HAMILTON COUNTY, TENNESSEE
SINGLE FAMILY MORTGAGE
REVENUE BOND PROGRAM
SERIES 1990

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

HENDERSON HUTCHERSON & McCULLOUGH, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

HAMILTON COUNTY, TENNESSEE
SINGLE FAMILY MORTGAGE REVENUE BOND PROGRAM, SERIES 1990

INDEX TO REPORT

JUNE 30, 2009 AND 2008

HENDERSON HUTCHERSON & McCULLOUGH, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE FINANCIAL STATEMENTS

To the County Mayor and Board of Commissioners
Hamilton County, Tennessee

We have audited the accompanying basic financial statements of the Hamilton County, Tennessee Single Family Mortgage Revenue Bond Program, Series 1990, (the Program) as of and for the years ended June 30, 2009 and 2008, as listed in the index to report. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hamilton County, Tennessee Single Family Mortgage Revenue Bond Program, Series 1990 at June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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AN INDEPENDANT MEMBER OF THE BDO SEIDMAN ALLIANCE

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2010, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Chattanooga, Tennessee
August 31, 2010

Henderson Hutcherson
& McCullough, PLLC

HAMILTON COUNTY, TENNESSEE
SINGLE FAMILY MORTGAGE REVENUE BOND PROGRAM, SERIES 1990

STATEMENTS OF NET ASSETS

JUNE 30, 2009 AND 2008

ASSETS

	2009	2008
CURRENT ASSETS		
Cash and temporary investments	$ 113,259	$ 138,945
Investments in GNMA certificates	599,764	627,119
Accrued interest receivables	4,855	5,096
Bond issuance costs	12,459	14,067
TOTAL ASSETS	$ 730,337	$ 785,227

LIABILITIES AND NET ASSETS

	2009	2008
LIABILITIES		
Revenue bonds payable - Due in more than one year	$ 470,000	$ 530,000
Accrued interest	12,597	14,133
Total liabilities	482,597	544,133
NET ASSETS - RESTRICTED DEBT SERVICE	247,740	241,094
TOTAL LIABILITIES AND NET ASSETS	$ 730,337	$ 785,227

The accompanying notes are an integral part of the financial statements.

HAMILTON COUNTY, TENNESSEE
SINGLE FAMILY MORTGAGE REVENUE BOND PROGRAM
SERIES 1990

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
REVENUES		
Investment income:		
Interest on GNMA certificates	$ 45,044	$ 49,365
Interest on temporary investments	2,770	5,146
Net gain in the fair value of investments	367	15,029
Total revenues	48,181	69,540
EXPENSES		
Interest expense on bonds	39,663	44,467
Amortization	1,607	2,545
Other general and administrative	265	393
Total expenses	41,535	47,405
CHANGE IN NET ASSETS	6,646	22,135
Net assets - beginning of year	241,094	218,959
Net assets - end of year	$ 247,740	$ 241,094

The accompanying notes are an integral part of the financial statements.

HAMILTON COUNTY, TENNESSEE
SINGLE FAMILY MORTGAGE REVENUE BOND PROGRAM
SERIES 1990

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts on GNMA certificates		
Principal	$ 27,459	$ 78,953
Interest	45,103	49,548
Net cash provided by operating activities	72,562	128,501
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Principal paid on bond maturities	(60,000)	(95,000)
Interest paid on debt services	(41,200)	(47,000)
Net cash used in noncapital financing activities	(101,200)	(142,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	2,952	5,146
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,686)	(8,353)
Cash and cash equivalents - Beginning of year	138,945	147,298
Cash and cash equivalents - End of year	$ 113,259	$ 138,945
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ 6,646	$ 22,135
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Principal collection on first mortgage loans	27,458	78,953
Interest expense on debt service	37,899	47,393
Interest earnings on investments	(2,952)	(5,146)
Net losses (gains) on investments	367	(15,029)
Amortization of bond discount and issue costs	1,607	2,545
Net change in accrued interest	1,537	(2,350)
Net cash provided by operating activities	$ 72,562	$ 128,501

The accompanying notes are an integral part of the financial statements.

NOTE 1 – DESCRIPTION AND AUTHORIZATION

The Hamilton County, Tennessee Single Family Mortgage Revenue Bonds (Home Purchase and Rehabilitation Program) Series 1990 (the Program) was established and the issuance of Single Family Mortgage Revenue Bonds was authorized pursuant to a Trust Indenture dated September 1, 1990, between the County and First Tennessee Bank N.A. of Memphis, Tennessee (the Trustee). The Program is authorized to carry out the public purpose described in the Tennessee Home Mortgage Finance Act by issuing revenue bonds to acquire mortgage-backed securities (the GNMA certificates) and by pledging such securities for the payment of principal and interest on such revenue bonds. The Series 1990 Single Family Mortgage Revenue Bonds aggregating $12,500,000 were dated September 1, 1990. The bonds are limited obligations of Hamilton County, Tennessee (the Issuer) payable solely from (1) principal and interest payments on the GNMA certificates, (2) amounts required to be deposited on the date of issuance of the bonds in the funds and accounts held under the Trust Indenture, other than the Cost of Issuance Fund, (3) income or interest earned and gains realized in excess of losses suffered on permitted investments, and (4) all monies, securities and funds held by the Trustee under the Trust Indenture. The bonds are not general or moral obligations of the County and do not constitute an obligation of the County or any other political subdivision of the State of Tennessee.

Pursuant to various loan origination and servicing agreements dated September 1, 1990, Chattanooga Neighborhood Enterprises (CNE), a nonprofit corporation, agreed to originate qualifying FHA-insured mortgage loans to qualified persons or families of low, moderate or middle income for the purpose of purchasing or rehabilitating single family residences in the County. Collateral Mortgage, Ltd. (the Servicer) acquired the program loans and exchanged such loans for GNMA certificates. The GNMA certificates, which are backed by pools of program loans and are guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA), were then purchased by the Program.

NOTE 2 – FUNDS

Following are descriptions of the funds established and maintained under the Program, in accordance with the Trust Indenture:

(a) **Acquisition Fund**

All bond proceeds not specifically allocated to other funds were deposited to this fund. This fund consists of three accounts: the acquisition account – general (to purchase GNMA certificates backed by program loans from the servicer), acquisition account – targeted area (to purchase GNMA certificates backed by targeted area program loans), and the capitalized interest account (to pay interest on the bonds in the event amounts on deposit in the interest payment fund are insufficient to pay such interest on any debt service payment date).

(Continued)

NOTE 2 – FUNDS (Continued)

(b) **Cost of Issuance Fund**

This fund is used to pay all costs associated with issuing the bonds, including, but not limited to, all printing expenses in connection with the trust indenture, the agreement, the official statement, and the bonds; all legal fees and expenses of bond counsel, county's counsel, and financial advisors; accounting expenses incurred in determining that the bonds are not arbitrage bonds; the initial trustee fees and expenses; and the fees and expenses of the underwriters with respect to the bonds. All amounts remaining in this fund six months after the delivery of the bonds were returned to CNE.

(c) **Revenue Fund**

All pledged revenues received, including prepayments, are credited to this fund upon receipt. This fund provides for the payment of all debt service amounts and program expenses.

(d) **Rebate Fund**

The Trustee uses this fund to expeditiously complete rebates to comply with the internal revenue code.

(e) **Interest Payment Fund**

This fund is used for the purpose of paying the interest on the outstanding bonds on each debt service payment date.

(f) **Principal Payment Fund**

This fund is used for the purpose of paying the principal on the outstanding bonds on each debt service payment date.

(g) **Redemption Fund**

The Trustee applies all amounts deposited in this fund to the redemption of bonds under terms and conditions specified in the Trust Indenture.

(h) **Program Expense Fund**

Amounts on deposit in this fund are used to pay the trustee's fee and administrative fees as such fees and expenses become due and payable.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Reporting Entity

The accompanying financial statements include the activities of the trust, which is legally separate from Hamilton County, Tennessee. The Program is not a component unit of Hamilton County, Tennessee.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accompanying financial statements are prepared using the accrual basis of accounting. The measurement focus is upon determination of financial position, changes in net assets, and changes in cash flows. The generally accepted accounting principles used are those applicable to similar businesses in the private sector. Revenues are recognized when earned and expenses are recognized when incurred.

The Program applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits at various financial institutions, and highly-liquid investments with an original maturity of three months or less. At June 30, 2009 and 2008, the carrying amounts of the Program’s cash equivalent deposits were $113,259 and $138,945, respectively. The Program’s deposits are unconditionally guaranteed by Berkshire Hathaway, Inc., which has been designated as the investment agreement provider. These deposits are not covered by federal depository insurance. These deposits are maintained in mutual funds and guaranteed investment contracts.

Bond Issuance Costs

Bond issuance costs are stated at cost less accumulated amortization. Bond issuance costs are amortized over the terms of the related bonds using the interest method.

Investments

Effective July 1, 2008, the Organization adopted FASB ASC 820, *Fair Value Measurement*. This topic defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

(Continued)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Investments (Continued)

This topic maximizes the use of observable inputs and minimized the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

> Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of June 30. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
>
> Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of June 30. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
>
> Level 3 – Securities that have little to no pricing observability as of June 30. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

(Continued)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reporting Model

The Program follows the basic financial reporting model required by GASB Statement No. 34.

NOTE 4 – RESTRICTED CASH AND INVESTMENTS

Cash and investments are restricted for the purposes of each fund as described in Note 2 above. Cash and investments by fund at June 30, 2009 and 2008 are shown below:

	2009	2008
Revenue fund	$ 59,066	$ 84,952
Rebate Fund:		
Principal account	37,002	36,866
Income account	17,191	17,127
	$ 113,259	$ 138,945

NOTE 5 – REVENUE BONDS PAYABLE

Revenue bonds payable at June 30, 2009 and 2008 consist of the following:

Term bonds; interest rate at 8.00%; interest due semiannually; principal balance maturing September 1, 2023	2009	2008
Beginning Balance	$ 530,000	$ 625,000
Payment	(60,000)	(95,000)
Ending Balance	$470,000	$ 530,000

All bonds are subject to mandatory redemption, as specified in the trust indenture, in whole or in part, at redemption price equal to the principal amount thereof plus accrued interest to the redemption date. Substantially all future revenue and assets of the Program are pledged as collateral for the bonds payable.

NOTE 6 – RISK MANAGEMENT

The Program is exposed to various risks of loss primarily related to default on the mortgage loans by the borrowers. It is the policy of the Program to retain risks of losses in those areas where it is more economical to manage its risks internally. Settlement amounts have not exceeded insurance coverage in any of the past two fiscal years.

NOTE 7 – INVESTMENTS

As stated in Note 3, the Program accounts for its investments in securities according to the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. Investments are measured using level 1 inputs for both June 30, 2009 and 2008.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the balance sheet date through the date of the auditor’s report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.

HENDERSON HUTCHERSON & McCULLOUGH, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINACIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the County Mayor and Board of Commissioners
Hamilton County, Tennessee

We have audited the financial statements of the Hamilton County, Tennessee Single Family Mortgage Revenue Bond Program, Series 1990 (the Program) as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated August 31, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the County Mayor, and the Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Chattanooga, Tennessee
August 31, 2010

Henderson Hutcherson
& McCullough, PLLC