AUDIT REPORT

Tennessee Housing Development Agency

For the Year Ended
June 30, 2011

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit
Division of State Audit

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OF THE TREASURY

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STATE OF TENNESSEE
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February 10, 2012

The Honorable Bill Haslam, 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, 2011. 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/vdn
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State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee Housing Development Agency
For the Year Ended June 30, 2011

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, 2011

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Tennessee Housing Development Agency
For the Year Ended June 30, 2011

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 (THDA) 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 "Act"). THDA 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 THDA's revenues and assets and are not general obligations of the state or of any of the state's political subdivisions.

THDA is governed by a board of directors (the "Board"). 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 THDA. The Act provides that the remaining board members be appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. The Act also provides that board members be representatives of the housing, real estate, and home-building industries; the mortgage profession; local governments; the First, Second, or Third U.S. Congressional District; the Fourth, Fifth, or Sixth U.S. Congressional District; and the Seventh, Eighth, or Ninth U.S. Congressional District and be knowledgeable about the problems of inadequate housing conditions in Tennessee. In addition, one board member that receives Section 8 Rental Assistance from THDA is appointed by the Governor to occupy the position required by Section 505 of the Quality Housing and Work Responsibility

Act of 1998 and 24 CFR Part 964, Subpart E. The Executive Director of THDA administers THDA affairs and serves as Secretary to the Board.

ORGANIZATION

The Tennessee Housing Development Agency (THDA) has 16 divisions; all except the Executive Division and the Hardest Hit Fund are managed by a division director. The Executive Division encompasses the Chief Program Officer, the Chief Leadership Officer, the Chief Financial Officer, the Chief Strategy Officer, and the Chief Legal Counsel. Internal Audit, Public Affairs, and all of the Executive Division report directly to the Executive Director. Legal matters are overseen by the Chief Legal Counsel. The Chief Program Officer oversees Multifamily Programs, Single Family Programs, Community Programs, Section 8 Contract Administration, Section 8 Rental Assistance, the Hardest Hit Fund, and Program Compliance. The Chief Strategy Officer oversees Research and Planning. The Chief Financial Officer has responsibility for Finance, Fiscal Administration, and Information Technology. The Chief Leadership Officer oversees Quality Management and Human Resources.

<u>Community Programs</u> – 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 Intellectual and Developmental Disabilities, certain activities in connection with the Department of Revenue’s Community Investment Tax Credit Program, the Homelessness Prevention and Rapid Re-Housing Program (HPRP), and the Neighborhood Stabilization Program.

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

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

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

<u>Information Technology</u> – This division is responsible for developing, implementing, and maintaining THDA’s computer systems.

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

Multifamily Programs – This division administers the Low Income Housing Tax Credit program for developers of rental properties and allocates multifamily bond authority to local issuers for specific developments. In addition, the Tax Credit Assistance Program (TCAP) and the Section 1602 Tax Credit Exchange Program are also administered by this division.

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 the U.S. Department of Housing and Urban Development (HUD); and has oversight responsibilities of multifamily mortgages made by HUD and its 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 reviews the work performed by those divisions with federally funded programs to ensure that 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 and Planning – This division conducts and oversees research on programmatic performance and housing issues and works with other agencies to coordinate community development and housing activities.

Section 8 Contract Administration – This division serves as the contract administrator for "project-based" Section 8 housing assistance payments under contract with HUD. Project-based contracts provide rental subsidies to specific rental properties.

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

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.

Hardest Hit Fund – This division is managed by the Foreclosure Prevention Manager and is responsible for providing federally funded loans to unemployed or substantially underemployed homeowners who, through no fault of their own, are financially unable to make their mortgage payments and are in danger of losing their homes to foreclosure.

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

AUDIT SCOPE

The audit was limited to the period July 1, 2010, through June 30, 2011, 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, 2011, and for comparative purposes, the year ended June 30, 2010. The Tennessee Housing Development Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund code 13001 of Edison (business unit 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;

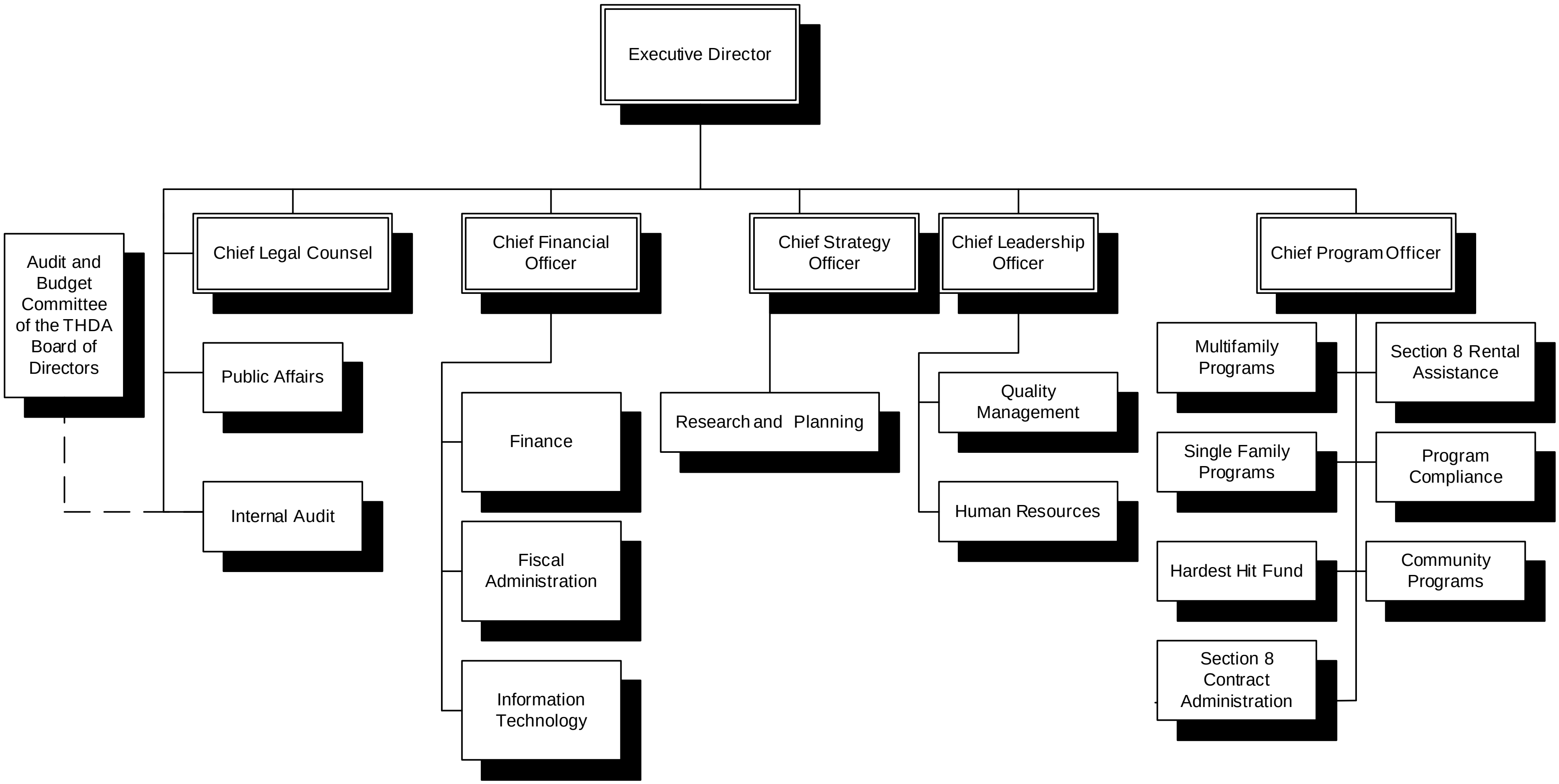
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

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.

Tennessee Housing Development Agency
Organization Chart



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.

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, 2011, 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*

September 30, 2011

The Honorable Bill Haslam, 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, a component unit of the State of Tennessee, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 30, 2011. 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

Management of the Tennessee Housing Development Agency is responsible for establishing and maintaining effective 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 its 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.

We noted certain matters that we reported to management of the Tennessee Housing Development Agency in a separate letter.

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

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

September 30, 2011

The Honorable Bill Haslam, 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, 2011, and June 30, 2010, 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 the 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, 2011, and June 30, 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 13 through 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 financial 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 audits 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 will issue our report dated September 30, 2011, 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 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 considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/vdn

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, 2011, and June 30, 2010. 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 Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2011, THDA has originated over 106,000 single-family mortgage loans in its 38-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 (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the 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.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

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 essential 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, 2011

- Total assets decreased by $180.0 million, or 6.2%.
- Total liabilities decreased by $181.2 million, or 7.6%.
- Net assets (the amount that total assets exceeds total liabilities) were $520.0 million. This is an increase of $1.2 million, or 0.2%, from fiscal year 2010.
- Cash and cash equivalents decreased $193.9 million, or 38.4%.
- Total investments increased $23.8 million, or 11.2%.
- Bonds and notes payable decreased $176.7 million, or 7.6%.
- THDA originated $231.1 million in new loans, which is a decrease of $113.0 million, or 32.8%, from the prior year.

Year Ended June 30, 2010

- Total assets increased by $354.8 million, or 13.9%.
- Total liabilities increased by $346.0 million, or 16.9%.
- Net assets (the amount that total assets exceeds total liabilities) were $518.8 million. This is an increase of $8.8 million, or 1.7%, from fiscal year 2009.
- Cash and cash equivalents increased $361.0 million, or 251.8%.
- Total investments decreased $139.2 million, or 39.7%.
- Bonds and notes payable increased $344.6 million, or 17.4%.
- THDA originated $344.0 million in new loans, which is an increase of $129.5 million, or 60.4%, from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

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

	2011	2010	2009
Current assets	$ 304,429	$ 397,864	$ 313,017
Capital assets	157	79	29
Other noncurrent assets	2,430,331	2,516,989	2,247,094
Total assets	2,734,917	2,914,932	2,560,140
Current liabilities	150,534	193,765	145,096
Noncurrent liabilities	2,064,427	2,202,405	1,905,071
Total liabilities	2,214,961	2,396,170	2,050,167
Invested in capital assets	157	79	29
Restricted net assets	517,587	514,383	508,036
Unrestricted net assets	2,212	4,300	1,908
Total net assets	$ 519,956	$ 518,762	$ 509,973

2011to 2010

- THDA's total net assets increased $1.2 million, or 0.2%, from $518.8 million at June 30, 2010 to $520.0 million at June 30, 2011. While various factors accounted for this change, the most significant factors include a decrease in interest expense, an increase in mortgage interest income, a decrease in the net increase/decrease in the fair value of investments, an increase in other program expenses, and a decrease in federal grant administration fees.

- Mortgage loans receivable increased $3.8 million, or 0.2%, from $2,115.6 million at June 30, 2010 to $2,119.4 million at June 30, 2011. During FY 2011, single-family mortgage loan originations decreased $113.0 million, or 32.8% from $344.1 million in FY 2010 to $231.1 million in FY 2011. Conversely, mortgage loan prepayments (which includes loans in which a foreclosure sale has occurred) increased $0.9 million, or 0.5%, from $179.3 million in FY 2010 to $180.2 million in FY 2011.

- Total liabilities decreased $181.2 million, or 7.6%, from $2,396.2 million at June 30, 2010 to $2,215.0 million at June 30, 2011. The decrease is primarily due to a reduction in the amount of bonds issued during fiscal year 2011 as compared to fiscal year 2010, as well as an increase in the redemption of bonds as compared to fiscal year 2010.

2010 to 2009

- THDA's total net assets increased $8.8 million, or 1.7%, from $510.0 million at June 30, 2009 to $518.8 million at June 30, 2010. This resulted from operating revenues that exceeded operating expenses.

- Mortgage loans receivable increased $116.2 million, or 5.8%, from $1,999.4 million at June 30, 2009 to $2,115.6 million at June 30, 2010. This increase resulted from mortgage loan originations that exceeded mortgage loan prepayments and repayments.

- Total liabilities increased $346.0 million, or 16.9%, from $2,050.2 million at June 30, 2009 to $2,396.2 million at June 30, 2010. The increase is primarily due to a increase in the amount of bonds issued during fiscal year 2010 as compared to fiscal year 2009, primarily, the issuance of bonds in the Housing Finance Program Bonds Resolution.

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

	2011	2010	2009
Operating revenues			
Mortgage interest income	$ 119,406	$ 118,572	$ 119,500
Investment income	6,156	14,517	17,905
Other	17,041	17,588	14,186
Total operating revenues	142,603	150,677	151,591
Operating expenses			
Interest expense	88,301	93,154	93,103
Other	38,905	32,677	29,931
Total operating expenses	127,206	125,831	123,034
Operating income	15,397	24,846	28,557
Nonoperating revenues (expenses)			
Grant revenues	355,754	254,417	186,800
Grant expenses	(369,957)	(270,474)	(199,132)
Total nonoperating revenues (expenses)	(14,203)	(16,057)	(12,332)
Change in net assets	$ 1,194	$ 8,789	$ 16,225

2011 to 2010

Total operating revenues decreased $8.1 million from $150.7 million for the year ended June 30, 2010 to $142.6 million for the year ended June 30, 2011. The primary reasons for this decrease are as follows:

- Investment income decreased $8.4 million, or 57.6%, from $14.5 million in 2010 to $6.2 million in 2011. This decrease is primarily due to a decrease in the fair value of investments of $4.9 million in FY 2011 as compared to an increase in the fair value of investments of $1.7 million in FY 2010.

- Federal grant administration fees decreased $1.2 million, or 8.1%, from $15.1 million in 2010 to $13.9 million in 2011. This primarily resulted from a decrease in federal administrative fees earned on the Section 8 tenant-based HCV program.

For the year ended June 30, 2011, total operating expenses increased $1.4 million, or 1.1%, from $125.8 million in 2010 to $127.2 million in 2011. The primary reasons for this increase are as follows:

- Interest expense decreased $4.9 million, or 5.2%, from $93.2 million in 2010 to $88.3 million in 2011. This decrease is primarily due to a decrease in bonds payable during FY 2011.

- Other program expenses increased $5.4 million, or 84.6%, from $6.4 million in 2010 to $11.9 million in 2011. There were several factors that contributed to this increase, among which were an increase in expenses related to mortgage loan foreclosures and incurring administrative expenses in administering ARRA grants as well as in implementing the Hardest Hit Fund (HHF).

2010 to 2009
For the year ended June 30, 2010, total operating revenues decreased $.9 million from $151.6 million for the year ended June 30, 2009, to $150.7 million for the year ended June 30, 2010.

For the year ended June 30, 2010, total operating expenses increased $2.8 million, or 2.3%, from $123.0 million in 2009 to $125.8 million for the year ended June 30, 2010.

While the total net assets for fiscal year 2010 increased $8.8 million from the previous year, the non-monetary change in the fair value of investments contributed $3.8 million toward this increase. When considered without these non-monetary components, net assets would have increased $5.0 million.

DEBT ACTIVITY

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

	2011	2010	2009
Bonds payable	$ 2,140,486	$ 2,316,748	$ 1,972,561
Notes payable	3,250	3,672	3,250
Total bonds and notes payable	$ 2,143,736	$ 2,320,420	$ 1,975,811

Year Ended June 30, 2011
Total bonds and notes payable decreased $176.7 million, or 7.6%, due primarily to a decrease in the amount of bonds issued as well as an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling $201.9 million, with activity arising from three bond issues.

Year Ended June 30, 2010
Total bonds and notes payable increased $344.6 million, or 17.4%, due primarily to an increase in the issuance of THDA's bonds. During the fiscal year, THDA issued debt totaling

$551.0 million, with activity arising from four bond issues. During FY 2010, THDA participated in the New Issue Bond Program (NIBP) as established by the United States Treasury Department. Principal redemptions during FY 2010 totaled $203.6 million.

New Issue Bond Program (NIBP)
The New Issue Bond Program (NIBP) provides temporary financing for Housing Finance Agencies (HFAs) to issue new housing bonds to fund new mortgages. The United States Treasury Department will purchase securities of Fannie Mae and Freddie Mac backed by these new housing bonds. This will temporarily allow the HFAs to issue an amount of new housing bonds equal to what they would ordinarily be able to issue with the allocations provided them by Congress but are generally unable to issue given the current challenges in housing and related markets.

On December 23, 2009, THDA issued $360 million of bonds under the NIBP, which were $60 million (Bond Issue 2009-A2) and $300 million (Bond Issue 2009-B1). The $300 million 2009-B1 bonds are variable-rate taxable debt, and are to be held in escrow. Upon being placed in escrow, the proceeds from these bonds are re-invested into permissible investments as required by the United States Treasury Department (generally, 28-day Treasury Bills purchased at auction). These bonds are scheduled to be released from escrow, re-designated, and converted to fixed-rate, tax-exempt bonds upon the issuance of market bonds within the framework and guidelines of the NIBP.

Subsequently, THDA released, re-designated, and converted escrowed bonds (Bond Issue 2009-B) into fixed-rate, tax-exempt bonds as noted below:

Date	Amount	New Bond Issue
June 17, 2010	$ 85,290,000	Bond Issue 2009-B, Subseries B-1
October 27, 2010	60,000,000	Bond Issue 2009-B, Subseries B-2
March 24, 2011	60,000,000	Bond Issue 2009-B, Subseries B-3

As of June 30, 2011, the amount of bonds remaining in the Issue 2009-B1 escrowed bonds was $94,710,000.

Considering the investment requirements for the NIBP escrowed bonds as established by the United States Treasury Department, the proceeds of these escrowed bonds are presented on the Statements of Net Assets as Non-Current Assets, Restricted Assets, Cash and Cash Equivalents. Bonds issued under the NIBP have been placed in the Housing Finance Program Bonds resolution.

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 has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

There were no revisions to THDA's bond ratings during FY 2011 or FY 2010.

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 FY 2007 through FY 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's Board of Directors 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 2011	FY 2010	FY 2009 and Prior	Total
Funding Sources:				
THDA	$ 6,000,000	$ 6,000,000	$ 18,000,000	$ 30,000,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	**$ 6,000,000**	**$ 6,000,000**	**$ 22,350,000**	**$ 34,350,000**
Approved Uses:				
Rural repair program (USDA)	$ 700,000	$ 700,000	$ 2,100,000	$ 3,500,000
Ramp Program (UCP)	-	-	50,000	50,000
Ramp Program	-	-	400,000	400,000
Hsg Modification & Ramp Prg	150,000	150,000	-	300,000
Homebuyer Education Initiative	-	-	300,000	300,000
Emergency Repairs for Elderly	2,000,000	2,000,000	6,000,000	10,000,000
Competitive Grants	3,150,000	3,150,000	13,500,000	19,800,000
Totals	**$ 6,000,000**	**$ 6,000,000**	**$ 22,350,000**	**$ 34,350,000**

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.

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

THDA offers three primary choices for single-family mortgages. The *Great Rate* mortgage product offers an attractive interest rate loan secured by a first mortgage. The *Great Start* program offers a loan with an interest rate that is, as of June 30, 2011, 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 2006, which offers a loan with an interest rate that is, as of June 30, 2011, 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 with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

Single-family mortgage loans 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; and are rated at least AA by Standard & Poor's Rating Group. 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.

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/singlefamily/hochoices.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, 2011, 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	26,725	521	39,122,105	1.95%
90+ Days Past Due	26,725	1,085	81,167,263	4.06%
In Foreclosure	26,725	308	24,127,169	1.15%

As of June 30, 2010, 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	26,756	657	46,015,708	2.46%
90+ Days Past Due	26,756	1,293	95,704,596	4.83%
In Foreclosure	26,756	136	10,466,566	0.51%

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

ECONOMIC FACTORS

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, 2011, AND JUNE 30, 2010
(Expressed in Thousands)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 203,071	$ 270,188
Investments (Note 2)	-	14,579
Receivables:		
Accounts	23,750	28,463
Interest	12,854	13,258
First mortgage loans	49,947	48,601
Due from federal government	14,807	22,775
Total current assets	304,429	397,864
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	107,502	234,268
Investments (Note 2)	196,928	181,751
Investment interest receivable	2,261	2,169
Investments (Note 2)	38,857	15,643
First mortgage loans receivable	2,069,473	2,066,997
Deferred charges	12,327	13,209
Advance to local government	2,983	2,952
Capital assets:		
Furniture and equipment	517	346
Less accumulated depreciation	(360)	(267)
Total noncurrent assets	2,430,488	2,517,068
Total assets	2,734,917	2,914,932
LIABILITIES		
Current liabilities:		
Warrants / wires payable (Note 3)	10,913	8,297
Accounts payable	5,121	6,617
Accrued payroll and related liabilities	472	443
Compensated absences	477	494
Interest payable	45,076	47,267
Escrow deposits	528	585
Prepayments on mortgage loans	1,662	1,862
Notes payable (Note 4)	3,250	-
Bonds payable (Note 4)	83,035	128,200
Total current liabilities	150,534	193,765
Noncurrent liabilities:		
Notes payable (Note 4)	-	3,672
Bonds payable (Note 4)	2,057,451	2,188,548
Compensated absences	517	451
Net OPEB obligation (Note 9)	994	794
Escrow deposits	4,248	4,393
Arbitrage rebate payable	1,217	4,547
Total noncurrent liabilities	2,064,427	2,202,405
Total liabilities	2,214,961	2,396,170
NET ASSETS		
Invested in capital assets	157	79
Restricted for single family bond programs (Note 5 and Note 7)	504,874	504,955
Restricted for grant programs (Note 5)	9,560	6,274
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,153	3,154
Unrestricted (Note 7)	2,212	4,300
Total net assets	$ 519,956	$ 518,762

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, 2011, AND JUNE 30, 2010
(Expressed in Thousands)

	2011	2010
OPERATING REVENUES		
Mortgage interest income	$ 119,406	$ 118,572
Investment income:		
Interest	11,042	12,846
Net increase (decrease) in the fair value of investments	(4,886)	1,671
Federal grant administration fees	13,916	15,136
Fees and other income	3,125	2,452
Total operating revenues	142,603	150,677
OPERATING EXPENSES		
Salaries and benefits	15,190	13,841
Contractual services	2,625	3,315
Materials and supplies	226	321
Rentals and insurance	97	90
Other administrative expenses	465	502
Other program expenses	11,878	6,433
Interest expense	88,301	93,154
Mortgage service fees	7,601	7,394
Issuance costs	730	723
Depreciation	93	58
Total operating expenses	127,206	125,831
Operating income	15,397	24,846
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	355,754	253,712
Other grants revenue	-	705
Federal grants expenses	(355,862)	(253,605)
Local grants expenses	(14,095)	(16,869)
Total nonoperating revenues (expenses)	(14,203)	(16,057)
Change in net assets	1,194	8,789
Total net assets, July 1	518,762	509,973
Total net assets, June 30	$ 519,956	$ 518,762

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010
(Expressed in Thousands)

	2011	2010
Cash flows from operating activities:		
Receipts from customers	$ 352,565	$ 338,749
Receipts from federal government	14,241	15,117
Other miscellaneous receipts	3,125	2,575
Acquisition of mortgage loans	(231,061)	(344,054)
Payments to service mortgages	(7,601)	(7,394)
Payments to suppliers	(21,317)	(11,543)
Payments to federal government	(3,331)	128
Payments to employees	(15,266)	(13,422)
Net cash provided (used) by operating activities	91,355	(19,844)
Cash flows from non-capital financing activities:		
Operating grants received	363,397	245,158
Negative cash balance implicitly financed (repaid)	2,616	(4,153)
Proceeds from sale of bonds	201,856	550,973
Proceeds from issuance of notes	-	500
Operating grants paid	(370,436)	(266,217)
Cost of issuance paid	(1,907)	(2,237)
Principal payments	(371,942)	(203,603)
Interest paid	(90,953)	(93,775)
Net cash provided (used) by non-capital financing activities	(267,369)	226,646
Cash flows from capital and related financing activities:		
Purchases of capital assets	(172)	(108)
Net cash (used) by capital and related financing activities	(172)	(108)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	282,923	450,136
Purchases of investments	(311,750)	(309,431)
Investment interest received	11,000	13,557
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	130	91
Net cash provided (used) by investing activities	(17,697)	154,353
Net increase (decrease) in cash and cash equivalents	(193,883)	361,047
Cash and cash equivalents, July 1	504,456	143,409
Cash and cash equivalents, June 30	$ 310,573	$ 504,456

(continued)

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

Exhibit C (cont.)

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010
(Expressed in Thousands)

	2011	2010
Reconciliation of operating income to		
net cash provided (used) by operating activities:		
Operating income	$ 15,397	$ 24,846
Adjustments to reconcile operating income to		
net cash provided (used) by operating activities:		
Depreciation and amortization	823	781
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	4,716	(7,506)
(Increase) decrease in mortgage interest receivable	352	(269)
(Increase) in first mortgage loans receivable	(3,854)	(116,213)
(Increase) decrease in due from federal government	325	(19)
(Increase) in deferred charges	(4,076)	(2,237)
Decrease in other receivables	-	123
Increase (decrease) in accounts payable	(1,420)	533
Increase in accrued payroll / compensated absences	278	116
(Decrease) in deferred revenue	-	(37)
Increase (decrease) in arbitrage rebate liability	(3,331)	1,401
Investment income included as operating revenue	(6,156)	(14,517)
Interest expense included as operating expense	88,301	93,154
Total adjustments	75,958	(44,690)
Net cash provided (used) by operating activities	$ 91,355	$ (19,844)
Noncash investing, capital, and financing activities:		
Increase (decrease) in fair value of investments	$ (3,643)	$ 3,789
Total noncash investing, capital, and financing activities	$ (3,643)	$ 3,789

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, and approves its operating budget. 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, Homeownership Program, and Housing Finance 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. When both restricted and unrestricted resources are available for use, generally it is the agency's policy to use the restricted resources first.

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 and the New Issue Bond Program (NIBP) 2009-B escrowed bond investments.

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.

The NIBP 2009-B escrowed bond investments are restricted for use in the 2009 resolution. These invested funds are restricted to be released, converted and blended with market rate bonds.

f. Bond Issuance Costs and Refunding Costs

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 Refunding Costs: The agency amortizes bond refunding costs using the straight-line method. Bonds payable is 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.

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, except for repurchase agreements which are reported at cost.

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.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. 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, 2011, the bank balance was $6,806,625. At June 30, 2010, the bank balance was $4,327,770. All bank balances at June 30, 2011 were insured, except the Bank of New York Mellon (BNYM) accounts. All bank balances at June 30, 2010 were insured. U.S. Department of the Treasury required the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of $250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2011, $4,304,256 was in the BNYM. Of this amount, $4,054,256 was above the FDIC insurance coverage. 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 is available on the state's website at www.tn.gov/treasury.

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, 2011		**June 30, 2010**	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$146,532,606	2.052	$110,758,327	1.464
U.S. Agency Discount	0	N/A	40,000,000	0.000
U.S. Treasury Coupon	89,252,190	5.248	91,214,027	5.898
U.S. Treasury Discount	94,789,957	0.073	214,769,030	0.000
Total	$330,574,753	1.803	$456,741,384	1.030

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 $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. Although these securities were scheduled to mature on April 17, 2024, these bonds were called on July 17, 2010. The fair value of these securities on June 30, 2010, was $2,001,594 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,865,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.95 of par on November 12, 2009. Although these securities were scheduled to mature on November 12, 2024, these bonds were called on August 12, 2010. The fair value of these securities on June 30, 2010, was $1,871,995 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 Association. They were purchased at par on January 6, 2010. Although these securities were scheduled to mature on January 6, 2025, these bonds were called on July 6, 2010. The fair value of these securities on June 30, 2010, was $5,001,563 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,500,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.50 of par on January 28, 2010. Although these securities were scheduled to mature on January 28, 2025, these bonds were called on January 28, 2011. The fair value of these securities on June 30, 2010, was $2,532,933 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on May 27, 2010. Although these securities were scheduled to mature on November 27, 2015, these bonds were called on December 23, 2010. The fair value of these securities on June 30, 2010, was $1,011,875 which is included in U.S. Agency Coupon in the table above.

The agency purchased $1,500,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.75 of par on August 26, 2010, and mature on August 26, 2022. The fair value of these securities on June 30, 2011, is $1,490,622 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 3.25% on August 26, 2013, to 3.5% on August 26, 2016, to 4.0% on August 26, 2019, to 6.0% on August 26, 2020, and to 8.0% on August 26, 2021. This investment is callable quarterly beginning on August 26, 2011, and ending on November 26, 2013.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.73 of par on September 30, 2010, and mature on September 30, 2015. The fair value of these securities on June 30, 2011, is $2,004,608 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.125% with a step-up option to 2.5% on September 30, 2012. This investment is callable quarterly beginning on March 30, 2011, and ending on September 30, 2012.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at par on September 29, 2010, and mature on September 29, 2025. The fair value of these securities on June 30, 2011, is $1,998,572 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.00% with a step-up option to 2.0% on September 29, 2011, to 3.0% on September 29, 2012 and to 6.0% on September 29, 2013. This investment is callable quarterly beginning on December 29, 2010, and ending on December 29, 2013.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.55 of par on August 4, 2010, and mature on August 4, 2025. The fair value of these securities on June 30, 2011, is $1,971,350 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 3.5% on August 4, 2013, to 4.0% on August 4, 2016, to 5.0% on August 4, 2019, to 6.0% on August 4, 2021, to 7.0% on August 4, 2023, and to 8.0% on August 4, 2024. This investment is callable quarterly beginning on February 4, 2011 and ending on February 4, 2013.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on September 30, 2010, and mature on September 30, 2020. The fair value of these securities on June 30, 2011, is $2,007,976 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.0% with a step-up option to 2.5% on March 31, 2011, and to 4.0% on September 30, 2011. This investment is callable quarterly beginning on March 30, 2011 and ending on December 20, 2013.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on October 15, 2010, and mature on October 15, 2025. The fair value of these securities on June 30, 2011, is $2,000,916 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 October 15, 2011, to 5.0% on October 15, 2015, and to 6.0% on October 15, 2020. This investment is callable quarterly beginning on April 15, 2011 and ending on July 15, 2025.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 28, 2011, and mature on January 28, 2026. The fair value of these securities on June 30, 2011, is $2,996,115 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 2.25% with a step-up option to 5.0% on January 28, 2013, and to 6.0% on January 28, 2016. This investment is callable quarterly beginning on July 28, 2011 and ending on January 28, 2014.

The agency purchased $3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on February 9, 2011, and mature on February 9, 2021. The fair value of these securities on June 30, 2011, is $3,003,411 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 6.0% on February 9, 2013. This investment is callable quarterly beginning on August 9, 2011 and ending on November 9, 2013.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on January 28, 2011, and mature on July 28, 2016. The fair value of these securities on June 30, 2011, is $1,001,257 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 28, 2014. This investment is callable quarterly beginning on July 28, 2011 and ending on January 28, 2014.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on February 16, 2011, and mature on February 16, 2021. The fair value of these securities on June 30, 2011, is $4,004,460 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.5% with a step-up option to 4.0% on August 16, 2011, and to 6.0% on February 16, 2016. This investment is callable quarterly beginning on August 16, 2011 and ending on February 16, 2014.

The agency purchased $1,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.60 of par on June 17, 2011, and mature on December 17, 2025. The fair value of these securities on June 30, 2011, is $977,172 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 3.75% with a step-up option to 4.0% on December 17, 2015, to 4.25% on December 17, 2019, to 4.5% on December 17, 2021, to 5.0% on December 17, 2022, to 6.0% on December 17, 2023, and to 8.0% on December 17, 2024. This investment is callable quarterly beginning on September 17, 2011 and ending on December 17, 2013.

The agency purchased $4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on June 30, 2011, and mature on June 30, 2016. The fair value of these securities on June 30, 2011, is $3,965,880 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.375% with a step-up option to 1.75% on June 30, 2013, to 2.0% on June 30, 2014, to 2.5% on December 30, 2014, to 3.0% on June 30, 2015, to 4.0% on September 30, 2015, to 5.0% on December 30, 2015, and to 6.0% on March 30, 2016. This investment is callable quarterly beginning on September 30, 2011 and ending on December 30, 2013.

The agency purchased $3,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.92 of par on May 6, 2011, and mature on July 14, 2015. The fair value of these securities on June 30, 2011, is $3,500,522 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 1.00% with a step-up option to 2.0% on July 14, 2011, to 3.0% on July 14, 2012, to 4.0% on July 14, 2013, and to 5.0% on July 14, 2014. This investment is callable quarterly beginning on July 14, 2011 and ending on July 14, 2014.

The agency purchased $2,150,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.95 of par on April 27, 2011, and mature on April 27, 2026. The fair value of these securities on June 30, 2011, is $2,166,542 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 6.0% on April 27, 2013. This investment is callable quarterly beginning on July 27, 2011 and ending on October 27, 2015.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.75 of par on May 18, 2011, and mature on May 18, 2026. The fair value of these securities on June 30, 2011, is $2,005,234 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 6.0% on May 18, 2013. This investment is callable quarterly beginning on May 18, 2012 and ending on November 18, 2014.

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, 2011 and June 30, 2010 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, 2011					
		U.S. Treasury / Agency[1]	**Credit Quality Rating**		
Investment Type	**Fair Value**		**AAA**	**AA-2**	**Not Rated**[3]
U.S. Agency Coupon	$146,532,606		$140,738,006	$5,176,721	$617,879
U.S. Treasury Coupon	89,252,190	$89,252,190			
U.S. Treasury Discount	94,789,957	94,789,957			
Repurchase Agreements	100,000,000				100,000,000
Total	$430,574,753	$184,042,147	$140,738,006	$5,176,721	$100,617,879

June 30, 2010						
		U.S. Treasury / Agency[1]	**Credit Quality Rating**			
Investment Type	**Fair Value**		**AAA**	**AA-2**	**A-1+**[2]	**Not Rated**[3]
U.S. Agency Coupon	$110,758,327		$104,877,194	$5,226,172		$654,961
U.S. Agency Discount	40,000,000				$40,000,000	
U.S. Treasury Coupon	91,214,027	$91,214,027				
U.S. Treasury Discount	214,769,030	214,769,030				
Repurchase Agreements	124,000,000					124,000,000
Total	$580,741,384	$305,983,057	$104,877,194	$5,226,172	$40,000,000	$124,654,961

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, 2011		**June 30, 2010**	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$24,769,777	5.75	$51,165,877	8.81
Federal Home Loan Mortgage Corp	$32,375,496	7.52	N/A	N/A
Federal National Mortgage Assoc	$75,255,894	17.48	$73,222,727	12.61
Repurchase Agreements – Morgan Stanley Dean Witter	$60,000,000	13.93	$101,000,000	17.39
Repurchase Agreements – UBS	$40,000,000	9.29	$23,000,000	3.96

[1] This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. As stated in GASB Statement 40, these are not considered to have credit risk.
[2] A-1+ is the highest rating category for short-term debt.
[3] Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

NOTE 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 primarily 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 6/30/2011	Ending Balance 6/30/2010
MORTGAGE FINANCE PROGRAM BONDS					
2003A	7/1/2004-7/1/2034	$191,885	1.70 to 5.35	$75,280	$93,060
Less: Deferred Amount on Refundings				(2,579)	(2,730)
Net Mortgage Finance Program Bonds				$72,701	$90,330

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2011	Ending Balance 6/30/2010
HOMEOWNERSHIP PROGRAM BONDS					
1996-5	7/1/99-7/1/2028	$60,000	3.85 to 5.75	$ -0-	$17,480
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	-0-	17,285
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	-0-	11,450
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	-0-	11,885
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	-0-	5,625
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	-0-	13,355
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	-0-	5,850
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	-0-	17,150
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	-0-	16,290
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	56,585	61,045
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	17,840	21,255
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	16,145	19,855
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	24,950	29,115
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	28,420	33,865
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	19,965	23,145
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	28,265	32,615
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	32,995	38,555
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	39,750	46,495
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	51,950	60,715
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	55,070	64,665
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	63,655	72,745
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	62,830	75,235
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	66,840	79,910
2006-2	7/1/2007-1/1/2037	100,000	3.90 to 5.75	62,950	76,240
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	70,720	83,515
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	75,135	87,615

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2011	Ending Balance 6/30/2010
HOMEOWNERSHIP PROGRAM BONDS					
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	94,160	107,360
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	114,055	131,330
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	118,230	135,560
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	47,050	53,810
2008-2	7/1/2009-1/1/2027	50,000	3.25 to 5.75	37,405	45,040
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	68,525	82,595
2008-4	1/1/2010-7/1/2028	30,000	3.125 to 6.125	21,185	29,390
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	46,795	49,450
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	70,085	75,000
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	115,295	-0-
Total Homeownership Program Bonds		$3,019,555		$1,506,850	$1,732,490
Plus: Unamortized Bond Premiums				15,315	21,689
Less: Deferred Amount on Refundings				(3,387)	(3,086)
Net Homeownership Program Bonds				$1,518,778	1,751,093

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2011	Ending Balance 6/30/2010
HOUSING FINANCE PROGRAM BONDS					
2009-A	1/1/2011-1/1/2040	$100,000	0.900 to 4.625	$97,540	$100,000
2009-B	7/1/2041	300,000	Variable	94,710	214,710
2010-A	1/1/2011-7/1/2041	74,710	0.600 to 5.0	155,435	160,000
2010-B	7/1/2011–7/1/2041	40,000	0.45 to 4.50	99,625	-0-
2011-A	7/1/2011-7/1/2041	40,000	0.45 to 4.50	100,000	-0-
Total Housing Finance Program Bonds		$554,710		$547,310	$474,710
Plus: Unamortized Bond Premiums				1,805	730
Less: Deferred Amount on Refundings				(108)	(115)
Net Housing Finance Program Bonds				$549,007	$475,325
Net Total All Issues				$2,140,486	$2,316,748

The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA may release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of $85,290,000. The $85,290,000 was blended with the market rate 2010-A bonds in the amount of $74,710,000 for a total of $160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2010-B bonds in the amount of $40,000,000 for a total of $100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of $60,000,000. The $60,000,000 was blended with the market rate 2011-A bonds in the amount of $40,000,000 for a total of $100,000,000.

The interest rate on the 2009-B bonds is tied to the investment rate on proceeds of the bonds. Proceeds are required to be invested in U.S. Treasury securities maturing in 28 days or less.

b. **Debt Service Requirements**

Debt service requirements to maturity at June 30, 2011, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2012	$78,021	$90,083	$168,104
2013	50,000	89,091	139,091
2014	50,865	87,530	138,395
2015	51,550	85,803	137,353
2016	53,635	83,911	137,546
2017 – 2021	231,488	389,628	621,116
2022 – 2026	332,608	333,122	665,730
2027 – 2031	245,998	257,470	503,468
2032 – 2036	320,252	196,089	516,341
2037 – 2041	432,373	84,174	516,547
2042	299,770	3,743	303,513
Total	$2,146,560	$1,700,644	$3,847,204

The debt principal in the preceding table is $6,074,000 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, 2011, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $12,260,000, in the Homeownership Program in the amount of $317,390,000 and in the Housing Finance Program in the amount of $5,780,000. The respective carrying values of the bonds were $12,214,245, $321,059,321 and $5,768,558. This resulted in an expense to the Mortgage Finance Program of $45,755 and to the Housing Finance Program of $11,442 and in income to the Homeownership Program of $3,669,321.

On October 13, 2010, the agency issued $120,700,000 in Homeownership Program Bonds, Issue 2010-1. On November 1, 2010, the agency used $99,835,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $99,835,000 early redemption). The carrying amount of these bonds was $99,371,651. The refunding resulted in a difference of $463,349 between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by $22,227,781 over the next 15 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $10,476,679.

During the year ended June 30, 2010, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $10,695,000 and in the Homeownership Program in the amount of $168,625,000. The respective carrying values of the bonds were $10,651,667 and

$170,939,715. This resulted in an expense to the Mortgage Finance Program of $43,333 and in income to the Homeownership Program of $2,314,715.

On June 17, 2010, the agency issued $74,710,000 in Housing Finance Program Bonds, Issue 2010-A. On June 17, 2010, the agency used $20,595,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $20,595,000 early redemption). The carrying amount of these bonds was $20,478,986. The refunding resulted in a difference of $116,014 between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by $5,910,703 over the next 15 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,812,047.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2011.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2010	Additions	Reductions	Ending Balance June 30, 2011	Amounts Due Within One Year
Notes Payable	$3,672	$-0-	($422)	$3,250	$3,250
Bonds Payable	2,300,260	200,700	(371,520)	2,129,440	83,035
Plus: Unamortized Bond Premiums	22,419	1,156	(6,455)	17,120	-0-
Less: Deferred Amount on Refundings	(5,931)	(1,099)	956	(6,074)	-0-
Compensated Absences	945	66	(17)	994	477
Net OPEB Obligation	794	200	(-0-)	994	-0-
Escrow Deposits	4,978	903	(1,105)	4,776	528
Arbitrage Rebate Payable	4,547	2,552	(5,882)	1,217	-0-
Deferred Revenue	-0-	1,231	(1,231)	-0-	-0-
Total	$2,331,684	$205,709	($385,676)	$2,151,717	$87,290

The following table is a summary of the long-term liability activity for the year ended June 30, 2010.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2009	Additions	Reductions	Ending Balance June 30, 2010	Amounts Due Within One Year
Notes Payable	$3,250	$500	($78)	$3,672	$-0-
Bonds Payable	1,954,075	549,710	(203,525)	2,300,260	128,200
Plus: Unamortized Bond Premiums	25,377	1,263	(4,221)	22,419	-0-
Less: Deferred Amount on Refundings	(6,891)	(125)	1,085	(5,931)	-0-
Compensated Absences	1,072	117	(244)	945	494
Net OPEB Obligation	602	235	(43)	794	-0-
Escrow Deposits	4,884	4,535	(4,441)	4,978	585
Arbitrage Rebate Payable	3,146	2,043	(642)	4,547	-0-
Deferred Revenue	37	76	(113)	-0-	-0-
Total	$1,985,552	$558,354	($212,222)	$2,331,684	$129,279

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.

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 provided 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 was allowed to hold the outstanding notes through December 31, 2009, after which the notes were to be available to reissue. Due to continuing unstable credit markets, on December 31, 2009, the Internal Revenue Service extended the amount of time the agency was allowed to hold its outstanding notes purchased from Morgan Keegan. The agency was allowed to hold the outstanding notes through December 31, 2010; however, the notes matured on August 12, 2010. In accordance with the Financial Accounting Standards Board Statement 76 Paragraph 3, the outstanding notes are not recorded for financial reporting purposes.

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. On August 3, 2009, the agency borrowed $500,000 at 3% for the Preserve Loan Program, which is part of the Housing Trust

Fund. Principal and interest were paid monthly with the principal maturing on August 4, 2012; however, the note was paid off on June 17, 2011.

The activity of the promissory note is also included in the summary of long-term liability activity in part d. of this note.

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at www.tn.gov/treasury/tcrs.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 14.91% 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, 2011, 2010, and 2009, were $1,585,654, $1,295,272, and $1,201,303. 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, 2011, and June 30, 2010, 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 8-27-101. In previous fiscal years, prior to reaching the age of 65 all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and as a result all members now have the option of choosing between the standard or partnership preferred provider organization (PPO) 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 is available on the state's website at www.tn.gov/finance/act/cafr.html.

Special Funding Situation. 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.

Funding Policy. 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 who have not reached the age of 65 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. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 25 years, $37.50; and 20 years, $25.

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

	June 30, 2011	June 30, 2010
Annual Required Contribution (ARC)	$358	$351
Interest on the Net OPEB Obligation	36	25
Adjustment to the ARC	(34)	(24)
Annual OPEB cost	360	352
Amount of contribution	(160)	(160)
Increase in Net OPEB Obligation	200	192
Net OPEB obligation-beginning of year	794	602
Net OPEB obligation-end of year	$994	$794

Year End	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At Year End (Thousands)
6/30/2009	State Employee Group Plan	$ 449	29%	$ 602
6/30/2010	State Employee Group Plan	$ 352	45%	$ 794
6/30/2011	State Employee Group Plan	$ 360	44%	$ 994

<u>Funded Status and Funding Progress.</u> The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2010, was as follows (thousands):

Actuarial valuation date	7/01/2010
Actuarial accrued liability (AAL)	$ 3,316
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	$ 3,316
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 8,640
UAAL as a percentage of covered payroll	38%

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.

<u>Actuarial Methods and Assumptions.</u> 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, 2010, actuarial valuation for the Employee Group Plan, 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 10 percent for fiscal year 2011. The rate decreased to 9.5 percent for fiscal year 2012 and then reduced by decrements of .5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All 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, 2011, the State of Tennessee made payments of $3,525 on behalf of THDA for retirees participating in the Medicare Supplement Plan, and during the year ended June 30, 2010, made payments of $2,657. 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 is available on the state's website at www.tn.gov/finance/act/cafr.html.

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 and foreclosure proceeds were used to redeem bonds as indicated below:

July 1, 2011	Mortgage Finance Program	$ 3,085,000
	Homeownership Program	46,515,000
	Housing Finance Program	2,580,000
	Total	$52,180,000

b. On August 5, 2011, Standard and Poor's (S&P) downgraded its rating on U.S. long term debt from AAA to AA+. On August 8, 2011, S&P downgraded Fannie Mae, Freddie Mac and the 10 Federal Home Loan Banks (FHLBs) from an AAA rating to AA+.

c. Housing Finance Program Bonds, Issue 2011-B, were sold on August 25, 2011. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2011-B	7/1/2012-1/1/2028	$40,000	0.250 to 4.500
TOTAL ALL ISSUES		$40,000	

d. Housing Finance Program Bonds, Issue 2009-B, Subseries B-4, were sold on August 25, 2011. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2009-B, Subseries B-4	7/1/2041	$60,000	2.92
TOTAL ALL ISSUES		$60,000	

e. Housing Finance Program Bonds, Issue 2011-C, were authorized by the Board of directors on September 27, 2011, not to exceed $65,290,000.

f. Housing Finance Program Bonds, Issue 2009-B, Subseries B-5, were authorized by the Board of directors on September 27, 2011, not to exceed $34,710,000.

g. Homeownership Program Bonds, Issue 2011-1, were authorized by the Board of directors on September 27, 2011, not to exceed $150,000,000.

h. Mortgage prepayments and foreclosure proceeds will be used to redeem bonds as indicated below:

October 1, 2011	Mortgage Finance Program	$ 3,530,000
	Homeownership Program	49,400,000
	Housing Finance Program	4,420,000
	Total	$57,350,000

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%
7/1/2009	State Employee Group Plan	$ -0-	$ 3,629	$ 3,629	0%	$ 9,238	39%
7/1/2010	State Employee Group Plan	$ -0-	$ 3,316	$ 3,316	0%	$ 8,640	38%

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2011
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	$ 1,887	$ 27,904	$ 145,552	$ 27,728	$ -	$ 203,071
Receivables:						
Accounts	3	910	21,749	1,088	-	23,750
Interest	74	1,007	9,670	2,103	-	12,854
First mortgage loans	9	5,274	36,755	7,909	-	49,947
Due from federal government	14,807	-	-	-	-	14,807
Due from other funds	2,180	1,400	-	-	-	3,580
Total current assets	18,960	36,495	213,726	38,828	-	308,009
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	4,300	675	7,708	94,819	-	107,502
Investments	-	16,799	165,177	14,952	-	196,928
Investment interest receivable	-	152	1,966	143	-	2,261
Investments	-	16,077	18,262	4,518	-	38,857
First mortgage loans receivable	1,527	141,770	1,490,872	435,304	-	2,069,473
Deferred charges	1	354	9,621	2,351	-	12,327
Advance to local government	2,983	-	-	-	-	2,983
Capital assets:						
Furniture and equipment	517	-	-	-	-	517
Less accumulated depreciation	(360)	-	-	-	-	(360)
Total noncurrent assets	8,968	175,827	1,693,606	552,087	-	2,430,488
Total assets	27,928	212,322	1,907,332	590,915	-	2,738,497
LIABILITIES						
Current liabilities:						
Warrants / wires payable	10,913	-	-	-	-	10,913
Accounts payable	5,024	7	67	23	-	5,121
Accrued payroll and related liabilities	472	-	-	-	-	472
Compensated absences	477	-	-	-	-	477
Interest payable	-	1,887	36,096	7,093	-	45,076
Escrow deposits	-	528	-	-	-	528
Prepayments on mortgage loans	-	92	1,190	380	-	1,662
Due to other funds	471	2,052	1,057	-	-	3,580
Notes payable	3,250	-	-	-	-	3,250
Bonds payable	-	5,625	70,245	7,165	-	83,035
Total current liabilities	20,607	10,191	108,655	14,661	-	154,114
Noncurrent liabilities:						
Bonds payable	-	67,076	1,448,532	541,843	-	2,057,451
Compensated absences	517	-	-	-	-	517
Net OPEB obligation	994	-	-	-	-	994
Escrow deposits	271	3,977	-	-	-	4,248
Arbitrage rebate payable	-	-	1,217	-	-	1,217
Total noncurrent liabilities	1,782	71,053	1,449,749	541,843	-	2,064,427
Total liabilities	22,389	81,244	1,558,404	556,504	-	2,218,541
NET ASSETS						
Invested in capital assets	157	-	-	-	-	157
Restricted for single family bond programs	-	121,535	348,928	34,411	-	504,874
Restricted for grant programs	17	9,543	-	-	-	9,560
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	2,212	-	-	-	-	2,212
Total net assets	$ 5,539	$ 131,078	$ 348,928	$ 34,411	$ -	$ 519,956

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES						
Mortgage interest income	$ 76	$ 7,073	$ 93,952	$ 18,305	$ -	$ 119,406
Investment income:						
Interest	(81)	1,387	9,235	501	-	11,042
Net (decrease) in the fair value of investments	-	(573)	(4,118)	(195)	-	(4,886)
Federal grant administration fees	13,916	-	-	-	-	13,916
Fees and other income	3,031	94	-	-	-	3,125
Total operating revenues	16,942	7,981	99,069	18,611	-	142,603
OPERATING EXPENSES						
Salaries and benefits	15,190	-	-	-	-	15,190
Contractual services	2,625	-	-	-	-	2,625
Materials and supplies	226	-	-	-	-	226
Rentals and insurance	97	-	-	-	-	97
Other administrative expenses	465	-	-	-	-	465
Other program expenses	1,124	4,460	6,215	81	(2)	11,878
Interest expense	111	4,226	72,065	11,899	-	88,301
Mortgage service fees	-	454	5,918	1,229	-	7,601
Issuance costs	-	38	621	71	-	730
Depreciation	93	-	-	-	-	93
Total operating expenses	19,931	9,178	84,819	13,280	(2)	127,206
Operating income (loss)	(2,989)	(1,197)	14,250	5,331	2	15,397
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	355,482	272	-	-	-	355,754
Federal grants expenses	(355,379)	(483)	-	-	-	(355,862)
Local grants expenses	(485)	(5,733)	(7,877)	-	-	(14,095)
Total nonoperating revenues (expenses)	(382)	(5,944)	(7,877)	-	-	(14,203)
Income (loss) before transfers	(3,371)	(7,141)	6,373	5,331	2	1,194
Transfers (to) other funds	-	-	(15,545)	-	(8)	(15,553)
Transfers from other funds	1,175	7,379	-	6,999	-	15,553
Change in net assets	(2,196)	238	(9,172)	12,330	(6)	1,194
Total net assets, July 1	7,735	130,840	358,100	22,081	6	518,762
Total net assets, June 30	$ 5,539	$ 131,078	$ 348,928	$ 34,411	$ -	$ 519,956

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:						
Receipts from customers	$ -	$ 23,424	$ 300,712	$ 28,429	$ -	$ 352,565
Receipts from federal government	14,241	-	-	-	-	14,241
Receipts from other funds	-	1,972	1,057	-	-	3,029
Other miscellaneous receipts	3,031	94	-	-	-	3,125
Acquisition of mortgage loans	-	(9,315)	(2,150)	(219,596)	-	(231,061)
Payments to service mortgages	-	(454)	(5,918)	(1,229)	-	(7,601)
Payments to suppliers	(6,476)	(4,429)	(10,359)	(55)	2	(21,317)
Payments to federal government	-	-	(3,054)	(199)	(78)	(3,331)
Payments to other funds	(3,029)	-	-	-	-	(3,029)
Payments to employees	(15,266)	-	-	-	-	(15,266)
Net cash provided (used) by operating activities	(7,499)	11,292	280,288	(192,650)	(76)	91,355
Cash flows from non-capital financing activities:						
Operating grants received	363,125	272	-	-	-	363,397
Transfers in (out)	1,175	7,379	(15,545)	6,999	(8)	-
Negative cash balance implicitly financed (repaid)	2,616	-	-	-	-	2,616
Proceeds from sale of bonds	-	-	120,700	81,156	-	201,856
Operating grants paid	(356,343)	(6,216)	(7,877)	-	-	(370,436)
Cost of issuance paid	-	-	(989)	(918)	-	(1,907)
Principal payments	(422)	(17,780)	(346,340)	(7,400)	-	(371,942)
Interest paid	(111)	(4,481)	(79,360)	(7,001)	-	(90,953)
Net cash provided (used) by non-capital financing activities	10,040	(20,826)	(329,411)	72,836	(8)	(267,369)
Cash flows from capital and related financing activities:						
Purchases of capital assets	(172)	-	-	-	-	(172)
Net cash (used) by capital and related financing activities	(172)	-	-	-	-	(172)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	63,883	201,160	25,026	-	290,069
Purchases of investments	-	(63,317)	(218,284)	(37,295)	-	(318,896)
Investment interest received	44	1,408	9,095	453	-	11,000
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	1	16	113	-	130
Net cash provided (used) by investing activities	44	1,975	(8,013)	(11,703)	-	(17,697)
Net increase (decrease) in cash and cash equivalents	2,413	(7,559)	(57,136)	(131,517)	(84)	(193,883)
Cash and cash equivalents, July 1	3,774	36,138	210,396	254,064	84	504,456
Cash and cash equivalents, June 30	$ 6,187	$ 28,579	$ 153,260	$ 122,547	$ -	$ 310,573

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	$ (2,989)	$ (1,197)	$ 14,250	$ 5,331	$ 2	$ 15,397
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	93	38	621	71	-	823
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	587	4,577	(448)	-	4,716
(Increase) decrease in mortgage interest receivable	(74)	179	1,480	(1,233)	-	352
(Increase) decrease in first mortgage loans receivable	(1,307)	6,507	198,892	(207,946)	-	(3,854)
Decrease in due from federal government	325	-	-	-	-	325
(Increase) decrease in deferred charges	-	46	(4,133)	11	-	(4,076)
Decrease in interfund receivables	-	1,972	1,057	-	-	3,029
(Decrease) in interfund payables	(3,029)	-	-	-	-	(3,029)
Increase (decrease) in accounts payable	(988)	(252)	(350)	170	-	(1,420)
Increase in accrued payroll / compensated absences	278	-	-	-	-	278
(Decrease) in arbitrage rebate liability	-	-	(3,054)	(199)	(78)	(3,331)
Investment income included as operating revenue	81	(814)	(5,117)	(306)	-	(6,156)
Interest expense included as operating expense	111	4,226	72,065	11,899	-	88,301
Total adjustments	(4,510)	12,489	266,038	(197,981)	(78)	75,958
Net cash provided (used) by operating activities	$ (7,499)	$ 11,292	$ 280,288	$ (192,650)	$ (76)	$ 91,355
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	-	(303)	(3,135)	(205)	-	(3,643)
Total noncash investing, capital, and financing activities	$ -	$ (303)	$ (3,135)	$ (205)	$ -	$ (3,643)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2011
(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	$ 10,162	$ 17,660	$ 27,822	$ 82	$ 27,904
Receivables:					
Accounts	343	562	905	5	910
Interest	825	156	981	26	1,007
First mortgage loans	4,897	377	5,274	-	5,274
Due from other funds	-	1,400	1,400	-	1,400
Total current assets	16,227	20,155	36,382	113	36,495
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	675	-	675	-	675
Investments	16,799	-	16,799	-	16,799
Investment interest receivable	152	-	152	-	152
Investments	617	12,411	13,028	3,049	16,077
First mortgage loans receivable	139,269	2,501	141,770	-	141,770
Deferred charges	354	-	354	-	354
Total noncurrent assets	157,866	14,912	172,778	3,049	175,827
Total assets	174,093	35,067	209,160	3,162	212,322
LIABILITIES					
Current liabilities:					
Accounts payable	-	7	7	-	7
Interest payable	1,887	-	1,887	-	1,887
Escrow deposits	-	-	-	528	528
Prepayments on mortgage loans	89	3	92	-	92
Due to other funds	1,400	652	2,052	-	2,052
Bonds payable	5,625	-	5,625	-	5,625
Total current liabilities	9,001	662	9,663	528	10,191
Noncurrent liabilities:					
Bonds payable	67,076	-	67,076	-	67,076
Escrow deposits	-	1,538	1,538	2,439	3,977
Total noncurrent liabilities	67,076	1,538	68,614	2,439	71,053
Total liabilities	76,077	2,200	78,277	2,967	81,244
NET ASSETS					
Restricted for single family bond programs	98,016	23,324	121,340	195	121,535
Restricted for grant programs	-	9,543	9,543	-	9,543
Total net assets	$ 98,016	$ 32,867	$ 130,883	$ 195	$ 131,078

* 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.