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

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC

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

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JUNE 30, 2013 AND 2012

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Hamilton County, Tennessee Single Family Mortgage Revenue Bond Program, Series 1990, (the Program), which comprise the statements of net position for the years ended June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

1200 MARKET STREET | CHATTANOOGA, TN 37402 | T 423.756.7771 | F 423.265.8125 | WWW.HHMCPAS.COM

AN INDEPENDENT MEMBER OF THE BDO SEIDMAN ALLIANCE

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hamilton County, Tennessee Single Family Mortgage Revenue Bond Program, Series 1990 as of June 30, 2013 and 2012, and the respective changes in net position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has not presented Management's Discussion and Analysis. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of the Hamilton County, Tennessee Single Family Mortgage Revenue Bond Program, Series 1990 internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hamilton County, Tennessee Single Family Mortgage Revenue Bond Program, Series 1990 internal control over financial reporting and compliance.

Chattanooga, Tennessee
November 8, 2013

Henderson Hutcherson
& McCullough, PLLC

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

STATEMENTS OF NET POSITION

JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
ASSETS		
Cash and temporary investments	$ 101,854	$ 106,137
Investments in GNMA certificates	304,018	335,446
Accrued interest receivables	2,447	2,661
TOTAL ASSETS	$ 408,319	$ 444,244

LIABILITIES AND NET POSITION

	2013	2012
LIABILITIES		
Revenue bonds payable	$ 180,000	$ 215,000
Accrued interest	4,800	5,733
Total liabilities	184,800	220,733
NET POSITION - RESTRICTED DEBT SERVICE	223,519	223,511
TOTAL LIABILITIES AND NET POSITION	$ 408,319	$ 444,244

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 POSITION

YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
REVENUES		
Investment income:		
Interest on GNMA certificates	$ 23,050	$ 26,403
Interest on temporary investments	1,902	2,558
Net loss in the fair value of investments	(7,409)	(32,030)
Total revenues	17,543	(3,069)
EXPENSES		
Interest expense on bonds	14,467	19,600
Other general and administrative	3,068	2,976
Total expenses	17,535	22,576
CHANGE IN NET POSITION	8	(25,645)
Net position - beginning of year, as previously reported	223,511	257,195
Prior period adjustment due to adoption of new accounting principle	-	(8,039)
Net position, as restated	-	249,156
Net position - end of year	$ 223,519	$ 223,511

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts on GNMA certificates		
Principal	$ 24,019	$ 82,153
Interest	19,263	21,758
Net cash provided by operating activities	43,282	103,911
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Principal paid on bond maturities	(35,000)	(90,000)
Interest paid on bonds	(14,467)	(19,600)
Net cash used in noncapital financing activities	(49,467)	(109,600)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	1,902	2,558
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,283)	(3,131)
Cash and cash equivalents - beginning of year	106,137	109,268
Cash and cash equivalents - end of year	$ 101,854	$ 106,137
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ 8	$ (25,645)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Principal collection on first mortgage loans	24,019	82,153
Interest expense on debt service	12,815	15,531
Interest earnings on investments	(1,902)	(2,558)
Net losses on investments	7,409	32,030
Net change in accrued interest	933	2,400
Net cash provided by operating activities	$ 43,282	$ 103,911

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 position, 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.

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, 2013 and 2012, the carrying amounts of the Program’s cash equivalent deposits were $101,854 and $106,137, 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.

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.

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.

(Continued)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Investments (Continued)

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, 2013 and 2012, are shown below:

	2013	2012
Revenue fund	$ 47,645	$ 51,931
Rebate fund:		
Principal account	37,017	37,014
Income account	17,192	17,192
	$ 101,854	$ 106,137

NOTE 5 – REVENUE BONDS PAYABLE

Revenue bonds payable at June 30, 2013 and 2012, consist of the following:

Term bonds; interest rate at 8.00%; interest due semiannually; principal balance maturing September 1, 2023

	2013	2012
Beginning balance	$ 215,000	$ 305,000
Payment	(35,000)	(90,000)
Ending balance	$ 180,000	$ 215,000

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, 2013 and 2012.

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, *Reporting and Deferred Outflows, Deferred Inflows and Net Position* became effective for the year ended June 30, 2013. The Program early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which has an effective date of June 30, 2014.

GASB Statement No. 62 incorporates into GASB's literature the provisions in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The option to use subsequent FASB guidance has been removed.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources that were introduced and defined by concepts Statement No. 4, *Elements of Financial Statement.* Previous financial reporting standards did not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. In addition, the previous Statement of Net Assets was renamed to a Statement of Financial Position.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The result of implementation was the elimination of bond issue costs totaling $8,039.

NOTE 9 – 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.

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HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC

Certified Public Accountants

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

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

We have audited, in accordance with the 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, the statements of net position for the years ended June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements which comprise the financial statements of the Hamilton County, Tennessee Single Family Mortgage Revenue Bond Program, Series 1990 (the Program) and have issued our report thereon dated November 8, 2013.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, et important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

Chattanooga, Tennessee
November 8, 2013

Henderson Hutcherson
& McCullough, PLLC