AUDIT REPORT

Tennessee Housing Development Agency

For the Year Ended
June 30, 2009

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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March 24, 2010

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Housing Development Agency for the year ended June 30, 2009. 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/ras

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, 2009

AUDIT OBJECTIVES

The objectives of the audit were to consider the Tennessee Housing Development 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, 2009

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Tennessee Housing Development Agency
For the Year Ended June 30, 2009

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 and the Homelessness Prevention and Rapid Re-Housing Program (HPRP). 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, the various programs funded by the THDA Housing Trust Fund, the federal Emergency Shelter Grant Program, a loan program in partnership with the Department of Finance and Administration's Division of Intellectual Disabilities Services, certain activities in connection with the Department of Revenue's Community Investment Tax Credit Program, and the Neighborhood Stabilization Program.

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 are treated with respect and 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.

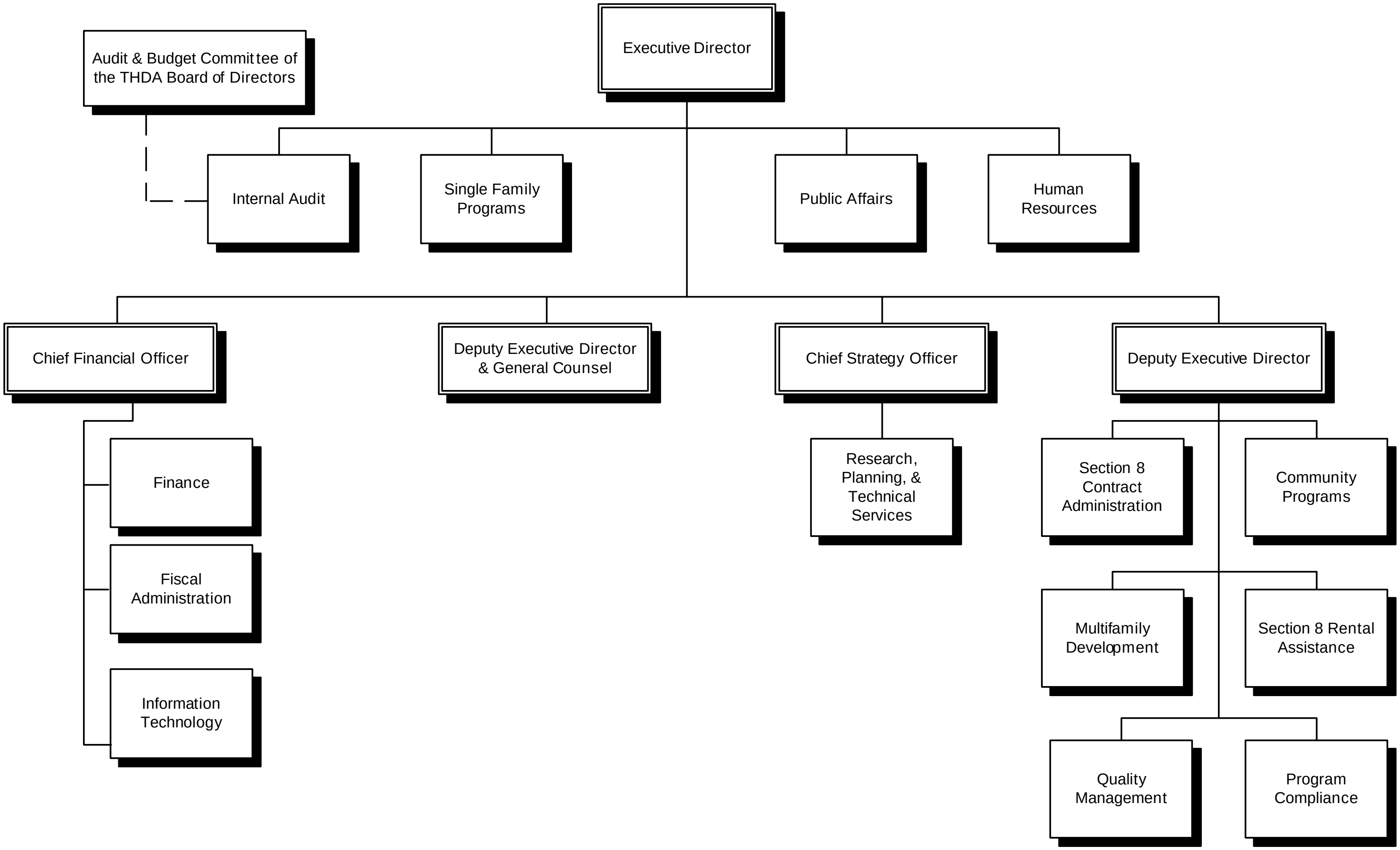
Section 8 Contract Administration Division – This division serves as the contract administrator for "project-based" Section 8 housing assistance payments under contract with the U.S. Department of Housing and Urban Development. Project-based contracts provide rental subsidies to specific rental properties.

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, 2008, through June 30, 2009, 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, 2009, and for comparative purposes, the year ended June 30, 2008. 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 Tennessee Housing Development 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 Tennessee Housing Development Agency filed its compliance report and implementation plan on September 30, 2009.

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, 2009, 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.

STATE OF TENNESSEE
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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*

November 6, 2009

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

Ladies and Gentlemen:

We have audited the financial statements of the Tennessee Housing Development Agency as of and for the year ended June 30, 2009, and have issued our report thereon dated November 6, 2009. 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 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/tlh

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Independent Auditor's Report

November 6, 2009

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

Ladies and Gentlemen:

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

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

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

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

The management's discussion and analysis on pages 14 through 23 and the schedule of funding progress on page 47 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information on pages 48 through 52 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated November 6, 2009, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/tlh

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

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2009

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

Year Ended June 30, 2008

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

FINANCIAL ANALYSIS OF THE AGENCY

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

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

2009 to 2008

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

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

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

2008 to 2007

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

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

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

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

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

2009 to 2008

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

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

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

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

2008 to 2007

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

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

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

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

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

DEBT ACTIVITY

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

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

Year Ended June 30, 2009

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

Year Ended June 30, 2008

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

Note Authority

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

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

Bond Ratings

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

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

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

GRANT PROGRAMS

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

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

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

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

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

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

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ECONOMIC FACTORS

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

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

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

CONTACTING THDA's FINANCIAL MANAGEMENT

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

Exhibit A

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

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

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

Exhibit B

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

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

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

Exhibit C

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

	2009	2008
Cash flows from operating activities:		
Receipts from customers	$ 303,583	$ 265,949
Receipts from federal government	6,187	6,196
Other miscellaneous receipts	2,406	3,756
Acquisition of mortgage loans	(214,506)	(448,156)
Payments to service mortgages	(7,303)	(6,867)
Payments to suppliers	(10,565)	(5,728)
Payments to federal government	-	(2,216)
Payments to employees	(12,763)	(12,703)
Net cash provided (used) by operating activities	67,039	(199,769)
Cash flows from non-capital financing activities:		
Operating grants received	192,088	183,859
Negative cash balance implicitly financed (repaid)	4,825	7,625
Proceeds from sale of bonds	219,678	368,330
Proceeds from issuance of notes	47,580	198,945
Operating grants paid	(199,518)	(188,300)
Cost of issuance paid	(2,142)	(2,816)
Principal payments	(328,245)	(584,366)
Interest paid	(93,553)	(93,325)
Net cash used by non-capital financing activities	(159,287)	(110,048)
Cash flows from capital and related financing activities:		
Purchases of capital assets	-	(71)
Net cash used by capital and related financing activities	-	(71)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	378,527	370,031
Purchases of investments	(432,090)	(283,461)
Investment interest received	15,868	25,958
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	963	4,316
Net cash provided (used) by investing activities	(36,732)	116,844
Net decrease in cash and cash equivalents	(128,980)	(193,044)
Cash and cash equivalents, July 1	272,389	465,433
Cash and cash equivalents, June 30	$ 143,409	$ 272,389

(continued)

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

c. Basis of Accounting and Measurement Focus

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

d. Capital Assets

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

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

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

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

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

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

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

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

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

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

g. Cash and Cash Equivalents

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

h. Investments

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

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

l. Accounting Change

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

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

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

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

b. Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

June 30, 2009

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

June 30, 2008

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

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

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

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

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

NOTE 3. WARRANTS / WIRES PAYABLE

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

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

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

BONDS ISSUED AND OUTSTANDING
(Thousands)

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

BONDS ISSUED AND OUTSTANDING
(Thousands)

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

b. Debt Service Requirements

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

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

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

c. Redemption of Bonds and Notes

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

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

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

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

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

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

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

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

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

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

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

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

d. Long-term Liability Activity

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

Long-term Liabilities
(Thousands)

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

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

Long-term Liabilities
(Thousands)

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

e. Notes Issued and Outstanding

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

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

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

NOTES ISSUED AND OUTSTANDING
(Thousands)

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

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

NOTES ISSUED AND OUTSTANDING
(Thousands)

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

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

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

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

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

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

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

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

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

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

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

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

b. Risk Management Fund

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

c. Employee Group Insurance Fund

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

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

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

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

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

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

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

*Data not available for one preceding year.

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

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

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

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

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

NOTE 10. ON-BEHALF PAYMENTS

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

NOTE 11. PAYMENTS TO PRIMARY GOVERNMENT

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

NOTE 12. SUBSEQUENT EVENTS

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

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

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

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

BONDS ISSUED
(Thousands)

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

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

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

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

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

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

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

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

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

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

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

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	$ (30)	$ 25,182	$ 278,431	$ -	$ 303,583
Receipts from federal government	6,112	-	75	-	6,187
Receipts from other funds	-	-	5,477	-	5,477
Other miscellaneous receipts	2,420	(14)	-	-	2,406
Acquisition of mortgage loans	-	(13,045)	(201,461)	-	(214,506)
Payments to service mortgages	-	(520)	(6,783)	-	(7,303)
Payments to suppliers	(6,084)	(577)	(3,899)	(5)	(10,565)
Payments to other funds	(4,859)	(618)	-	-	(5,477)
Payments to employees	(12,763)	-	-	-	(12,763)
Net cash provided (used) by operating activities	(15,204)	10,408	71,840	(5)	67,039
Cash flows from non-capital financing activities:					
Operating grants received	190,730	1,358	-	-	192,088
Transfers in (out)	8,881	(7,853)	(1,051)	23	-
Negative cash balance implicitly financed	4,825	-	-	-	4,825
Proceeds from sale of bonds	-	-	219,678	-	219,678
Proceeds from issuance of notes	3,250	-	-	44,330	47,580
Operating grants paid	(189,347)	(6,423)	(3,748)	-	(199,518)
Cost of issuance paid	-	-	(2,125)	(17)	(2,142)
Principal payments	-	(19,240)	(175,955)	(133,050)	(328,245)
Interest paid	(22)	(5,916)	(86,951)	(664)	(93,553)
Net cash provided (used) by non-capital financing activities	18,317	(38,074)	(50,152)	(89,378)	(159,287)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	117,810	284,793	-	402,603
Purchases of investments	-	(98,731)	(357,435)	-	(456,166)
Investment interest received	147	3,616	12,105	-	15,868
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	14	270	679	963
Net cash provided (used) by investing activities	147	22,709	(60,267)	679	(36,732)
Net increase (decrease) in cash and cash equivalents	3,260	(4,957)	(38,579)	(88,704)	(128,980)
Cash and cash equivalents, July 1	-	23,252	160,349	88,788	272,389
Cash and cash equivalents, June 30	$ 3,260	$ 18,295	$ 121,770	$ 84	$ 143,409

(continued)

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

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

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

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 13,293	$ 1,756	$ 15,049	$ 341	$ 15,390
Investments	8,564	11,864	20,428	501	20,929
Receivables:					
Accounts	1,873	105	1,978	5	1,983
Interest	1,105	297	1,402	28	1,430
First mortgage loans	5,257	417	5,674	-	5,674
Total current assets	30,092	14,439	44,531	875	45,406
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	2,905	-	2,905	-	2,905
Investments	20,127	-	20,127	-	20,127
Investment interest receivable	153	-	153	-	153
Investments	9,930	17,128	27,058	2,361	29,419
First mortgage loans receivable	151,149	4,050	155,199	-	155,199
Deferred charges	526	-	526	-	526
Total noncurrent assets	184,790	21,178	205,968	2,361	208,329
Total assets	214,882	35,617	250,499	3,236	253,735
LIABILITIES					
Current liabilities:					
Accounts payable	5	5	10	-	10
Interest payable	2,627	-	2,627	-	2,627
Escrow deposits	-	-	-	643	643
Prepayments on mortgage loans	110	3	113	-	113
Bonds payable	8,750	-	8,750	-	8,750
Deferred revenue	-	8	8	-	8
Total current liabilities	11,492	16	11,508	643	12,151
Noncurrent liabilities:					
Bonds payable	96,233	-	96,233	-	96,233
Escrow deposits	-	1,644	1,644	2,356	4,000
Deferred revenue	-	29	29	-	29
Total noncurrent liabilities	96,233	1,673	97,906	2,356	100,262
Total liabilities	107,725	1,689	109,414	2,999	112,413
NET ASSETS					
Restricted for single family bond programs	107,157	25,101	132,258	237	132,495
Restricted for grant programs	-	8,827	8,827	-	8,827
Total net assets	$ 107,157	$ 33,928	$ 141,085	$ 237	$ 141,322

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