end of year	$ 281

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

*Data not available for two preceding years.

Funded Status and Funding Progress. The funded status of the plans as of June 30, 2008, was as follows (Thousands):

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

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

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

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

NOTE 10. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of $2,550 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 11. PAYMENTS TO PRIMARY GOVERNMENT

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

NOTE 12. SUBSEQUENT EVENTS

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

July 1, 2008	Mortgage Finance Program	$ 3,045,000
	Homeownership Program	45,550,000
	Total	$48,595,000

b. On July 1, 2008, the fourth drawdown was made on the Series 2007 CN-1 Notes in the amount of $44,330,000. These proceeds were used on the same day to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

c. Homeownership Program Bonds, Issue 2008-2, were sold on August 7, 2008. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2008-2	7/1/2009-1/1/2027	$50,000	3.25 to 5.75
TOTAL ALL ISSUES		$50,000	

On August 14, 2008, the agency used these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used November 1, 2007, January 2, 2008, and July 1, 2008 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

d. Homeownership Program Bonds, Issue 2008-3, were sold on September 30, 2008. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2008-3	7/1/2009-7/1/2038	$90,000	2.00 to 5.45
TOTAL ALL ISSUES		$90,000	

e. Homeownership Program Bonds, Issue 2008-4, were authorized by the Board of Directors on September 18, 2008, not to exceed $120,000,000.

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

October 1, 2008	Mortgage Finance Program	$ 4,505,000
	Homeownership Program	34,490,000
	Total	$38,995,000

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

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

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2008
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 22,321	$ 156,284	$ 88,788	$ 267,393
Investments	-	8,257	21,651	-	29,908
Receivables:					
Accounts	-	869	8,892	-	9,761
Interest	-	1,604	10,305	-	11,909
First mortgage loans	75	7,319	36,589	-	43,983
Other	113	-	-	-	113
Due from federal government	11,841	-	-	-	11,841
Due from other funds	3,118	-	-	-	3,118
Total current assets	15,147	40,370	233,721	88,788	378,026
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	931	4,065	-	4,996
Investments	-	37,778	157,784	-	195,562
Investment Interest receivable	-	537	2,006	-	2,543
Investments	-	44,668	25,917	-	70,585
First mortgage loans receivable	196	161,175	1,780,460	-	1,941,831
Deferred charges	28	644	11,622	(90)	12,204
Advance to local government	2,882	-	-	-	2,882
Capital assets:					
Furniture and equipment	238	-	-	-	238
Less accumulated depreciation	(159)	-	-	-	(159)
Total noncurrent assets	3,185	245,733	1,981,854	(90)	2,230,682
Total assets	18,332	286,103	2,215,575	88,698	2,608,708
LIABILITIES					
Current liabilities:					
Warrants / wires payable	7,625	-	-	-	7,625
Accounts payable	2,778	16	79	-	2,873
Accrued payroll and related liabilities	410	-	-	-	410
Compensated absences	426	-	-	-	426
Due to primary government	3	-	-	-	3
Interest payable	-	3,031	44,159	97	47,287
Escrow deposits	-	3,837	-	-	3,837
Prepayments on mortgage loans	-	145	1,871	-	2,016
Due to other funds	-	618	2,500	-	3,118
Notes payable	-	-	-	-	-
Bonds payable	-	12,130	88,760	-	100,890
Deferred revenue	-	8	-	-	8
Total current liabilities	11,242	19,785	137,369	97	168,493
Noncurrent liabilities:					
Notes payable	-	-	-	88,720	88,720
Bonds payable	-	111,941	1,739,464	-	1,851,405
Compensated absences	462	-	-	-	462
Net OPEB obligation	281	-	-	-	281
Escrow deposits	271	4,141	-	-	4,412
Arbitrage rebate payable	-	-	2,254	-	2,254
Deferred revenue	-	219	-	-	219
Total noncurrent liabilities	1,014	116,301	1,741,718	88,720	1,947,753
Total liabilities	12,256	136,086	1,879,087	88,817	2,116,246
NET ASSETS					
Invested in capital assets	79	-	-	-	79
Restricted for single family bond programs	-	142,438	336,488	(119)	478,807
Restricted for grant programs	2,653	7,579	-	-	10,232
Restricted for Homebuyers Revolving Loan Program	3,154	-	-	-	3,154
Unrestricted	190	-	-	-	190
Total net assets	6,076	150,017	336,488	(119)	492,462
Total net assets	$ 6,076	$ 150,017	$ 336,488	$ (119)	$ 492,462

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	$ -	$ 9,664	$ 101,478	$ -	$ 111,142
Investment income:					
Interest	189	5,511	18,263	2	23,965
Net increase in the fair value of investments	-	3,460	7,060	4,271	14,791
Federal grant administration fees	10,692	-	-	-	10,692
Fees and other income	2,632	1,141	-	-	3,773
Total operating revenues	13,513	19,776	126,801	4,273	164,363
OPERATING EXPENSES					
Salaries and benefits	13,562	-	-	-	13,562
Contractual services	2,659	-	-	-	2,659
Materials and supplies	788	-	-	-	788
Rentals and insurance	1,180	-	-	-	1,180
Other administrative expenses	671	-	-	-	671
Other program expenses	157	197	2,758	305	3,417
Interest expense	-	6,588	87,411	3,329	97,328
Mortgage service fees	-	528	6,339	-	6,867
Issuance costs	-	60	548	125	733
Depreciation	57	-	-	-	57
Total operating expenses	19,074	7,373	97,056	3,759	127,262
Operating income (loss)	(5,561)	12,403	29,745	514	37,101
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	181,661	-	-	-	181,661
Other grant revenue	-	543	-	-	543
Payment from primary government	3,000	-	-	-	3,000
Federal grants expenses	(179,495)	-	-	-	(179,495)
Local grants expenses	(1,594)	(3,052)	(3,094)	-	(7,740)
Total nonoperating revenues (expenses)	3,572	(2,509)	(3,094)	-	(2,031)
Income (loss) before transfers	(1,989)	9,894	26,651	514	35,070
Transfers (to) other funds	-	(3,647)	-	(691)	(4,338)
Transfers from other funds	2,333		2,005	-	4,338
Change in net assets	344	6,247	28,656	(177)	35,070
Total net assets, July 1	5,732	143,770	307,832	58	457,392
Total net assets, June 30	$ 6,076	$ 150,017	$ 336,488	$ (119)	$ 492,462

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	$ (27)	$ 25,702	$ 240,274	$ -	$ 265,949
Receipts from federal government	6,196	-	-	-	6,196
Receipts from other funds	-	-	2,500	-	2,500
Other miscellaneous receipts	2,615	1,141	-	-	3,756
Acquisition of mortgage loans	-	(37,366)	(410,790)	-	(448,156)
Payments to service mortgages	-	(528)	(6,339)	-	(6,867)
Payments to suppliers	(5,243)	(123)	(361)	(1)	(5,728)
Payments to federal government	-	-	(1,818)	(398)	(2,216)
Payments to other funds	(2,333)	(167)	-	-	(2,500)
Payments to employees	(12,703)	-	-	-	(12,703)
Net cash (used) by operating activities	(11,495)	(11,341)	(176,534)	(399)	(199,769)
Cash flows from non-capital financing activities:					
Operating grants received	183,316	543	-	-	183,859
Transfers in (out)	2,333	(3,573)	1,119	121	-
Negative cash balance implicitly financed	7,625	-	-	-	7,625
Proceeds from sale of bonds	-	-	368,330	-	368,330
Proceeds from issuance of notes	-	-	-	198,945	198,945
Operating grants paid	(182,154)	(3,052)	(3,094)	-	(188,300)
Cost of issuance paid	-	-	(2,691)	(125)	(2,816)
Principal payments	-	(24,425)	(202,041)	(357,900)	(584,366)
Interest paid	-	(6,907)	(81,610)	(4,808)	(93,325)
Net cash provided (used) by non-capital financing activities	11,120	(37,414)	80,013	(163,767)	(110,048)
Cash flows from capital and related financing activities:					
Purchases of capital assets	(71)	-	-	-	(71)
Net cash used by capital and related financing activities	(71)	-	-	-	(71)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	129,836	251,751	-	381,587
Purchases of investments	-	(90,311)	(204,706)	-	(295,017)
Investment interest received	189	6,332	19,435	2	25,958
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	10	35	4,271	4,316
Net cash provided by investing activities	189	45,867	66,515	4,273	116,844
Net (decrease) in cash and cash equivalents	(257)	(2,888)	(30,006)	(159,893)	(193,044)
Cash and cash equivalents, July 1	257	26,140	190,355	248,681	465,433
Cash and cash equivalents, June 30	$ -	$ 23,252	$ 160,349	$ 88,788	$ 272,389

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to					
net cash provided (used) by operating activities:					
Operating income (loss)	$ (5,561)	$ 12,403	$ 29,745	$ 514	$ 37,101
Adjustments to reconcile operating income to					
net cash provided (used) by operating activities:					
Depreciation and amortization	57	60	548	125	790
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	-	245	(2,950)	-	(2,705)
(Increase) decrease in mortgage interest receivable	-	2	(1,574)	-	(1,572)
(Increase) in first mortgage loans receivable	-	(16,829)	(267,872)	-	(284,701)
(Increase) in due from federal government	(4,496)	-	-	-	(4,496)
(Increase) decrease in deferred charges	(8)	73	(248)	-	(183)
(Increase) in other receivables	(17)	-	-	-	(17)
(Increase) in interfund receivables	(2,333)	(167)	-	-	(2,500)
Increase in interfund payables	-	-	2,500	-	2,500
Increase (decrease) in accounts payable	788	(4,665)	414	-	(3,463)
Increase in accrued payroll / compensated absences	369	-	-	-	369
(Decrease) in due to primary government	(105)	-	-	-	(105)
(Decrease) in deferred revenue	-	(80)	-	-	(80)
Increase in arbitrage rebate liability	-	-	815	(94)	721
Investment income included as operating revenue	(189)	(8,971)	(25,323)	(4,273)	(38,756)
Interest expense included as operating expense	-	6,588	87,411	3,329	97,328
Total adjustments	(5,934)	(23,744)	(206,279)	(913)	(236,870)
Net cash (used) by operating activities	$ (11,495)	$ (11,341)	$ (176,534)	$ (399)	$ (199,769)
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	$ -	$ -	$ (149)	$ -	$ (149)
Increase in fair value of investments	-	1,758	5,578	-	7,336
Total noncash investing, capital, and financing activities	$ -	$ 1,758	$ 5,429	$ -	$ 7,187

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2008
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 14,874	$ 6,590	$ 21,464	$ 857	$ 22,321
Investments	6,812	897	7,709	548	8,257
Receivables:					
Accounts	800	64	864	5	869
Interest	1,214	353	1,567	37	1,604
First mortgage loans	5,885	1,434	7,319	-	7,319
Total current assets	29,585	9,338	38,923	1,447	40,370
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	931	-	931	-	931
Investments	37,778	-	37,778	-	37,778
Investment interest receivable	537	-	537	-	537
Investments	14,084	25,758	39,842	4,826	44,668
First mortgage loans receivable	157,153	4,022	161,175	-	161,175
Deferred charges	644	-	644	-	644
Total noncurrent assets	211,127	29,780	240,907	4,826	245,733
Total assets	240,712	39,118	279,830	6,273	286,103
LIABILITIES					
Current liabilities:					
Accounts payable	6	10	16	-	16
Interest payable	3,031	-	3,031	-	3,031
Escrow deposits	-	-	-	3,837	3,837
Prepayments on mortgage loans	142	3	145	-	145
Due to other funds	-	618	618	-	618
Bonds payable	12,130	-	12,130	-	12,130
Deferred revenue	-	8	8	-	8
Total current liabilities	15,309	639	15,948	3,837	19,785
Noncurrent liabilities:					
Bonds payable	111,941	-	111,941	-	111,941
Escrow deposits	-	2,046	2,046	2,095	4,141
Deferred revenue	-	219	219	-	219
Total noncurrent liabilities	111,941	2,265	114,206	2,095	116,301
Total liabilities	127,250	2,904	130,154	5,932	136,086
NET ASSETS					
Restricted for single family bond programs	113,462	28,635	142,097	341	142,438
Restricted for grant programs	-	7,579	7,579	-	7,579
Total net assets	$ 113,462	$ 36,214	$ 149,676	$ 341	$ 150,017

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