FINANCIAL STATEMENTS

June 30, 2010

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
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Independent Auditor's Report

December 30, 2010

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

Ladies and Gentlemen:

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, 2010, and June 30, 2009, 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, 2010, and June 30, 2009, 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 and the schedule of funding progress are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with generally accepted government auditing standards, we have also issued our report dated December 30, 2010, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/tlh

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND JUNE 30, 2009

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, 2010 and June 30, 2009. This information is being presented to provide additional information regarding the activities of THDA and to meet the reporting and disclosure requirements of the Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists people is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2010, THDA has originated over 104,000 single-family mortgage loans in its 37-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher program in approximately 74 of Tennessee's 95 counties, as well as project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide 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, 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.

Year Ended June 30, 2009

- Total assets decreased by $45.5 million, or 1.7 %.
- Total liabilities decreased by $63.0 million, or 3.0%.
- Net assets (the amount that total assets exceeds total liabilities) were $510.0 million. This is an increase of $16.2 million, or 3.3%, from fiscal year 2008.
- Cash and cash equivalents decreased $129.0 million, or 47.4%.
- Total investments increased $55.2 million, or 18.6%.
- Bonds and notes payable decreased $65.2 million, or 3.2%.
- THDA originated $214.5 million in new loans, which is a decrease of $233.7 million, or 52.1%, from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

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

	2010	2009	2008
Current assets	$ 397,864	$ 313,017	$ 376,194
Capital assets	79	29	79
Other noncurrent assets	2,516,989	2,247,094	2,230,603
Total assets	2,914,932	2,560,140	2,606,876
Current liabilities	193,765	145,096	165,375
Noncurrent liabilities	2,202,405	1,905,071	1,947,753
Total liabilities	2,396,170	2,050,167	2,113,128
Invested in capital assets	79	29	79
Restricted net assets	514,383	508,036	492,193
Unrestricted net assets	4,300	1,908	1,476
Total net assets	$ 518,762	$ 509,973	$ 493,748

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.

2009 to 2008

- THDA's total net assets increased $16.2 million, or 3.3%, from $493.8 million at June 30, 2008 to $510.0 million at June 30, 2009. This primarily resulted from an increase in mortgage interest income, and an increase in the fair value of investments. (The amount of net assets as of June 20, 2008 was revised from the amount previously reported as a result of a Prior Period Adjustment. Note 12 of the Notes to the Financial Statements contains full guidance regarding this adjustment.)

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

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

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

	2010	2009	2008
Operating revenues			
Mortgage interest income	$ 118,572	$ 119,500	$ 111,142
Investment income	14,517	17,905	38,756
Other	17,588	14,186	15,751
Total operating revenues	150,677	151,591	165,649
Operating expenses			
Interest expense	93,154	93,103	97,328
Other	32,677	29,931	29,934
Total operating expenses	125,831	123,034	127,262
Operating income	24,846	28,557	38,387
Nonoperating revenues (expenses)			
Grant revenues	254,417	186,800	185,204
Grant expenses	(270,474)	(199,132)	(187,235)
Total nonoperating revenues (expenses)	(16,057)	(12,332)	(2,031)
Change in net assets	$ 8,789	$ 16,225	$ 36,356

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.

2009 to 2008

For the year ended June 30, 2009, total operating revenues decreased $12.8 million from $164.4 million for the year ended June 30, 2008 to $151.6 million for the year ended June 30, 2009. The primary reasons for this decrease are as follows:

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

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

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

DEBT ACTIVITY

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

	2010	2009	2008
Bonds payable	$ 2,316,748	$ 1,972,561	$ 1,952,295
Notes payable	3,672	3,250	88,720
Total bonds and notes payable	$ 2,320,420	$ 1,975,811	$ 2,041,015

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.

Year Ended June 30, 2009
Total bonds and notes payable decreased $65.2 million, or 3.2%, due primarily to a redemption of THDA's Single Family Mortgage Notes in the amount of $83.1 million. Please see Note 4 (e) for more information regarding this transaction. During the fiscal year, THDA issued debt totaling $267.6 million, with activity arising from four bond issues totaling $220.0 million and one note draw under the single family mortgage note program totaling $44.3 million. In addition, THDA obtained a $3.25 million loan from a local financial institution for the Housing Trust Fund. Principal redemptions decreased $256.1 million, from $584.4 million in FY 2008 to $328.2 million in FY 2009.

New Issue Bond Program (NIBP)

The New Issue Bond Program (NIBP) will provide 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 be converted to fixed-rate, tax-exempt bonds upon the issuance of market bonds within the framework and guidelines of the NIBP.

Subsequently, on June 17, 2010, THDA released, re-designed, and converted $85,290,000 of escrowed bonds (Bond Issue 2009-B) into fixed-rate, tax-exempt bonds (Bond Issue 2009-B, Subseries B-1).

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.

Debt Limits

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

GRANT PROGRAMS

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

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

	FY 2010	FY 2009	FY 2008 and Prior	Total
Funding Sources:				
THDA	$ 6,000,000	$ 6,000,000	$ 12,000,000	$ 24,000,000
State Appropriation	-	350,000	4,000,000	4,350,000
Totals	**$ 6,000,000**	**$ 6,350,000**	**$ 16,000,000**	**$ 28,350,000**
Approved Uses:				
Rural repair program (USDA)	$ 700,000	$ 700,000	$ 1,400,000	$ 2,800,000
Ramp Program (UCP)	-	-	50,000	50,000
Ramp Program	-	150,000	250,000	400,000
Hsg Modification & Ramp Prg	150,000	-	-	150,000
Homebuyer Education Initiative		-	300,000	300,000
Emergency Repairs for Elderly	2,000,000	2,000,000	4,000,000	8,000,000
Competitive Grants	3,150,000	3,500,000	10,000,000	16,650,000
Totals	**$ 6,000,000**	**$ 6,350,000**	**$ 16,000,000**	**$ 28,350,000**

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

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

During FY 2009, THDA received a loan of $3.25 million from a local financial institution for the Housing Trust Fund. Likewise, in FY 2010 THDA received a similar loan of $500,000. These funds will be used to fund short-term second mortgages for low income Tennesseans for homeowner rehabilitation. As required by these lending financial institutions, this program

is limited to residents in geographic areas as specified by these financial institutions. THDA is actively pursuing additional financial institutions to also join this program throughout the state.

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

THDA offers three primary choices for single-family mortgages. The *Great Rate* mortgage product offers a below market interest rate loan secured by a first mortgage. The *Great Start* program offers a loan with an interest rate that is 60 basis points higher than the Great Rate product, but provides 4% of the loan amount as down payment and closing cost assistance. In addition, THDA introduced the *Great Advantage* product during fiscal year 2006, which offers a loan with an interest rate that is 30 basis points higher than the Great Rate product, and 2% of the loan amount as down payment and closing cost assistance.

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

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

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

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

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

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

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

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

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

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.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND JUNE 30, 2009
(Expressed in Thousands)

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 270,188	$ 132,294
Investments (Note 2)	14,579	88,217
Receivables:		
Accounts	28,463	20,957
Interest	13,258	13,794
First mortgage loans	48,601	44,135
Other	-	123
Due from federal government	22,775	13,497
Total current assets	397,864	313,017
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	234,268	11,115
Investments (Note 2)	181,751	183,261
Investment interest receivable	2,169	1,956
Investments (Note 2)	15,643	79,738
First mortgage loans receivable	2,066,997	1,955,274
Deferred charges	13,209	12,822
Advance to local government	2,952	2,928
Capital assets:		
Furniture and equipment	346	238
Less accumulated depreciation	(267)	(209)
Total noncurrent assets	2,517,068	2,247,123
Total assets	2,914,932	2,560,140
LIABILITIES		
Current liabilities:		
Warrants / wires payable (Note 3)	8,297	12,450
Accounts payable	6,617	1,975
Accrued payroll and related liabilities	443	392
Compensated absences	494	515
Interest payable	47,267	47,990
Escrow deposits	585	643
Prepayments on mortgage loans	1,862	1,808
Bonds payable (Note 4)	128,200	79,315
Deferred revenue	-	8
Total current liabilities	193,765	145,096
Noncurrent liabilities:		
Notes payable (Note 4)	3,672	3,250
Bonds payable (Note 4)	2,188,548	1,893,246
Compensated absences	451	557
Net OPEB obligation (Note 9)	794	602
Escrow deposits	4,393	4,241
Arbitrage rebate payable	4,547	3,146
Deferred revenue	-	29
Total noncurrent liabilities	2,202,405	1,905,071
Total liabilities	2,396,170	2,050,167
NET ASSETS		
Invested in capital assets	79	29
Restricted for single family bond programs (Note 5 and Note 7)	504,955	492,973
Restricted for grant programs (Note 5)	6,274	11,909
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154
Unrestricted (Note 7)	4,300	1,908
Total net assets	$ 518,762	$ 509,973

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009
(Expressed in Thousands)

	2010	2009
OPERATING REVENUES		
Mortgage interest income	$ 118,572	$ 119,500
Investment income:		
Interest	12,846	15,344
Net increase in the fair value of investments	1,671	2,561
Federal grant administration fees	15,136	11,770
Fees and other income	2,452	2,416
Total operating revenues	150,677	151,591
OPERATING EXPENSES		
Salaries and benefits	13,841	13,743
Contractual services	3,315	2,624
Materials and supplies	321	527
Rentals and insurance	90	1,212
Other administrative expenses	502	639
Other program expenses	6,433	3,140
Interest expense	93,154	93,103
Mortgage service fees	7,394	7,303
Issuance costs	723	693
Depreciation	58	50
Total operating expenses	125,831	123,034
Operating income	24,846	28,557
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	253,712	185,092
Other grants revenue	705	1,358
Payment from primary government	-	350
Federal grants expenses	(253,605)	(189,042)
Local grants expenses	(16,869)	(10,090)
Total nonoperating revenues (expenses)	(16,057)	(12,332)
Change in net assets	8,789	16,225
Total net assets, July 1	509,973	492,462
Prior period adjustment (Note 12)	-	1,286
Total net assets, July 1, as restated	509,973	493,748
Total net assets, June 30	$ 518,762	$ 509,973

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, 2010 AND JUNE 30, 2009
(Expressed in Thousands)

	2010	2009
Cash flows from operating activities:		
Receipts from customers	$ 338,749	$ 303,583
Receipts from federal government	15,117	6,187
Other miscellaneous receipts	2,575	2,406
Acquisition of mortgage loans	(344,054)	(214,506)
Payments to service mortgages	(7,394)	(7,303)
Payments to suppliers	(11,543)	(10,565)
Payments to federal government	128	-
Payments to employees	(13,422)	(12,763)
Net cash provided (used) by operating activities	(19,844)	67,039
Cash flows from non-capital financing activities:		
Operating grants received	245,158	192,088
Negative cash balance implicitly financed (repaid)	(4,153)	4,825
Proceeds from sale of bonds	550,973	219,678
Proceeds from issuance of notes	500	47,580
Operating grants paid	(266,217)	(199,518)
Cost of issuance paid	(2,237)	(2,142)
Principal payments	(203,603)	(328,245)
Interest paid	(93,775)	(93,553)
Net cash provided (used) by non-capital financing activities	226,646	(159,287)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(108)	-
Net cash used by capital and related financing activities	(108)	-
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	450,136	378,527
Purchases of investments	(309,431)	(432,090)
Investment interest received	13,557	15,868
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	91	963
Net cash provided (used) by investing activities	154,353	(36,732)
Net increase (decrease) in cash and cash equivalents	361,047	(128,980)
Cash and cash equivalents, July 1	143,409	272,389
Cash and cash equivalents, June 30	$ 504,456	$ 143,409

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009
(Expressed in Thousands)

	2010	2009
Reconciliation of operating income to net cash used by operating activities:		
Operating income	$ 24,846	$ 28,557
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation and amortization	781	743
Changes in assets and liabilities:		
(Increase) in accounts receivable	(7,506)	(11,196)
(Increase) in mortgage interest receivable	(269)	(1,823)
(Increase) in first mortgage loans receivable	(116,213)	(13,641)
(Increase) in due from federal government	(19)	(5,658)
(Increase) in deferred charges	(2,237)	(2,232)
(Increase) decrease in other receivables	123	(10)
Increase (decrease) in accounts payable	533	(4,085)
Increase in accrued payroll / compensated absences	116	487
(Decrease) in due to primary government	-	(3)
(Decrease) in deferred revenue	(37)	(190)
Increase in arbitrage rebate liability	1,401	892
Investment income included as operating revenue	(14,517)	(17,905)
Interest expense included as operating expense	93,154	93,103
Total adjustments	(44,690)	38,482
Net cash provided (used) by operating activities	$ (19,844)	$ 67,039
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	$ 3,789	$ 1,713
Total noncash investing, capital, and financing activities	$ 3,789	$ 1,713

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Basis of Presentation

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

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred. 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. The bond resolutions require the agency to establish a Debt Service Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund to cover any deficiency.

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

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

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

g. Cash and Cash Equivalents

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

h. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and

general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

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

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

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

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

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

At June 30, 2010, the bank balance was $533,214. At June 30, 2009, the bank balance was $1,404,893. All bank balances were insured. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report may be obtained by writing to the Tennessee Department of the Treasury, 502 Deaderick Street, Nashville, Tennessee 37243-0225, or by calling (615) 741-2956.

b. Investments

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

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

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

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

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

	June 30, 2010		**June 30, 2009**	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$110,758,327	1.464	$200,097,788	1.369
U.S. Agency Discount	40,000,000	0.000	60,948,600	0.255
U.S. Treasury Coupon	91,214,027	5.898	88,406,383	6.428
U.S. Treasury Discount	214,769,030	0.000	0	N/A
Repurchase Agreements	124,000,000	0.005	80,000,000	0.000
Pass through Securities			1,763,903	0.120
Total	$580,741,384	1.030	$429,452,771	1.753

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

Variable Rate Bonds.
The agency purchased $3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at par on December 30, 2008. Although these securities were scheduled to mature on December 30, 2010, these bonds were called on December 30, 2009. The fair value of

these securities on June 30, 2009, was $3,019,689 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.8125 of par on January 28, 2009. Although these securities were scheduled to mature on July 28, 2014, these bonds were called on April 28, 2010. The fair value of these securities on June 30, 2009, was $1,970,000 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.84375 of par on January 30, 2009. Although these securities were scheduled to mature on January 30, 2014, these bonds were called on October 30, 2009. The fair value of these securities on June 30, 2009, was $2,000,626 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 99.6875 of par on April 17, 2009, and mature on April 17, 2024. The fair value of these securities on June 30, 2010, was $2,001,594, and on June 30, 2009, was $1,919,972 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 3.0% with a step-up option to 5.0% on April 17, 2012, to 6.0% on April 17, 2015, to 7.0% on April 17, 2018, and to 9.0% on April 17, 2021. This investment is callable quarterly beginning on October 17, 2009, and ending on January 17, 2024.

The agency purchased $5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on May 13, 2009. Although these securities were scheduled to mature on May 13, 2010, these bonds were called on November 13, 2009. The fair value of these securities on June 30, 2009, was $5,000,157 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 Home Loan Mortgage Corporation. They were purchased at 100.302 of par on May 20, 2009. Although these securities were scheduled to mature on March 13, 2023, these bonds were called on September 13, 2009. The fair value of these securities on June 30, 2009, was $1,004,756 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at par on May 26, 2009. Although these securities were scheduled to mature on May 26, 2017, these bonds were called on May 26, 2010. The fair value of these securities on June 30, 2009, was $1,975,912 which is included in U.S. Agency Coupon in the table above.

The agency purchased $3,720,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.9687538 of par on May 28, 2009. Although these securities were scheduled to mature on May 28, 2014, these bonds were called on November 28, 2009. The fair value of these securities on June 30, 2009, was $3,679,314 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 Home Loan Bank. They were purchased at par on June 19, 2009. Although these securities were scheduled to mature on June 15, 2010, these bonds were called on December 15, 2009. The fair value of these securities on June 30, 2009, was $5,003,125 which is included in U.S. Agency Coupon in the table above.

The agency purchased $425,000 in step-up rate bonds issued by Federal Home Loan Mortgage Corporation. They were purchased at 100.96 of par on June 19, 2009. Although these securities were scheduled to mature on October 15, 2013, these bonds were called on October 15, 2009. The fair value of these securities on June 30, 2009, was $429,287 which is included in U.S. Agency Coupon in the table above.

The agency purchased $2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on June 24, 2009. Although these securities were scheduled to mature on June 24, 2014, these bonds were called on December 24, 2009. The fair value of these securities on June 30, 2009, was $2,000,626 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, and mature on November 12, 2024. The fair value of these securities on June 30, 2010, is $1,871,995 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 4.00% with a step-up option to 5.0% on November 12, 2013, to 6.5% on November 12, 2016, to 8.0% on November 12, 2018, to 9.0% on November 12, 2020, and to 10.0% on November 12, 2022. This investment is callable quarterly beginning on May 12, 2010, and ending on August 12, 2024.

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, and mature on January 6, 2025. The fair value of these securities on June 30, 2010, is $5,001,563 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 6.5% on July 6, 2010. This investment is callable quarterly beginning on July 6, 2010, and ending on October 6, 2024.

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, and mature on January 28, 2025. The fair value of these securities on June 30, 2010, is $2,532,933 which is included in U.S. Agency Coupon in the table above. This investment has a stated coupon rate of 4.25% with a step-up option to 5.0% on January 28, 2015 and to 7.0% on January 28, 2020. This investment is callable quarterly beginning on January 28, 2011, and ending on October 28, 2024.

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, and mature on November 27, 2015. The fair value of these securities on June 30, 2010, is $1,011,875 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 3.0% on May 27, 2012, to 4.0% on May 27, 2013, to 5.0% on May 27, 2014, and to 6.0% on May 27, 2015. This investment is callable quarterly beginning on May 27, 2011, and ending on August 27, 2015.

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, 2010 and June 30, 2009 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, 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

June 30, 2009							
		U.S. Treasury / Agency[1]	Credit Quality Rating				
Investment Type	**Fair Value**		**AAAm**	**AAA**	**A-1+[2]**	**AA-2**	**Not Rated[3]**
U.S. Agency Coupon	$200,097,788			$161,726,533		$4,940,625	$33,430,630
U.S. Agency Discount	60,948,600			29,949,000	$30,999,600		
U.S. Treasury Coupon	88,406,383	$88,406,383					
Repurchase Agreements	80,000,000						80,000,000
Pass Through Securities	1,763,903						1,763,903
Money Market Mutual Fund	58,869,923		$58,869,923				
Total	$490,086,597	$88,406,383	$58,869,923	$191,675,533	$30,999,600	$4,940,625	$115,194,533

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, 2010		June 30, 2009	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$51,165,877	8.81	$63,689,474	14.72
Federal Home Loan Mortgage Corp	N/A	N/A	$42,228,984	9.77
Federal National Mortgage Assoc	$73,222,727	12.61	$143,051,399	33.33
Repurchase Agreements – U.S. Agency	$124,000,000	21.35	$80,000,000	18.61

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

NOTE 3. WARRANTS / WIRES PAYABLE

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

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2010	Ending Balance 6/30/2009
MORTGAGE FINANCE PROGRAM BONDS					
2003A	7/1/2004-7/1/2034	$191,885	1.70 to 5.35	$93,060	$107,865
Less: Deferred Amount on Refundings				(2,730)	(2,882)
Net Mortgage Finance Program Bonds				$90,330	$104,983

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2010	Ending Balance 6/30/2009
HOMEOWNERSHIP PROGRAM BONDS					
1996-3	7/1/99-7/1/2028	$65,000	4.30 to 6.00	$ -0-	$7,570
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	17,480	19,030
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	17,285	19,320
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	11,450	13,410
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	11,885	13,730
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	5,625	6,335
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	13,355	15,835
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	5,850	6,555
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	17,150	21,565
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	-0-	21,025
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	16,290	20,460
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	61,045	63,830
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	21,255	23,655
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	19,855	22,675
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	29,115	32,240
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	33,865	38,880
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	23,145	26,285
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	32,615	36,285
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	38,555	43,025
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	46,495	51,555
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	60,715	68,135
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	64,665	71,445
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	72,745	80,495
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	75,235	83,990
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	79,910	87,630
2006-2	7/1/2007-1/1/2037	100,000	3.90 to 5.75	76,240	86,720
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	83,515	91,055

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2010	Ending Balance 6/30/2009
HOMEOWNERSHIP PROGRAM BONDS					
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	87,615	93,915
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	107,360	114,185
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	131,330	142,555
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	135,560	143,855
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	53,810	58,965
2008-2	7/1/2009-1/1/2027	50,000	3.25 to 5.75	45,040	50,000
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	82,595	90,000
2008-4	1/1/2010-7/1/2028	30,000	3.125 to 6.125	29,390	30,000
2009-1	1/1/2010-7/1/2029	50,000	.75 to 5.00	49,450	50,000
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	75,000	-0-
Total Homeownership Program Bonds		$3,073,855		$1,732,490	$1,846,210
Plus: Unamortized Bond Premiums				21,689	25,377
Less: Deferred Amount on Refundings				(3,086)	(4,009)
Net Homeownership Program Bonds				$1,751,093	1,867,578

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 6/30/2010	Ending Balance 6/30/2009
HOUSING FINANCE PROGRAM BONDS					
2009-A	1/1/2011-1/1/2040	$100,000	0.900 to 4.625	$100,000	-0-
2009-B	7/1/2041	300,000	Variable	214,710	-0-
2010-A	1/1/2011-7/1/2041	74,710	0.600 to 5.0	160,000	-0-
Total Housing Finance Program Bonds		$474,710		$474,710	-0-
Plus: Unamortized Bond Premiums				730	-0-
Less: Deferred Amount on Refundings				(115)	-0-
Net Housing Finance Program Bonds				$475,325	-0-
Net Total All Issues				$2,316,748	$1,972,561

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 three times before December 31, 2010.

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 which is in the ending balance at June 30, 2010 column.

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, 2010 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2011	$269,962	$92,960	$362,922
2012	45,635	86,458	132,093
2013	42,210	84,986	127,196
2014	43,245	83,499	126,744
2015	44,640	81,861	126,501
2016 – 2020	197,848	381,358	579,206
2021 – 2025	249,383	336,647	586,030
2026 – 2030	273,457	270,967	544,424
2031 – 2035	270,933	208,491	479,424
2036 – 2040	585,366	97,301	682,667
2041 - 2042	300,000	5,066	305,066
Total	$2,322,679	$1,729,594	$4,052,273

The debt principal in the preceding table is $5,931,000 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, 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.

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

On July 1, 2008, a fourth drawdown was made on the Series 2007 CN-1 Notes in the amount of $44,330,000. These proceeds were used on the same day to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $35,785,000 early redemption and $8,545,000 current maturities). The carrying amount of these

bonds was $45,277,489. The refunding resulted in a difference of $947,489 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

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

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

d. Long-term Liability Activity

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

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

Long-term Liabilities
(Thousands)

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

e. Notes Issued and Outstanding

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

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

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

NOTES ISSUED AND OUTSTANDING
(Thousands)

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

There was no drawdown activity during the year ended June 30, 2010.

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 are paid monthly with the principal maturing on August 4, 2012.

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

In October 2008, the Internal Revenue Service issued Notice 2008-88, amending Notice 2008-41. With an effective date of March 28, 2008, this notice provides temporary relief to issuers by allowing them to purchase their own bonds and commercial paper without causing an extinguishment of the debt for tax purposes. Therefore, on October 9, 2008, due to unstable credit markets, the Tennessee Housing Development Agency purchased at par $83,050,000 of its Single Family Mortgage Notes Trust Indenture from Morgan Keegan. The agency 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 is allowed to hold its outstanding notes purchased from Morgan Keegan. The agency is allowed to hold the outstanding notes through December 31, 2010, after which the notes will be available to reissue. However, in accordance with the Financial Accounting Standards Board Statement 76 Paragraph 3, the outstanding notes are not recorded for financial reporting purposes.

NOTE 5. RESTRICTED NET ASSETS

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

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

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

NOTE 6. DEFINED BENEFIT PENSION PLAN

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

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

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 13.02% 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, 2010, 2009, and 2008, were $1,295,272, $1,201,303, and $1,297,298. 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, 2010, and June 30, 2009, are presented in the *Tennessee Comprehensive Annual Financial Report*. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

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

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (*TCA*) Section 8-27-201 for the state plan and *TCA* 8-27-701 for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. The POS and HMO options will no longer be available to members after January 1, 2011. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243, or by calling (615) 741-2140.

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 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

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

	June 30, 2010	June 30, 2009
Annual Required Contribution (ARC)	$351	$448
Interest on the Net OPEB Obligation	25	13
Adjustment to the ARC	(24)	(12)
Annual OPEB cost	352	449
Amount of contribution	(160)	(128)
Increase in Net OPEB Obligation	192	321
Net OPEB obligation-beginning of year	602	281
Net OPEB obligation-end of year	$794	$602

Year End	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At Year End (Thousands)
6/30/2008	State Employee Group Plan	$ 443	37%	$ 281
6/30/2009	State Employee Group Plan	$ 449	29%	$ 602
6/30/2010	State Employee Group Plan	$ 352	45%	$ 794

Funded Status and Funding Progress. The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2009, was as follows (Thousands):

Actuarial valuation date	7/01/2009
Actuarial accrued liability (AAL)	$ 3,629
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	$ 3,629
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 9,238
UAAL as a percentage of covered payroll	39%

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

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

In the July 1, 2009, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6 percent initially, increased to 10 percent in the second year and then reduced by decrements 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, 2010, the State of Tennessee made payments of $2,657 on behalf of THDA for retirees participating in the Medicare Supplement Plan, and during the year ended June 30, 2009, made payments of $2,528. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass

Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243, or by calling (615) 741-2140.

NOTE 11. PAYMENTS TO PRIMARY GOVERNMENT

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

NOTE 12. PRIOR – PERIOD ADJUSTMENT

For the years ended June 30, 2008 and June 30, 2009, the agency recorded federal administrative fee revenue on a cash basis instead of on an accrual basis. Therefore, the agency is restating its FY 2009 statements and effecting a prior period adjustment for FY 2008 for these fees.

For the year ended June 30, 2008, revenue in the amount of $1,286,244 was earned on or before June 30, 2008, but received on or after July 1, 2008. This revenue was recorded as an increase to cash and a recognition of revenue for the year ended June 30, 2009. If correctly recorded, this would have resulted in an increase to accounts receivable and recognition of revenue for the year ended June 30, 2008, and an increase to cash and a decrease to accounts receivable for the year ended June 30, 2009. As this error was made in a financial year prior to the comparative year, the opening Net Assets amount as of July 1, 2008 was increased by $1,286,244.

For the year ended June 30, 2009, revenue in the amount of $1,907,676 was earned on or before June 30, 2009, but received on or after July 1, 2009. If correctly recorded, this revenue would have resulted in an increase to accounts receivable and recognition of revenue for the year ended June 30, 2009.

The following financial statement line items for the year ended June 30, 2009 were affected by the correction of an error in previously issued financial statements on accrued federal administration fee revenue (expressed in thousands):

	As Originally reported	As Adjusted	Effect of change
Statements of net assets			
As of June 30, 2009			
Assets			
Current Assets			
Due from federal government	$11,589	$13,497	$1,908
Net Assets			
Unrestricted	$ -	$1,908	$1,908
Statements of revenues, expenses, and changes in net assets			
For the year ended June 30, 2009			
Operating Revenues			
Federal grant administration fees	$11,148	$11,770	$622
Operating income	$27,935	$28,557	$622
Statements of cash flows			
For the year ended June 30, 2009			
Reconciliation of operating income to net cash used by operating activities:			
Operating Income	$27,935	$28,557	$622
Adjustments to reconcile operating income to net cash used by operating activities:			
(Increase) in due from federal government	($5,036)	($5,658)	($622)

NOTE 13. SUBSEQUENT EVENTS

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

July 1, 2010	Mortgage Finance Program	$ 3,305,000
	Homeownership Program	$74,945,000
	Housing Finance Program	$ 455,000
	Total	$78,705,000

b. On September 1, 2010, the U.S. Department of the Treasury announced changes to the New Issue Bond Program (NIBP). These changes included extending the program from its original date of December 31, 2010 until December 31, 2011; and increasing the number of NIBP draws from three to six.

c. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

October 1, 2010	Mortgage Finance Program	$ 3,455,000
	Homeownership Program	$47,985,000
	Housing Finance Program	$ 425,000
	Total	$51,865,000

d. Homeownership Program Bonds, Issue 2010-1, were sold on October 13, 2010. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2010-1	1/1/2011-7/1/2025	$120,700	0.350 to 4.500
TOTAL ALL ISSUES		$120,700	

e. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

November 1, 2010	Homeownership Program	$99,835,000
	Total	$99,835,000

f. Housing Finance Program Bonds, Issue 2010-B, were sold on November 10, 2010. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2010-B	1/1/2011-7/1/2028	$40,000	0.450 to 4.500
TOTAL ALL ISSUES		$40,000	

g. Housing Finance Program Bonds, Issue 2009-B, Subseries B-2, were sold on November 10, 2010. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2009-B, Subseries B-2	7/1/2041	$60,000	3.16
TOTAL ALL ISSUES		$60,000	

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%

*One additional year will be reported as data becomes available.

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2010
(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	$ 3,774	$ 35,134	$ 193,346	$ 37,850	$ 84	$ 270,188
Investments	-	4,475	10,104	-	-	14,579
Receivables:						
Accounts	-	1,497	26,326	640	-	28,463
Interest	125	1,192	11,095	846	-	13,258
First mortgage loans	-	5,941	38,006	4,654	-	48,601
Due from federal government	22,775	-	-	-	-	22,775
Due from other funds	-	1,320	-	-	-	1,320
Total current assets	26,674	49,559	278,877	43,990	84	399,184
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	-	1,004	17,050	216,214	-	234,268
Investments	-	16,662	157,580	7,509	-	181,751
Investment Interest receivable	-	169	1,881	119	-	2,169
Investments	-	12,879	2,764	-	-	15,643
First mortgage loans receivable	261	147,610	1,688,513	230,613	-	2,066,997
Deferred charges	1	437	11,247	1,524	-	13,209
Advance to local government	2,952	-	-	-	-	2,952
Capital assets:						
Furniture and equipment	346	-	-	-	-	346
Less accumulated depreciation	(267)	-	-	-	-	(267)
Total noncurrent assets	3,293	178,761	1,879,035	455,979	-	2,517,068
Total assets	29,967	228,320	2,157,912	499,969	84	2,916,252
LIABILITIES						
Current liabilities:						
Warrants / wires payable	8,297	-	-	-	-	8,297
Accounts payable	6,509	22	78	8	-	6,617
Accrued payroll and related liabilities	443	-	-	-	-	443
Compensated absences	494	-	-	-	-	494
Interest payable	-	2,294	42,842	2,131	-	47,267
Escrow deposits	-	585	-	-	-	585
Prepayments on mortgage loans	-	108	1,529	225	-	1,862
Due to other funds	1,320	-	-	-	-	1,320
Bonds payable	-	10,535	115,165	2,500	-	128,200
Total current liabilities	17,063	13,544	159,614	4,864	-	195,085
Noncurrent liabilities:						
Notes payable	3,672	-	-	-	-	3,672
Bonds payable	-	79,795	1,635,928	472,825	-	2,188,548
Compensated absences	451	-	-	-	-	451
Net OPEB obligation	794	-	-	-	-	794
Escrow deposits	252	4,141	-	-	-	4,393
Arbitrage rebate payable	-	-	4,270	199	78	4,547
Total noncurrent liabilities	5,169	83,936	1,640,198	473,024	78	2,202,405
Total liabilities	22,232	97,480	1,799,812	477,888	78	2,397,490
NET ASSETS						
Invested in capital assets	79	-	-	-	-	79
Restricted for single family bond programs	-	124,768	358,100	22,081	6	504,955
Restricted for grant programs	202	6,072	-	-	-	6,274
Restricted for Homebuyers Revolving Loan Prograr	3,154	-	-	-	-	3,154
Unrestricted	4,300	-	-	-	-	4,300
Total net assets	$ 7,735	$ 130,840	$ 358,100	$ 22,081	$ 6	$ 518,762

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(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	$ 2	$ 7,970	$ 107,457	$ 3,143	$ -	$ 118,572
Investment income:						
Interest	144	2,072	10,561	69	-	12,846
Net increase (decrease) in the fair value of investments	-	(115)	1,601	185	-	1,671
Federal grant administration fees	15,136	-	-	-	-	15,136
Fees and other income	2,098	354	-	-	-	2,452
Total operating revenues	17,380	10,281	119,619	3,397	-	150,677
OPERATING EXPENSES						
Salaries and benefits	13,841	-	-	-	-	13,841
Contractual services	3,315	-	-	-	-	3,315
Materials and supplies	321	-	-	-	-	321
Rentals and insurance	90	-	-	-	-	90
Other administrative expenses	502	-	-	-	-	502
Other program expenses	934	2,573	2,884	19	23	6,433
Interest expense	110	4,953	85,940	2,151	-	93,154
Mortgage service fees	-	489	6,697	208	-	7,394
Issuance costs	-	45	656	22	-	723
Depreciation	58	-	-	-	-	58
Total operating expenses	19,171	8,060	96,177	2,400	23	125,831
Operating income (loss)	(1,791)	2,221	23,442	997	(23)	24,846
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	253,712	-	-	-	-	253,712
Other grant revenue	-	705	-	-	-	705
Federal grants expenses	(253,618)	13	-	-	-	(253,605)
Local grants expenses	(2,352)	(6,320)	(8,197)	-	-	(16,869)
Total nonoperating revenues (expenses)	(2,258)	(5,602)	(8,197)	-	-	(16,057)
Income (loss) before transfers	(4,049)	(3,381)	15,245	997	(23)	8,789
Transfers (to) other funds	-	(7,101)	(17,606)	-	-	(24,707)
Transfers from other funds	3,611	-	-	21,084	12	24,707
Change in net assets	(438)	(10,482)	(2,361)	22,081	(11)	8,789
Total net assets, July 1	8,173	141,322	360,461	-	17	509,973
Total net assets, June 30	$ 7,735	$ 130,840	$ 358,100	$ 22,081	$ 6	$ 518,762

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
(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	$ (47)	$ 25,062	$ 336,878	$ 2,790	$ -	$ 364,683
Receipts from federal government	15,117	-	-	-	-	15,117
Receipts from other funds	9,297	-	-	-	-	9,297
Other miscellaneous receipts	2,221	354	-	-	-	2,575
Acquisition of mortgage loans	-	(9,188)	(124,625)	(236,175)	-	(369,988)
Payments to service mortgages	-	(489)	(6,697)	(208)	-	(7,394)
Payments to suppliers	(5,073)	(2,518)	(3,929)	(11)	(12)	(11,543)
Payments to federal government	-	-	(71)	199	-	128
Payments to other funds	-	(1,320)	(7,977)	-	-	(9,297)
Payments to employees	(13,422)	-	-	-	-	(13,422)
Net cash provided (used) by operating activities	8,093	11,901	193,579	(233,405)	(12)	(19,844)
Cash flows from non-capital financing activities:						
Operating grants received	244,453	705	-	-	-	245,158
Transfers in (out)	3,611	(7,101)	(17,490)	20,968	12	-
Negative cash balance implicitly financed (repaid)	(4,153)	-	-	-	-	(4,153)
Proceeds from sale of bonds	-	-	75,531	475,442	-	550,973
Proceeds from issuance of notes	500	-	-	-	-	500
Operating grants paid	(251,713)	(6,307)	(8,197)	-	-	(266,217)
Cost of issuance paid	-	-	(691)	(1,546)	-	(2,237)
Principal payments	(78)	(14,805)	(188,720)	-	-	(203,603)
Interest paid	(110)	(5,134)	(88,510)	(21)	-	(93,775)
Net cash provided (used) by non-capital financing activities	(7,490)	(32,642)	(228,077)	494,843	12	226,646
Cash flows from capital and related financing activities:						
Purchases of capital assets	(108)	-	-	-	-	(108)
Net cash used by capital and related financing activities	(108)	-	-	-	-	(108)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	121,041	338,391	375	-	459,807
Purchases of investments	-	(84,697)	(226,508)	(7,897)	-	(319,102)
Investment interest received	19	2,239	11,230	69	-	13,557
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	1	11	79	-	91
Net cash provided (used) by investing activities	19	38,584	123,124	(7,374)	-	154,353
Net increase in cash and cash equivalents	514	17,843	88,626	254,064	-	361,047
Cash and cash equivalents, July 1	3,260	18,295	121,770	-	84	143,409
Cash and cash equivalents, June 30	$ 3,774	$ 36,138	$ 210,396	$ 254,064	$ 84	$ 504,456

(continued)

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2010
(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)	$ (1,791)	$ 2,221	$ 23,442	$ 997	$ (23)	$ 24,846
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	58	45	656	22	-	781
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	486	(7,352)	(640)	-	(7,506)
(Increase) decrease in mortgage interest receivable	-	55	522	(846)	-	(269)
(Increase) decrease in first mortgage loans receivable	(60)	7,322	111,792	(235,267)	-	(116,213)
(Increase) in due from federal government	(19)	-	-	-	-	(19)
(Increase) decrease in deferred charges	24	43	(2,304)	-	-	(2,237)
Decrease in other receivables	123	-	-	-	-	123
Decrease in interfund receivables	9,297	-	-	-	-	9,297
(Decrease) in interfund payables	-	(1,320)	(7,977)	-	-	(9,297)
Increase (decrease) in accounts payable	379	90	(169)	233	-	533
Increase in accrued payroll / compensated absences	116	-	-	-	-	116
(Decrease) in deferred revenue	-	(37)	-	-	-	(37)
Increase in arbitrage rebate liability	-	-	1,191	199	11	1,401
Investment income included as operating revenue	(144)	(1,957)	(12,162)	(254)	-	(14,517)
Interest expense included as operating expense	110	4,953	85,940	2,151	-	93,154
Total adjustments	9,884	9,680	170,137	(234,402)	11	(44,690)
Net cash provided (used) by operating activities	$ 8,093	$ 11,901	$ 193,579	$ (233,405)	$ (12)	$ (19,844)
Noncash investing, capital, and financing activities:						
Increase in fair value of investments	-	498	3,170	121	-	3,789
Total noncash investing, capital, and financing activities	$ -	$ 498	$ 3,170	$ 121	$ -	$ 3,789

Exhibit D

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2010
(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	$ 17,383	$ 15,920	$ 33,303	$ 1,831	$ 35,134
Investments	2,409	1,611	4,020	455	4,475
Receivables:					
Accounts	1,408	84	1,492	5	1,497
Interest	974	206	1,180	12	1,192
First mortgage loans	5,057	884	5,941	-	5,941
Due from other funds	-	1,320	1,320	-	1,320
Total current assets	27,231	20,025	47,256	2,303	49,559
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	1,004	-	1,004	-	1,004
Investments	16,662	-	16,662	-	16,662
Investment interest receivable	169	-	169	-	169
Investments	1,999	10,024	12,023	856	12,879
First mortgage loans receivable	144,233	3,377	147,610	-	147,610
Deferred charges	437	-	437	-	437
Total noncurrent assets	164,504	13,401	177,905	856	178,761
Total assets	191,735	33,426	225,161	3,159	228,320
LIABILITIES					
Current liabilities:					
Accounts payable	4	18	22	-	22
Interest payable	2,294	-	2,294	-	2,294
Escrow deposits	-	-	-	585	585
Prepayments on mortgage loans	105	3	108	-	108
Bonds payable	10,535	-	10,535	-	10,535
Total current liabilities	12,938	21	12,959	585	13,544
Noncurrent liabilities:					
Bonds payable	79,795	-	79,795	-	79,795
Escrow deposits	-	1,787	1,787	2,354	4,141
Total noncurrent liabilities	79,795	1,787	81,582	2,354	83,936
Total liabilities	92,733	1,808	94,541	2,939	97,480
NET ASSETS					
Restricted for single family bond programs	99,002	25,546	124,548	220	124,768
Restricted for grant programs	-	6,072	6,072	-	6,072
Total net assets	$ 99,002	$ 31,618	$ 130,620	$ 220	$ 130,840

* 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.