Tennessee Housing Development Agency

For the Year Ended
June 30, 2002

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

March 13, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee Housing Development Agency
and
Ms. Janice L. Myrick, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1114
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Housing Development Agency for the year ended June 30, 2002. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The agency's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/th
02/088

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee Housing Development Agency
For the Year Ended June 30, 2002

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

COMPLIANCE AND INTERNAL CONTROL FINDINGS

Contract Administration Division Policies and Procedures Not Followed*
The Section 8 Contract Administration Division did not follow its policies and procedures in the areas of management and occupancy reviews, processing rental adjustments, and certifying the accuracy of monthly Section 8 vouchers (page 10).

Deposits and Repurchase Agreements Not Adequately Collateralized
The agency did not properly monitor the bank balances or the repurchase agreements held at the trustee bank. As a result, bank balances and repurchase agreements were undercollateralized during fiscal year 2002 (page 14).

INTERNAL CONTROL FINDINGS

Checking Account Not Properly Reconciled
The checking account reconciliations were not performed properly or timely and were not properly reviewed during fiscal year 2002 (page 16).

Escrow Subsidiary Ledger Not Reconciled
The agency did not reconcile the escrow subsidiary ledger to either the general ledger or the interest allocation spreadsheet used to allocate interest earned to individual properties (page 18).

*This finding is partially repeated from the prior audit.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

“Audit Highlights” is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 2002

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For the Year Ended June 30, 2002

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Housing Development Agency. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Housing Development Agency is a corporate governmental agency of the State of Tennessee and was established in 1973 under the provisions of Title 13, Chapter 23, *Tennessee Code Annotated*. The agency was created to increase available funds for the financing of residential housing for low- and moderate-income households. It is authorized to issue bonds and notes to provide such financing. These bonds and notes are payable solely from the agency's revenues and assets and are not general obligations of the state or of any of the state's political subdivisions.

The agency's affairs are directed by a 19-member board of directors and are administered by an executive director. Directors of the agency serving *ex officio* are the State Treasurer, the Comptroller of the Treasury, the Commissioner of Finance and Administration, the Secretary of State, and a staff assistant to the Governor. Of the remaining 14 members, 12 are appointed by the Governor. The Speaker of the House of Representatives and the Speaker of the Senate each appoint one member. Of the 12 members appointed by the Governor, 9 are required to be representatives of the housing, home-building, real estate, and mortgage-lending professions. The Governor appoints one additional member from each of the three grand divisions of the state; these three are representatives of the public at large.

ORGANIZATION

The agency comprises 12 divisions, each of which is managed by a division director. The Executive; Research, Planning, and Technical Services; and Internal Audit divisions report directly to the executive director. Community Programs, Multi-family and Special Programs, Section 8 Rental Assistance, and Section 8 Contract Administration divisions report to the deputy executive director. Finance, Management Information Systems, Mortgage Administration, Homeownership Mortgage, and Fiscal Administration divisions report to the chief financial officer.

Executive Division – This division is responsible for program development, legal affairs, and human resources.

Research, Planning, and Technical Services Division – This division provides technical assistance to agencies, firms, and individuals; works with other agencies to coordinate community development activities; and conducts and oversees research on housing issues.

Internal Audit Division – This division performs internal audits of all agency programs, grants, and servicing institutions, and is responsible for long-term compliance of the HOUSE, HOME, and Tax Credit programs.

Community Programs Division – This division is responsible for the federal HOME Investment Partnerships Program and the state Housing Opportunities Using State Encouragement (HOUSE) program, which provide funds for locally designed housing efforts.

Multi-family and Special Programs Division – This division administers the Low Income Housing Tax Credit Program for developers of rental properties and allocates multi-family bond authority to local issuers for a specific development.

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

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

Finance Division – This division is responsible for cash management of the agency. This division's major functions are debt management and investment of funds.

Management Information Systems Division – This division is responsible for developing, implementing, and maintaining the agency's computer systems.

Mortgage Administration Division – This division oversees the collection of loans for the agency. The division provides full in-house servicing of multi-family loans. Single-family loans are serviced by approved servicing agents under the direction of the mortgage administration division.

Homeownership Mortgage Division – This division provides the link between funds available for single-family home loans and the individual prospective homeowners through the development of a statewide network of participating lenders and the underwriting of loans for qualified applicants.

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

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

AUDIT SCOPE

The audit was limited to the period July 1, 2001, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2002. The Tennessee Housing Development Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund 13 of the State of Tennessee Accounting and Reporting System (allotment code 316.20).

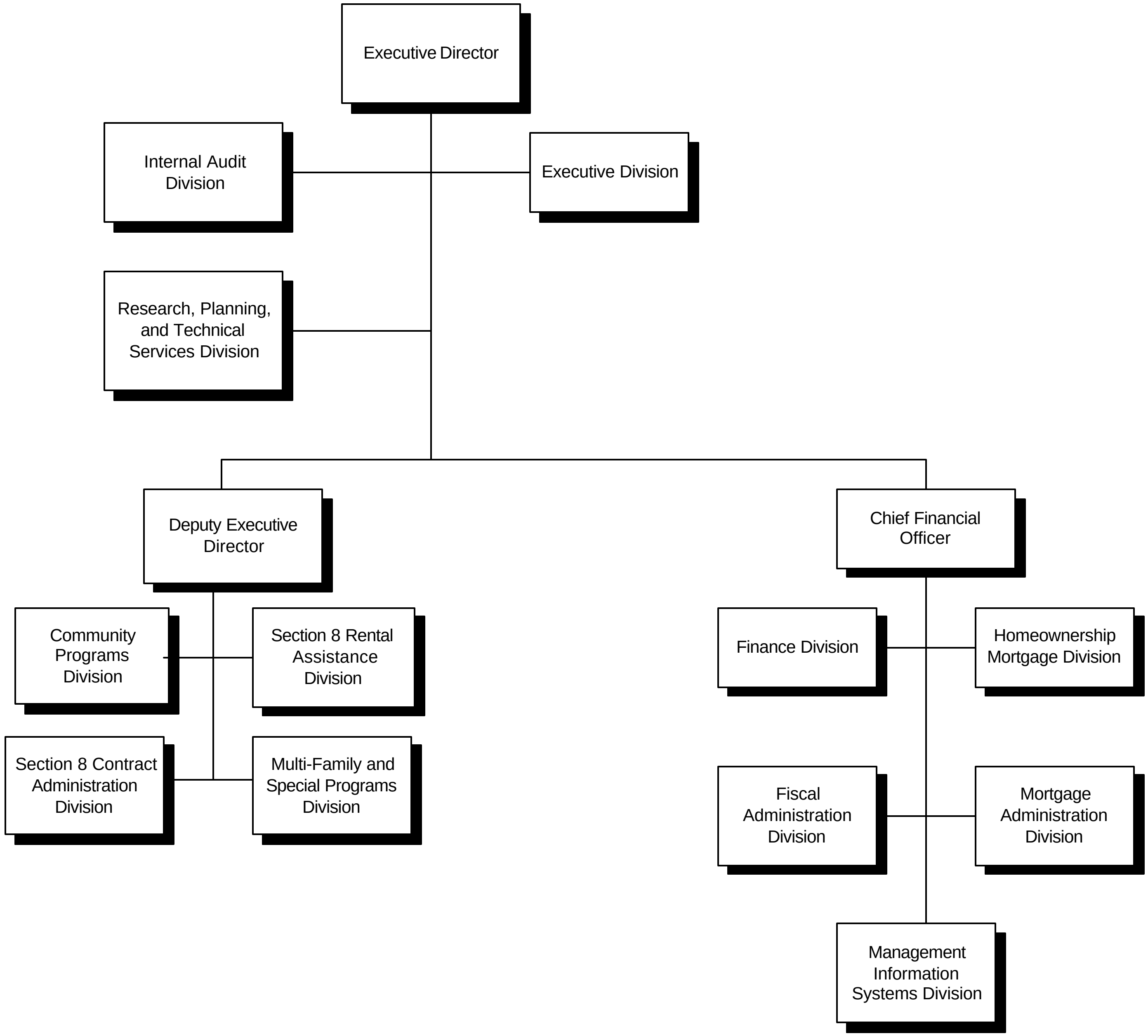
OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

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

Tennessee Housing Development Agency
Organization Chart



3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Tennessee Housing Development Agency filed its report with the Department of Audit on June 28, 2002. A follow-up of the prior audit finding was conducted as part of the current audit.

REPEATED AUDIT FINDING

The prior audit report contained a finding concerning the absence of detailed policies and procedures for the Contract Administration Division. Management developed detailed policies and procedures, and employees have been trained. However, management did not ensure that policies were always followed; therefore, this finding is partially repeated.

OBSERVATIONS AND COMMENTS

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by each June 30. The agency filed its compliance report and implementation plan on June 27, 2002.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Housing Development Agency's financial statements for the year ended June 30, 2002, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the agency's financial statements.

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DIVISION OF STATE AUDIT
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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

December 11, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, and have issued our report thereon dated December 11, 2002. As discussed in Note 1.d. to the financial statements, the agency implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* The agency also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*. 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.

<u>Compliance</u>

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants, 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*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance, which we have reported to the agency's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- The Section 8 Contract Administration Division did not follow its policies and procedures.
- Deposits and repurchase agreements were not adequately collateralized.
- Checking account reconciliations were not properly performed or reviewed.
- The escrow subsidiary ledger does not agree with the general ledger or the interest allocation spreadsheet.

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness: Deposits and repurchase agreements were not adequately collateralized.

The Honorable John G. Morgan
December 11, 2002
Page Three

We also noted other matters involving the internal control over financial reporting, which we have reported to the agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

FINDINGS AND RECOMMENDATIONS

1. <u>The Section 8 Contract Administration Division did not follow its policies and procedures</u>

Finding

As noted in the prior audit, internal control for contract administration should be improved. The Section 8 Contract Administration Division did not follow its policies and procedures in the areas of management and occupancy reviews, processing rental adjustments, and certifying the accuracy of monthly Section 8 vouchers. The division serves as the contract administrator for approximately 400 Section 8 Housing Assistance Payment (HAP) contracts associated with multi-family housing projects in which rent subsidies are paid to private for-profit and non-profit landlords. The agency has served as contract administrator for 38 of the 400 HAP contracts for over 20 years under the Department of Housing and Urban Development's (HUD's) Section 8 New Construction and Substantial Rehabilitation grant program. The agency was assigned the remaining HAP contracts under a performance-based contract with HUD. Under the terms of the contract, the agency assumed the duties of contract administrator from HUD in exchange for an administrative fee determined by the agency's performance of applicable performance standards.

A contract administrator oversees HAP contracts for Section 8 projects by monitoring and enforcing the compliance of Section 8 owners with the terms of the HAP contract in accordance with HUD regulations and requirements. Depending on the type of contract assignment, the agency accomplishes these objectives by conducting management and occupancy reviews; processing rental adjustments, expiring contracts, and terminated HAP contracts; verifying and certifying accuracy of monthly Section 8 vouchers; verifying and authorizing payment on valid Section 8 special claims; disbursing Section 8 payments to owners; responding to community/resident concerns; reporting contract administration activities to HUD; and following up on HUD's physical inspections.

Management and Occupancy Reviews

The agency performs management and occupancy reviews (MORs) to monitor the owners' compliance with Section 8 program regulations including, but not limited to, eligibility, selection of tenants from waiting lists, and determination of housing assistance payments. A report detailing the agency's findings is prepared and mailed to the owner and HUD. The owner then has 30 days to respond to any findings noted in the report. Testwork was performed on a sample of MORs.

a. The prior audit noted that the agency's policies and procedures did not address follow-up inspections. In response to the prior audit finding, the agency developed policies and procedures. Those procedures state "if the results of a tenant file review identify significant findings (missing documents, incorrect calculations, inaccurate recertification dates, or other systemic inaccuracies), Project Manager will require owner/agent to perform a 100% file review with a targeted correction date of 30 days. A THDA representative will perform a file follow-up inspection within 120 days from the date owner/agent has certified that 100% file review was performed." However, the agency did not adequately monitor compliance with this policy.

Seven of the 60 MORs tested required a 100% file review to be performed by the owner. However, there was no documentation indicating that a file follow-up inspection had been performed by the agency on five of the seven properties (71%). The remaining two MORs had follow-up inspections performed before the owner/agent certified that the 100% file review was completed.

If the division does not follow its policies and procedures related to the 100% file review, tenant file inaccuracies may not be corrected.

b. Agency policies and procedures require the field operations coordinator to maintain a tracking log of project manager activities and to notify the project managers of any notifications, reports, or responses due.

Thirteen of the 60 MORs tested (22%) contained information on the tracking log that did not agree with the information in the master file. The information that did not agree in one or more of the files was the date of the letter notifying the owner of the MOR; the date the MOR was scheduled, performed, or closed; the date the owner's responses were received; or the need for the owner to perform a 100% file review. In some cases, there were no dates in the tracking log.

The tracking log is used by the agency to monitor the completion of the MOR process. If the division does not maintain accurate information on the tracking log, missed deadlines could result. In addition, inaccurate information on the tracking log could result in inaccurate reporting to HUD.

c. Agency policies and procedures indicate the points during the MOR process that entries will be made into HUD's Real Estate Management System (REMS). The agency reports the completion of the stages of the MOR process to HUD through REMS.

Thirteen of the 60 MORs tested (22%) contained information in REMS that did not agree with the information in the master file. The information that did not agree in one or more of the files was the date of the letter notifying the owner of the MOR; the date the MOR was scheduled, performed, or closed; the date the owner's responses were received; or the rating received.

Not following the division's policy relating to entries in REMS results in inaccurate reporting to HUD.

Rent Adjustments

The agency processes rental adjustments during the term of the owner's HAP contract in accordance with HUD requirements. The agency's policies and procedures require that the target completion date of the rent adjustment approval process be either 30 or 60 days from the date the request for a rent adjustment is received by the agency. However, for 29 of the 60 rent adjustments tested (48%), the target completion dates were incorrectly entered into REMS. Because the division did not follow its policy for target completion dates, inaccurate information was reported to HUD. This could also result in not processing the rental adjustments timely.

Section 8 Monthly Vouchers

The agency receives monthly vouchers from the owners by the tenth of the month, verifies the accuracy of the vouchers, and disburses payments to the owners by the first day of the next month. The agency ensures the accuracy of an owner's payment request by verifying that tenant recertifications are performed timely, that the payment request does not include vacant units, and that the housing assistance payment paid per unit is correct. Testwork was performed on a sample of monthly vouchers.

a. The prior audit noted that the agency's policies and procedures did not address the review for delinquent recertifications while processing vouchers. In response to the prior audit finding, the agency developed policies and procedures requiring the Tenant Rental Assistance Certification System (TRACS) specialist to suspend subsidy on all program participants whose recertifications were delinquent (no certification completed within 12 months). However, the agency did not adequately monitor compliance with this policy.

   Thirteen of the 59 vouchers tested (22%) included payments for a total of 28 tenants with late recertifications. Not suspending subsidies for participants with delinquent recertifications could result in payments to ineligible participants.

b. Agency policies and procedures require entries to be made into the voucher tracking log at various points during the voucher reconciliation process.

   Fourteen of the 54 vouchers tested (26%) contained information on the tracking log that did not agree with the information on the monthly voucher. Five of the 14 vouchers had reconciled dates on the tracking log that could not be verified because the vouchers were not initialed and dated by the TRACS specialist. For the remaining nine vouchers, the information that did not agree with the tracking log was either the date the voucher was received, the date the voucher was reconciled, or the subsidy amount.

   Because the division did not maintain accurate information on the tracking log, it reported incorrect information to HUD. Two of the 26 vouchers tested (8%) had inaccurate information submitted to HUD in the monthly report.

Recommendation

In order to effectively administer the Contract Administration program, the Director of the Contract Administration Division should ensure that all policies and procedures for the division are followed. The director should establish clear responsibilities for compliance, monitor compliance, and take appropriate and timely remedial action for any noncompliance.

Management's Comment

We concur. THDA has successfully administered the Section 8 Contract Administration (S8CA) program for HUD since December 2000. In accordance with HUD's last two annual performance review reports dated April 17, 2002, and February 24, 2003, the division's general operations and overall performance under the Annual Contributions Contract were found to be acceptable and satisfactory, respectively. Significant steps have been implemented during FY 01-02 to develop internal controls for work processes required for all 16 Incentive Based Performance Standards (IBPS) included in the Annual Contributions Contract. THDA administration shares the auditor's concern over the deficiencies identified with MORs, tracking logs, 100% file reviews, voucher processing, and REMS data accuracy.

The S8CA division is revising and documenting their Quality Control plan to include both internal and external processes that will aid in ensuring that policies and procedures are followed. Once completed, the plan will be submitted to HUD. Supervisors will be required to perform quality control checks on section activities and will document their reviews on internal control review summary sheets. Management will address any areas of noncompliance noted through these reviews to correct the deficiencies. The Quality Control (QC) Officer position in the Internal Audit division will then review the summary sheets and supporting documentation to ensure that checklists are being completed. In addition, the QC Officer will perform additional tests on a sample basis to determine that the documentation maintained is adequate.

Verbal instructions received from HUD concerning Post-MAHRA rental adjustments and REMS entries changed during the audit period. One change for keying target dates for budget based Post-MAHRA adjustments into REMS 120 days from the start date was reflected in our internal procedure in the revision dated May 1, 2002. In addition, on November 15, 2002, the procedure was modified again to change from 120 days to "as instructed by HUD." However, no documentation was received from HUD to support these changes.

THDA has a proposed budget improvement item to incorporate the use of a policy coordinator for division operations. This addition should aid the division by ensuring that policies and procedures are maintained to comply with evolving HUD requirements, and that documentation is obtained for each change.

2. <u>Deposits and repurchase agreements were not adequately collateralized</u>

Finding

The agency did not properly monitor the bank balances or the repurchase agreements held at the trustee bank to ensure amounts were adequately collateralized as required by *Tennessee Code Annotated* and the agency's bond resolutions. For 3 of 28 days tested (11%), bank balances were in excess of Federal Deposit Insurance Corporation (FDIC) coverage plus collateral pledged. Uncollateralized amounts ranged from $1,167,906 to $8,650,629. Five of 24 repurchase agreements tested (21%) had underlying securities with market values less than the par value of the repurchase agreement (plus accrued interest) on 3 of the 21 days tested. Uncollateralized amounts ranged from $35,058 to $1,534,162. In addition, 3 of 23 repurchase agreements tested (13%) had underlying securities with initial market values less than 102% of the par value of the repurchase agreement. The par values exceeded the underlying securities by a range of $111,396 to $1,900,885.

Section 9-4-403, *Tennessee Code Annotated*, states that all state funds held in state depositories shall be secured by "required collateral." Section 9-4-105 states that "required collateral means collateral whose market value is equal to one hundred five percent (105%) of the value of the state deposit secured thereby, less so much of such amount as is protected by the federal deposit insurance corporation."

Section 4.5(A) of the agency's "General Homeownership Program Bond Resolution" states that "all money in such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be … continuously and fully secured … having a market value equal at all times to the amount of the deposit, repurchase agreement, certificate, or other similar banking arrangement." Section 701 of the agency's "Housing Bond Resolution (Mortgage Finance Program)" states that "all monies held hereunder by any Fiduciary shall be continuously and fully secured … by Permitted Investments or Bonds or Notes of the agency of a market value equal at all times to the amount of the deposit held by the Fiduciaries."

In addition, the agency's "Investment Policy" states that for repurchase agreements "eligible collateral shall have an initial market value of at least 102% of the principal amount of the cash investment." It also states that "securities shall be marked-to-market daily and shall be maintained at a value equal to or greater than the original cash investment amount, including accrued interest on such amount."

By not adequately monitoring the trustee bank balances, the agency increases the risk of financial loss in the event of bank failure and fails to comply with state law and the bond resolutions. By not adequately monitoring the repurchase agreements, the agency increases the risk of financial loss in the event of a failure of the repurchase agreement provider and fails to comply with the bond resolutions and investment policy.

Recommendation

The Chief Financial Officer should develop procedures to ensure bank balances and repurchase agreements are adequately monitored and sufficient collateral exists. The Chief Financial Officer should establish clear responsibilities for compliance, monitor compliance, and take appropriate and timely remedial action for any noncompliance.

Management's Comment

We concur. However, we disagree that this is a "material weakness" for the following reasons:

1. The amount involved is immaterial to the financial statements being audited, as it is less than 1% of the total assets of the agency.

2. The problem has been thoroughly addressed. THDA has hired a new trustee and established new procedures for monitoring collateral. In addition, new investment procedures have been established whereby bank balances are kept at a minimum.

3. The problem was immediately corrected in the notes to the financial statements.

4. Although the auditors have mentioned this problem in years past, it has never risen to the level of a finding. The agency accepts that the problem was sufficient to warrant a finding this year, but should not have risen to the level of a "material weakness."

5. At no time was the agency at risk financially. The providers of repurchase agreements are nationally known investment-banking firms with hundreds of billion dollars in assets.

The agency changed trustees in October 2002. The agency's cash balances on deposit with the trustee are now swept into a money market mutual fund account each day. This fund invests in U.S. Treasury obligations and repurchase agreements that are backed by U.S. Treasury obligations. The monitoring of collateral pledged on the agency's repurchase agreements has been thoroughly discussed with the trustee. The trustee's procedure will be to monitor the collateral daily and compare the market price of the collateral to the cost and determine if the requirements are being met. If the requirements are not met on any day, the trustee will contact the agency. The agency will then contact the provider of the repurchase agreement and resolve the matter.

Auditor's Comment

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. In our judgment, the agency's absence of properly designed controls related to the categorization of deposits and investments during the audit period is a material weakness. The controls are necessary to prevent or detect misstatements that would be material in relation to the financial statements in the risk categorization of deposits and investments in the notes to the financial statements as required by Statement 3 of the Governmental Accounting Standards Board.

3. Checking account reconciliations were not properly performed or reviewed

Finding

The agency prepares monthly bank reconciliations for the checking account. The checking account reconciliations were not performed properly or timely and were not properly reviewed during fiscal year 2002. The following deficiencies were noted:

- As of the end of audit fieldwork, the agency had not reconciled the checking account for the last two months of the fiscal year. Seven of the remaining months had reconciliations that were completed two to four months late.

- The reconciliations used adjusted bank and general ledger balances instead of the checking account balance per the bank statement and the general ledger. Documentation supporting the adjustments was not attached to the reconciliation, and such support was not easily available from the preparer of the reconciliation. Testwork on the April 2002 reconciliation revealed that 14 adjustments were made with 5 of these adjustments relating to transactions that originally occurred in November 2000. The remaining adjustments related to transactions that originally occurred between January 2001 and October 2001. The adjusting entries were necessary on all bank reconciliations from the month of the original transaction because correcting journal entries were not made in the accounting system.

- The checking account reconciliation for the month of April 2002 included 13 outstanding checks totaling $9,185 that had been outstanding for 98 to 357 days.

- Total outstanding checks on the checking account reconciliation for the month of February 2002 did not agree to the list of outstanding checks.

- The accountant preparing the checking account reconciliations submitted reconciliations with unsupported reconciling items to the financial accountant for review. After review, the accountant corrected the unsupported reconciling items and submitted this reconciliation to the auditors. The accountant forged the reviewer's initials on nine of the ten reconciliations submitted to the auditors instead of resubmitting the corrected reconciliations to the financial accountant for review.

The December 2001 reconciliation received by the auditors was not initialed and dated as prepared or reviewed. This matter was referred to the agency's internal audit division. A review of the cash receipts and disbursements was performed by the internal audit division, and no instances of misappropriated funds were noted.

Because the financial accountant did not adequately review the checking account reconciliations, the above deficiencies were allowed to continue.

The proper performance and review of checking account reconciliations are necessary to ensure that the agency's assets are monitored. Without prompt and accurate reconciliations, cash amounts may be misstated. Without a proper review, inaccuracies in the reconciliations will not be detected, and cash could be incorrectly recorded or misappropriated.

Recommendation

The Director of Fiscal Administration should take all necessary measures to ensure that the checking account reconciliations are handled properly in the future. The director should establish clear responsibilities for compliance, monitor compliance, and take appropriate and timely remedial action for any noncompliance. The monthly checking account reconciliations should be completed properly and timely and should be thoroughly reviewed. All reconciling items should be explained, and old or unusual outstanding checks should be investigated.

Management's Comment

We concur. The procedures regarding the checking account reconciliation have been changed. The checking account reconciliation will be completed before the accounting records are closed for the applicable accounting month. The reconciliation will begin with the bank statement ending balance and the general ledger balance. All adjustments to the bank statement ending balance or the general ledger balance will be itemized and explained on the reconciliation. Any checks that are outstanding for more than 60 days will be investigated and a stop payment issued as appropriate. All adjustments requiring a journal entry will be reviewed by a supervisor and posted to the accounting system in a timely manner. In addition, the supervisor will retain the bank account statements and reconciliations to prevent unauthorized changes from being made.

A change of personnel has occurred since the reconciliation deficiencies were noted. The accounting staff with responsibilities for the checking account reconciliations has been fully trained in reconciling the checking account.

4. <u>The escrow subsidiary ledger does not agree with the general ledger or the interest allocation spreadsheet</u>

Finding

The agency maintains a subsidiary ledger for funds held in escrow for multi-family properties with agency mortgages and prepares yearly escrow statements for each property from the subsidiary ledger. The escrow deposits are invested, and interest earned on the investments is allocated monthly to the individual properties using a spreadsheet based on each property's portion of the total escrow balance (deposits and interest). The agency accounts for the deposits and interest earned separately for each property.

The escrow subsidiary ledger and interest allocation spreadsheet mentioned above are updated independently of the general ledger. The agency did not reconcile the subsidiary ledger to either the general ledger or the interest allocation spreadsheet. Incorrect or incomplete information was posted to the subsidiary ledger; therefore, the balances in the subsidiary ledger were $66,674 less than in the general ledger or interest allocation spreadsheet.

Because the subsidiary ledger was not reconciled to the general ledger, inaccurate information was reported to the properties on the yearly escrow statements. In addition, not reconciling the subsidiary ledger to the interest allocation spreadsheet could result in the agency incorrectly allocating interest earned to the individual properties.

Recommendation

The Director of Fiscal Administration should monitor the reconciliation of the subsidiary ledger, general ledger, and interest allocation spreadsheet. Reconciliations should be thoroughly documented, and all reconciling items should be reviewed and explained. Corrections to individual escrow balances should be made as necessary. The director should take appropriate and timely remedial action for any noncompliance with prescribed reconciliation procedures.

Management's Comment

We concur. The subsidiary ledger will be reconciled to the general ledger on a monthly basis. In addition, the spreadsheet used to allocate interest will also be reconciled to both the subsidiary and general ledgers. These reconciliations will be documented, with all reconciling items listed and explained, and will be reviewed by a supervisor. The supervisor will retain the reconciliations to prevent unauthorized changes from being made.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
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Independent Auditor's Report

December 11, 2002, except for Note 2.b.,
which is dated March 27, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statement of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year 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 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 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 audit provides 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 Tennessee Housing Development Agency as of June 30, 2002, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.d. to the financial statements, the agency implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* The agency also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis section on pages 21 through 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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, taken as a whole. The accompanying supplementary information on pages 42 through 47 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 *Government Auditing Standards*, we have also issued our report dated December 11, 2002, on our consideration of the agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

Our discussion and analysis of the Tennessee Housing Development Agency's financial performance provides an overview of the agency's financial activities for the year ended June 30, 2002. Please read it in conjunction with the agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Cash and cash equivalents decreased $93.3 million
- Mortgage loans receivable increased $36.5 million
- Investments increased $33.0 million
- Bonds and notes payable decreased $47.0 million
- Total liabilities decreased $13.3 million
- The agency's total net assets decreased $4.2 million

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and notes to the financial statements. The statement of net assets provides financial information on the overall financial position of the agency at June 30, 2002. The statement of revenues, expenses and changes in net assets summarizes the results of operations over the course of the fiscal year. The statement of cash flows provides relevant information about the agency's cash receipts and cash payments during the fiscal year. The notes to the financial statements provide useful information regarding the agency's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. The agency's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus.

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets. The following table focuses on the changes in net assets between July 1, 2001 and June 30, 2002 (expressed in thousands):

	2002	2001
Current assets	$ 356,230	$ 483,400
Capital assets	5	11
Other noncurrent assets	2,014,871	1,905,188
Total assets	2,371,106	2,388,599
Long-term liabilities	1,733,060	1,710,108
Other liabilities	268,047	304,289
Total liabilities	2,001,107	2,014,397
Invested in capital assets	5	11
Restricted net assets	359,618	367,091
Unrestricted net assets	10,376	7,100
Total net assets	$ 369,999	$ 374,202

The amounts shown above for the year ended June 30, 2001 are restated to be comparable to the June 30, 2002 amounts which are reported under new accounting standards. See Note 1.d. to the financial statements for additional information.

The agency's total net assets decreased $4.2 million in part as a result of the following:

- Operating income for the year ended June 30, 2002 was $41.2 million.
- Payment to primary government – A payment was authorized from the agency's Asset Fund reported in the Operating Group component in the amount of $35.4 million under Chapter 825, Public Acts of 2002 and section 9. (2) of Chapter 827, Public Acts of 2002 for the sole purpose of meeting the requirements of funding the operations of the primary government for the fiscal year ended June 30, 2002.
- Grant expenses exceeded grant revenues by $10.0 million because of grant programs that were funded by the agency.

Changes in Net Assets. The following table summarizes the changes in revenues, expenses and changes in net assets between fiscal years 2001 and 2002 (expressed in thousands):

	2002	2001
Operating revenues		
Mortgage interest income	$ 107,134	$ 108,862
Investment income	45,131	54,437
Other	9,908	7,740
Total operating revenues	162,173	171,039
Operating expenses		
Interest expense	102,413	107,466
Other	18,569	16,553
Total operating expenses	120,982	124,019
Operating income	41,191	47,020
Nonoperating revenues (expenses)		
Grant revenues	127,611	62,309
Grant expenses	(137,638)	(70,938)
Payment to primary government	(35,367)	-
Total nonoperating revenues (expenses)	(45,394)	(8,629)
Changes in net assets	$ (4,203)	$ 38,391

The amounts shown above for the year ended June 30, 2001 are restated to be comparable to the June 30, 2002 amounts which are reported under new accounting standards. See note 1.d. to the financial statements for additional information.

- The change in net assets decreased by $42.6 million, from $38.4 million at June 30, 2001 to $(4.2 million) at June 30, 2002. The decrease primarily resulted from a payment of $35.4 million to the primary government from the agency's Asset Fund reported in the Operating Group component.

- Total operating revenues decreased by $8.9 million, from $171.0 million at June 30, 2001 to $162.1 million at June 30, 2002. The increase in the fair value of investments was $9.5 million less than in the previous fiscal year which impacted the total operating revenues.

- Federal grant revenue and expenses increased by $65.3 million, from $62.3 million at June 30, 2001 to $127.6 million at June 30, 2002. The agency was awarded the contract to administer the Section 8 Project Based Program for the United States Department of Housing and Urban Development making only four months of housing assistance payments in fiscal year 2001. In fiscal year 2002, the agency recognized a full year of revenue and paid a full year of housing assistance payments.

DEBT ACTIVITY

The agency's bonds and notes principal outstanding at June 30, 2002 totaled $1,888.3 million and at June 30, 2001 totaled $1,935.4 million. Total bonds and notes payable decreased $47.1 million due primarily to retirement of debt. During the fiscal year, the agency issued debt totaling $319.5 million, with activity arising from three bond issues totaling $209.5 million and two draws under the single family mortgage note program totaling $110.0 million. More detailed information about the agency's bonds and notes payable activity for the fiscal year is presented in Note 4 to the financial statements. Bonds and notes outstanding at June 30, 2002, and June 30, 2001, were as follows (expressed in thousands):

	2002	2001
Bonds payable	$1,820,394	$1,850,495
Notes payable	67,909	84,865
Total bonds and notes payable	$1,888,303	$1,935,360

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide the agency's stakeholders with a general overview of the agency'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 Ted Fellman, CPA, Chief Financial Officer at (615) 741-1104 or via e-mail at Ted.fellman@state.tn.us.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
June 30, 2002
(Expressed in Thousands)

ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$	258,413
Investments (Note 2)		29,009
Receivables:		
Accounts		10,902
Interest		15,605
First mortgage loans		33,368
Due from federal government		8,933
Total current assets		356,230
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		6,468
Investments (Note 2)		189,990
Investment interest receivable		2,470
Investments (Note 2)		297,531
First mortgage loans receivable		1,503,992
Deferred charges		11,923
Advance to local government		2,484
Other receivables		13
Capital assets:		
Furniture and equipment		71
Less accumulated depreciation		(66)
Total noncurrent assets		2,014,876
Total assets		2,371,106
LIABILITIES		
Current liabilities:		
Checks payable (Note 3)		2,276
Accounts payable		1,847
Accrued payroll and related liabilities		246
Investments purchased		1,998
Compensated absences		256
Due to primary government		35,420
Interest payable		48,767
Escrow deposits		579
Prepayments on mortgage loans		1,589
Notes payable (net of deferred amount on refundings) (Note 4)		67,909
Advance on bond sale		850
Bonds payable (Note 4)		106,310
Total current liabilities		268,047
Noncurrent liabilities:		
Bonds payable (net of deferred amount on refundings) (Note 4)		1,714,084
Compensated absences		267
Escrow deposits		14,054
Arbitrage rebate payable		3,935
Deferred revenue		720
Total noncurrent liabilities		1,733,060
Total liabilities		2,001,107
NET ASSETS		
Invested in capital assets		5
Restricted for single family bond programs (Note 5)		348,167
Restricted for grant programs (Note 5)		8,297
Restricted for Homebuyers Revolving Loan Program (Note 5)		3,154
Unrestricted (Note 7)		10,376
Total net assets	$	369,999

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

OPERATING REVENUES		
Mortgage interest income	$	107,134
Investment income:		
Interest		30,117
Net increase in the fair value of investments		15,014
Federal grant administration fees		8,457
Fees and other income		1,451
Total operating revenues		162,173
OPERATING EXPENSES		
Salaries and benefits		7,368
Contractual services		1,402
Materials and supplies		319
Rentals and insurance		771
Other administrative expenses		262
Other program expenses		2,193
Interest expense		102,413
Mortgage service fees		5,424
Issuance costs		825
Depreciation		5
Total operating expenses		120,982
Operating income		41,191
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue		127,611
Federal grants expenses		(127,611)
Local grants expenses		(10,027)
Payment to primary government		(35,367)
Total nonoperating revenues (expenses)		(45,394)
Change in net assets		(4,203)
Total net assets, July 1		374,202
Total net assets, June 30	$	369,999

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	$ 293,741
Receipts from federal government	8,457
Other miscellaneous receipts	1,454
Acquisition of mortgage loans	(224,842)
Payments to service mortgages	(5,424)
Payments to suppliers	(3,429)
Payments to federal government	(3,941)
Payments to local government	(2,441)
Payments to employees	(7,481)
Net cash provided by operating activities	56,094
Cash flows from non-capital financing activities:	
Operating grants received	124,656
Negative cash balance implicitly financed	26
Proceeds from sale of bonds	209,580
Proceeds from issuance of notes	67,985
Operating grants paid	(138,431)
Call premium paid	(1,929)
Advance on bond sale	850
Cost of issuance paid	(1,939)
Principal payments	(326,260)
Interest paid	(98,057)
Net cash used by non-capital financing activities	(163,519)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	472,674
Purchases of investments	(490,207)
Investment interest received	31,647
Net cash provided by investing activities	14,114
Net decrease in cash and cash equivalents	(93,311)
Cash and cash equivalents, July 1	358,192
Cash and cash equivalents, June 30	$ 264,881

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 41,191
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	830
Changes in assets and liabilities:	
(Increase) in accounts receivable	(3,472)
(Increase) in mortgage interest receivable	(299)
(Increase) in first mortgage loans receivable	(36,486)
Decrease in deferred charges	152
Decrease in other receivables	3
(Decrease) in accounts payable	(337)
Increase in accrued payroll	15
Increase in due to primary government	4
(Decrease) in deferred revenue	(137)
(Decrease) in arbitrage rebate liability	(2,652)
Investment income included as operating revenue	(45,131)
Interest expense included as operating expense	102,413
Total adjustments	14,903
Net cash provided by operating activities	$ 56,094
Noncash investing, capital, and financing activities:	
Accretion of deep discount bonds	$ 4,111
Increase in fair value of investments	22,653
Total noncash investing, capital, and financing activities	$ 26,764

The Notes to the Financial Statements are an intergral 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.

Agency operations are directed by a 19-member board of directors. The board consists of five members who serve *ex officio* (the State Treasurer, the Comptroller of the Treasury, the Commissioner of the Department of Finance and Administration, the Secretary of State, and a staff assistant to the Governor), and 14 appointed members -- 12 appointed by the Governor and one each by the Speaker of the House and the Speaker of the Senate. The board includes representatives of the housing, real estate, home-building, and mortgage-lending industries; representatives of local government and nonprofit organizations; and citizens from the public at-large.

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 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 follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, and Homeownership Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

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

d. New Accounting Standards Adopted

During the year ended June 30, 2002, the agency implemented GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments,” as amended by Statement No. 37 “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus” and implemented Statement No. 38, “Certain Financial Statement Note Disclosures.” Statement No. 34, as amended and modified, commonly referred to as the new reporting model retained much of the old reporting and disclosure requirements under the prior reporting model, with certain modifications and newly added information. The most significant effects on the agency's financial statements were the addition of Management's Discussion and Analysis as required supplementary information and the reclassification of the prior equity section, including contributed capital and retained earnings, into three categories of net assets.

e. Capital Assets

The agency records furniture and office equipment at cost and follows the straight-line method of depreciating the assets over their estimated useful lives, which are determined considering physical factors as well as obsolescence factors. Capital assets are defined by the agency as assets with an initial, individual cost of $5,000 or more.

f. 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.

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

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

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.

h. 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.

i. 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.

j. Accrual of Interest Income

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

k. Mortgages

Mortgages are carried at their original amount less principal collected.

l. 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.

m. Changes in Classifications

In conjunction with the implementation of GASB Statement No. 34, the agency determined that certain assets should be shown as restricted assets and certain liabilities should be shown as noncurrent liabilities.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

The agency's bond resolutions and the laws of the State of Tennessee require deposits to be fully insured or collateralized. At June 30, 2002, the carrying amount of the agency's deposits was $45,129,125 and the bank balances were $45,516,142. Of the bank balances, $36,865,513 was covered by insurance or by collateral held by the agency's agent in the agency's name, and $8,650,629 was uninsured and uncollateralized. On the next day, July 1, 2002, the agency paid debt service on outstanding bonds, which reduced the bank balances well below the level of collateral. On October 2, 2002 the agency's trustee was changed to Wachovia Bank. The cash balances are swept daily into a U.S. Treasury Money Market Fund. This fund is a permitted investment under both bond resolutions.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $10,678,318 on June 30, 2002. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2002.

b. Investments

The agency's investments are categorized to indicate the level of custodial risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the agency's name.

The agency's bond resolutions require repurchase agreements to be fully collateralized. On October 2, 2002 the agency's trustee was changed to Wachovia Bank. The new trustee has established an account in the agency's name for the purpose of holding collateral on repurchase agreements. This method will provide for easier monitoring of collateral than has been the case in the past. Investments are categorized as follows:

June 30, 2002

	Category 1	Category 2	Category 3	Fair Value
Cash equivalents and short-term investments				
Repurchase agreements	**$ 167,807,894**		**$ 1,192,106**	**$ 169,000,000**
U S government securities	**69,084,050**		**0**	**69,084,050**
Total cash equivalents and short-term investments	**$ 236,891,944**		**$ 1,192,106**	**$ 238,084,050**
Long-term investments				
U S government securities	**$ 484,635,489**			**$ 484,635,489**
State & local government securities	**902,432**			**902,432**
Total long-term investments	**$ 485,537,921**			**$ 485,537,921**
Unsettled Investment Acquisitions				
U S government securities				**1,982,042**
Total				**$ 725,604,013**

Of the above repurchase agreements, $21,898,638 was previously reported as Category 3. However, subsequent to the issuance of the financial statements, it was discovered that additional collateral was held by the trustee at June 30, 2002; therefore, $20,706,532 of this amount is now reported in Category 1.

NOTE 3. CHECKS PAYABLE

This amount represents the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

The following tables are a summary of the bond activity for the year ended June 30, 2002.

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Beginning Balance 6/30/2001	Additions	Reductions	Ending Balance 6/30/2002
MORTGAGE FINANCE PROGRAM BONDS							
1993A	1/1/99-7/1/2028	$265,910	4.70 to 5.95	$234,920	$ -0-	$17,005	$217,915
1994A	1/1/96-7/1/2025	60,000	4.40 to 6.90	36,620	-0-	3,760	32,860
1994B	7/1/96-7/1/2025	100,000	4.50 to 6.60	62,805	-0-	6,495	56,310
1995A	1/1/97-7/1/2026	80,000	5.45 to 7.125	48,230	-0-	5,060	43,170
1995B/C	1/1/97-7/1/2026	100,000	4.80 to 6.55	67,025	-0-	6,620	60,405
Total Mortgage Finance Program Bonds		$605,910		$449,600	$ -0-	$38,940	$410,660
Less: Deferred Amount on Refundings				(575)	-0-	(28)	(547)
Net Mortgage Finance Program Bonds				$449,025	$ -0-	$38,912	$410,113
HOMEOWNERSHIP PROGRAM BONDS							
Issue G	7/1/89-7/1/2006	$ 24,845	5.25 to 7.65	$ 5	$ -0-	$ -0-	$ 5
Issue K	7/1/92-7/1/2021	74,775	6.4 to 8.125	1	-0-	-0-	1
			Interest accretion	2	-0-	-0-	2
Issue MN	7/1/91-7/1/2020	85,740	6.7 to 7.65	25,345	-0-	25,345	-0-
Issue O	7/1/91-7/1/2020	84,000	6.4 to 7.50	480	-0-	480	-0-
Issue P	7/1/97-7/1/2016	40,000	6.85 to 7.70	7,851	-0-	7,851	-0-
			Interest accretion	9,767	-0-	9,767	-0-
Issue ST	7/1/92-7/1/2025	150,975	5.00 to 7.625	48,700	-0-	48,700	-0-
Issue UV	7/1/92-7/1/2022	75,000	5.30 to 7.65	22,250	-0-	22,250	-0-
Issue WR	7/1/94-7/1/2017	49,900	4.25 to 6.80	36,250	-0-	7,750	28,500
Issue Y1/Z1	1/1/95-7/1/2024	50,000	3.50 to 6.10	29,170	-0-	6,530	22,640
Issue Y2/Z2	1/1/95-7/1/2024	30,000	3.50 to 5.75	18,370	-0-	2580	15,790
1995-1	1/1/97-7/1/2026	65,000	4.35 to 6.48	26,855	-0-	1,935	24,920
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	33,375	-0-	2,670	30,705
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	56,240	-0-	4,610	51,630
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	41,615	-0-	2,955	38,660
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	51,230	-0-	5,090	46,140
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	57,945	-0-	3,880	54,065
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	55,860	-0-	3,695	52,165
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	49,315	-0-	2,370	46,945
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	63,793	-0-	3,063	60,730
			Interest accretion	13,942	4,111	665	17,388
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	49,575	-0-	2,665	46,910
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	29,350	-0-	1,790	27,560
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	78,910	-0-	5,430	73,480
1999-1	7/1/2001–7/1/2031	41,000	3.95 to 6.25	40,695	-0-	3,105	37,590
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	99,730	-0-	7,125	92,605
1999-3	7/1/2001–7/1/2031	110,000	4.30 to 6.15	109,750	-0-	6,905	102,845
2000-1	7/1/2001–7/1/2031	105,000	4.60 to 6.40	104,965	-0-	3,560	101,405
2000-2	7/1/2001–7/1/2031	110,000	5.00 to 7.93	110,000	-0-	1,410	108,590
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	135,390	-0-	8,280	127,110
2001-2	1/1/2003–7/1/2032	60,000	3.10 to 5.375	-0-	60,000	-0-	60,000
2001-3	1/1/2003–7/1/2032	64,580	2.85 to 5.45	-0-	64,580	-0-	64,580
2002-1	7/1/2003–7/1/2033	85,000	1.85 to 5.45	-0-	85,000	-0-	85,000
Total Homeownership Program Bonds		$2,232,098		$1,406,726	$213,691	$202,456	$1,417,961
Less: Deferred Amount on Refundings				(5,256)	(3,134)	(710)	(7,680)
Net Homeownership Program Bonds				1,401,470	210,557	201,746	1,410,281
Net Total All Issues				$1,850,495	$210,557	$240,658	$1,820,394

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2002 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2003	$ 105,625	$ 96,155	$ 201,780
2004	44,127	93,052	137,179
2005	49,700	92,496	142,196
2006	55,047	92,012	147,059
2007	57,221	89,976	147,197
2008 – 2012	214,663	400,288	614,951
2013 – 2017	226,402	370,100	596,502
2018 – 2022	310,146	266,131	576,277
2023 – 2027	330,105	174,288	504,393
2028 – 2032	370,370	79,707	450,077
2033 – 2034	47,825	1,518	49,343
Total	$1,811,231	$1,755,723	$3,566,954

The debt principal in the preceding table is $9.163 million less than that presented in the accompanying financial statements. Of this amount, $17.390 million represents the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2003-2017) in which the bonds mature. In addition, $8.227 million, 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, 2002, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of $2,455,000 and in the Homeownership Program Bonds in the amount of $20,757,557. The respective carrying values of these bonds were $2,435,076 and $20,619,635. This resulted in an expense to the Mortgage Finance Program of $19,924 and the Homeownership Program of $137,922.

On July 1, 2001, the agency used $127,541,965 of Homeownership Program Bonds, Issue 2001-1 A, B, C, and D to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $117,171,965 early redemption and $10,370,000 current maturities). The carrying amount of these bonds was $126,587,522. A call premium of $1,929,039 was paid on the redemption of these bonds. The refunding resulted in a difference of $2,883,482 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2032. The refunding decreased the agency's debt service by $5,258,147 over the next 31 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $18,485,796.

Also on July 1, 2001, the agency used $8,980,000 of Single Family Mortgage Program Notes, 2000CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $900,000 early redemption and $8,080,000 current maturities). The carrying amount of these bonds was $8,973,222. The refunding resulted in a difference of $6,778 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current and following year. Because short-term notes were used to refund long-term bonds, neither the change in debt service nor the economic gain disclosures are appropriate.

On August 30, 2001, the agency issued $60,000,000 in Homeownership Program Bonds, Issue 2001-2 A and B. On October 1, 2001, the agency used $33,740,000 of these bonds to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was $33,489,296. The refunding resulted in a difference of $250,704 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. The refunding decreased the agency's debt service by $6,876,459 over the next 31 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $5,094,957.

On December 13, 2001, the agency issued $64,580,000 in Homeownership Program Bonds, Issue 2001-3 A & B to partially refund short-term convertible drawdown notes 2000CN-1, which was used on January 2, 2001 and on March 13, 2001 to refund certain bonds and notes previously issued in the Mortgage Finance Program and the Homeownership Program. Because long-term bonds were used to refund short-term notes, neither the change in debt service nor the economic gain disclosures are appropriate.

Also on December 13, 2001, the agency issued $200,000,000 of short-term convertible drawdown notes, 2001CN-1. The initial drawdown amount was $52,580,000. Of this amount, $20,285,000 was used to refund at maturity the 2000CN-1 draw down notes on December 15, 2001. The remaining $32,295,000 was used on January 2, 2002 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $23,660,000 early redemption and $8,635,000 current maturities). The carrying amount of these bonds was $32,142,210. The refunding resulted in a difference of $152,790 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current and following year. Because short-term notes were used to refund long-term bonds, neither the change in debt service nor the economic gain disclosures are appropriate.

On April 18, 2002, the agency issued $85,000,000 in Homeownership Program Bonds, Issue 2002-1 A and B. On June 13, 2002, the agency used $42,055,000 of these bonds to partially refund the convertible drawdown notes, 2001CN-1, which was used on December 13, 2001 and January 2, 2002 to refund certain bonds and notes previously issued in the Mortgage Finance Program, the Homeownership Program, and the Single Family Mortgage Note Program. Because long-term bonds were used to refund short-term notes, neither the change in debt service nor the economic gain disclosures are appropriate.

On June 13, 2002, the agency drew down $57,460,000 of the convertible drawdown notes 2001CN-1. These proceeds will be used on July 1, 2002 to refund bonds previously issued in the Mortgage Finance Program in the amount of $21,145,000 and the Homeownership Program in the amount of $36,315,000.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 2002

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS							
07/01/2001	94A	$ 590,000	$ 587,252			($ 2,748)	Current Refunding
07/01/2001	94B	1,150,000	1,142,163			(7,837)	Current Refunding
07/01/2001	95A	1,215,000	1,204,447			(10,553)	Current Refunding
07/01/2001	95BC	740,000	733,909		($ 6,091)		Prepayments
07/01/2001	95BC	1,015,000	1,006,646			(8,354)	Current Refunding
10/01/2001	94A	1,500,000	1,493,124			(6,876)	Current Refunding
10/01/2001	94B	2,725,000	2,706,804			(18,196)	Current Refunding

Year Ended June 30, 2002 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS (cont.)							
10/01/2001	95A	1,980,000	1,963,143			(16,857)	Current Refunding
10/01/2001	95C	980,000	972,090			(7,910)	Current Refunding
10/01/2001	95C	1,555,000	1,542,449		(12,551)		Prepayments
01/02/2002	93A	4,990,000	4,970,404			(19,596)	Current Refunding
01/02/2002	94A	715,000	711,728			(3,272)	Current Refunding
01/02/2002	94B	990,000	983,434			(6,566)	Current Refunding
01/02/2002	95A	785,000	778,375			(6,625)	Current Refunding
01/02/2002	95BC	590,000	585,273			(4,727)	Current Refunding
01/02/2002	95BC	160,000	158,718		(1,282)		Prepayments
	Sub-Total-	$ 21,680,000	$21,539,959	$-0-	($19,924)	($ 120,117)	
HOMEOWNERSHIP PROGRAM BONDS							
07/01/2001	89MN	$ 25,345,000	$ 25,092,814	$ 253,450		($ 505,636)	Current Refunding
07/01/2001	89O	5,000	4,056	50		(994)	Current Refunding
07/01/2001	90P	16,081,965	16,036,893	321,639		(366,711)	Current Refunding
07/01/2001	90ST	46,335,000	45,921,999	931,200		(1,344,201)	Current Refunding
07/01/2001	91UV	21,135,000	20,957,990	422,700		(599,710)	Current Refunding
07/01/2001	92Y1Z1	610,000	605,408			(4,592)	Current Refunding
07/01/2001	92Y2Z2	290,000	287,814			(2,186)	Current Refunding
07/01/2001	96-1	380,000	377,708		($ 2,292)		Prepayments
07/01/2001	96-2	60,000	59,582		(418)		Prepayments
07/01/2001	96-3	955,000	946,907			(8,093)	Current Refunding
07/01/2001	96-4	1,360,000	1,347,510			(12,490)	Current Refunding
07/01/2001	96-5	625,000	618,651			(6,349)	Current Refunding
07/01/2001	97-3	292,315	290,814		(1,501)		Prepayments
07/01/2001	99-1	120,000	118,971			(1,029)	Current Refunding
07/01/2001	99-2	550,000	546,929			(3,071)	Current Refunding
07/01/2001	99-3	690,000	684,294			(5,706)	Current Refunding
07/01/2001	2000-2	95,000	94,633		(367)		Prepayments
10/01/2001	91WX	4,000,000	3,963,779			(36,221)	Current Refunding
10/01/2001	91WX	1,515,000	1,501,281		(13,719)		Prepayments
10/01/2001	92Y1Z1	4,565,000	4,531,282			(33,718)	Current Refunding
10/01/2001	92Y1Z1	330,000	327,563		(2,437)		Prepayments
10/01/2001	92Y2Z2	655,000	650,145			(4,855)	Current Refunding
10/01/2001	92Y2Z2	205,000	203,481		(1,519)		Prepayments
10/01/2001	95-1	875,000	872,752			(2,248)	Current Refunding
10/01/2001	96-1	600,000	596,443			(3,557)	Current Refunding
10/01/2001	96-1	620,000	616,325		(3,675)		Prepayments
10/01/2001	96-2	1,435,000	1,425,174			(9,826)	Current Refunding
10/01/2001	96-2	1,100,000	1,092,468		(7,532)		Prepayments
10/01/2001	96-3	740,000	733,820			(6,180)	Current Refunding
10/01/2001	96-4	1,435,000	1,422,185			(12,815)	Current Refunding
10/01/2001	96-4	420,000	416,249		(3,751)		Prepayments
10/01/2001	96-5	1,555,000	1,539,435			(15,565)	Current Refunding
10/01/2001	97-1	1,440,000	1,427,754			(12,246)	Current Refunding
10/01/2001	97-1	380,000	376,769		(3,231)		Prepayments
10/01/2001	97-2	545,000	541,844			(3,156)	Current Refunding
10/01/2001	97-2	315,000	313,176		(1,824)		Prepayments
10/01/2001	98-1	1,040,000	1,030,656			(9,344)	Current Refunding
10/01/2001	98-1	345,000	341,900		(3,100)		Prepayments
10/01/2001	98-2	535,000	530,143			(4,857)	Current Refunding
10/01/2001	98-2	100,000	99,092		(908)		Prepayments
10/01/2001	98-3	1,305,000	1,298,475			(6,525)	Current Refunding
10/01/2001	98-3	990,000	985,050		(4,950)		Prepayments
10/01/2001	99-1	215,000	213,308			(1,692)	Current Refunding
10/01/2001	99-1	290,000	287,674		(2,326)		Prepayments
10/01/2001	99-2	1,895,000	1,884,559			(10,441)	Current Refunding
10/01/2001	99-2	1,010,000	1,004,435		(5,565)		Prepayments
10/01/2001	99-3	2,115,000	2,097,743			(17,257)	Current Refunding
10/01/2001	99-3	525,000	520,716		(4,284)		Prepayments
10/01/2001	2000-1	1,605,000	1,594,638			(10,362)	Current Refunding
10/01/2001	2000-1	175,000	173,870		(1,130)		Prepayments

Year Ended June 30, 2002 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)							
10/01/2001	2000-2	165,000	164,105		(895)		Prepayments
01/02/2002	91WX	1,155,000	1,144,829		(10,171)		Prepayments
01/02/2002	92Y1Z1	300,000	297,806			(2,194)	Current Refunding
01/02/2002	92Y2Z2	1,110,000	1,101,835			(8,165)	Current Refunding
01/02/2002	95-1	555,000	553,584			(1,416)	Current Refunding
01/02/2002	95-1	40,000	39,898		(102)		Prepayments
01/02/2002	96-1	175,000	173,970			(1,030)	Current Refunding
01/02/2002	96-1	195,000	193,852		(1,148)		Prepayments
01/02/2002	96-2	570,000	566,125			(3,875)	Current Refunding
01/02/2002	96-2	440,000	437,008		(2,992)		Prepayments
01/02/2002	96-3	645,000	639,651			(5,349)	Current Refunding
01/02/2002	96-4	965,000	956,442			(8,558)	Current Refunding
01/02/2002	96-4	60,000	59,468		(532)		Prepayments
01/02/2002	96-5	715,000	707,882			(7,118)	Current Refunding
01/02/2002	97-1	905,000	897,353			(7,647)	Current Refunding
01/02/2002	97-2	395,000	392,747			(2,253)	Current Refunding
01/02/2002	97-2	250,000	248,574		(1,426)		Prepayments
01/02/2002	97-3	1,440,242	1,433,227		(7,015)		Prepayments
01/02/2002	98-1	490,000	485,661			(4,339)	Current Refunding
01/02/2002	98-1	380,000	376,635		(3,365)		Prepayments
01/02/2002	98-2	490,000	485,617			(4,383)	Current Refunding
01/02/2002	98-2	185,000	183,345		(1,655)		Prepayments
01/02/2002	98-3	1,135,000	1,129,361			(5,639)	Current Refunding
01/02/2002	98-3	1,075,000	1,069,659		(5,341)		Prepayments
01/02/2002	99-1	1,800,000	1,785,567			(14,433)	Current Refunding
01/02/2002	99-1	375,000	372,038		(2,962)		Prepayments
01/02/2002	99-2	2,285,000	2,272,578			(12,422)	Current Refunding
01/02/2002	99-2	695,000	691,222		(3,778)		Prepayments
01/02/2002	99-3	2,215,000	2,197,170			(17,830)	Current Refunding
01/02/2002	99-3	605,000	600,130		(4,870)		Prepayments
01/02/2002	2000-1	840,000	834,647			(5,353)	Current Refunding
01/02/2002	2000-1	295,000	293,120		(1,880)		Prepayments
01/02/2002	2000-2	585,000	581,886		(3,114)		Prepayments
01/02/2002	2001-1	3,670,000	3,647,853		(22,147)		Prepayments
	Sub-Total	$177,004,522	$175,622,002	$1,929,039	($137,922)	($3,173,637)	
	Total	$198,684,522	$197,161,961	$1,929,039	($157,846)	($3,293,754)	

Under the bond resolutions, the agency has the option to redeem bonds at an initial price of 103 percent and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years. Certain special redemption options, as governed by the bond resolutions, are permitted prior to that time.

The bonds are secured, as described in the applicable bond resolutions, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the resolutions.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2002.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2001	Additions	Reductions	Ending Balance June 30, 2002
Bonds Payable	$1,694,020	$213,691	$185,400	$1,722,311
Less: Deferred Amount on Refundings	(5,831)	(3,134)	(738)	(8,227)
Compensated Absences	225	206	164	267
Escrow Deposits	14,250	2,358	2,554	14,054
Arbitrage Rebate Payable	6,587	1,289	3,941	3,935
Deferred Revenue	857	4,067	4,204	720
Total	$1,710,108	$218,477	$195,525	$1,733,060

e. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides 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.

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 percent (90%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2002.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2001	Additions	Reductions	Ending Balance 6/30/2002
SINGLE FAMILY MORTGAGE NOTES							
2000CN-1	12/13/2001	$200,000	5.307	$84,865	$ -0-	$84,865	$ -0-
2001CN-1	12/12/2002	200,000	1.608	-0-	110,040	42,055	67,985
Total Single Family Mortgage Notes				$84,865	$110,040	$126,920	$67,985
Less: Deferred Amount on Refundings				-0-	(159)	(83)	(76)
Net Single Family Mortgage Notes				$84,865	$109,881	$126,837	$67,909

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, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 6.18% 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, 2002, 2001, and 2000, were $353,618, $313,976, and $241,470. 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 designated $750,000 of unrestricted net assets as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional $232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and $500,000 has been designated for self-insurance of second mortgages.

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. Claims Award Fund

The state has set aside assets for claim settlement in an internal service fund, the Claims Award 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 Claims Award 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. Since the agency participates in the Claims Award 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 Claims Award 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 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 POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 10. 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.

During the current fiscal year, a transfer from the agency to the primary government in the amount of $35,367,449 was authorized under Chapter 825, Public Acts of 2002 and Section 9(2) of Chapter 827, Public Acts of 2002, for the sole purpose of meeting the requirements of funding the operations of the primary government for the fiscal year ending June 30, 2002.

NOTE 11. SUBSEQUENT EVENTS

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

July 1, 2002	Mortgage Finance Program	$14,290,000
	Homeownership Program	50,960,909
	Total	$65,250,909

b. Homeownership Program Bonds, Issue 2002-2, were sold on July 31, 2002. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2002-2	1/1/2004-7/1/2033	$85,000	2.25 to 5.40
TOTAL ALL ISSUES		$85,000	

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF NET ASSETS
June 30, 2002
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 10,678	$ 58,678	$ 120,977	$ 68,080	$ 258,413
Investments	-	10,759	18,250	-	29,009
Receivables:					
Accounts	21	2,459	8,422	-	10,902
Interest	346	4,355	10,904	-	15,605
First mortgage loans	298	10,649	22,421	-	33,368
Due from federal government	8,933	-	-	-	8,933
Due from other funds	-	1,013	-	-	1,013
Total current assets	20,276	87,913	180,974	68,080	357,243
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	3,263	3,205	-	6,468
Investments	-	53,982	136,008	-	189,990
Investment Interest receivable	-	685	1,785	-	2,470
Investments	35,628	116,713	145,190	-	297,531
First mortgage loans receivable	1,667	297,985	1,204,340	-	1,503,992
Deferred charges	22	2,131	9,770	-	11,923
Advance to local government	2,484	-	-	-	2,484
Other receivables	-	-	13	-	13
Capital assets:					
Furniture and equipment	71	-	-	-	71
Less accumulated depreciation	(66)	-	-	-	(66)
Total noncurrent assets	39,806	474,759	1,500,311	-	2,014,876
Total assets	60,082	562,672	1,681,285	68,080	$ 2,372,119
LIABILITIES					
Current liabilities:					
Checks payable	-	-	2,276	-	$ 2,276
Accounts payable	1,847	-	-	-	1,847
Accrued payroll and related liabilities	246	-	-	-	246
Investments purchased	-	1,998	-	-	1,998
Compensated absences	256	-	-	-	256
Due to primary government	35,420	-	-	-	35,420
Interest payable	-	12,439	36,276	52	48,767
Escrow deposits	-	579	-	-	579
Prepayments on mortgage loans	-	256	1,333	-	1,589
Notes payable (net of deferred amount on refundings)	-	-	-	67,909	67,909
Advance on bond sale	-	-	850	-	850
Due to other funds	-	-	988	25	1,013
Bonds payable	-	32,550	73,760	-	106,310
Total current liabilities	37,769	47,822	115,483	67,986	269,060
Noncurrent liabilities:					
Bonds payable (net of deferred amount on refundings)	-	377,563	1,336,521	-	1,714,084
Compensated absences	267	-	-	-	267
Escrow deposits	214	13,840	-	-	14,054
Arbitrage rebate payable	-	39	3,896	-	3,935
Deferred revenue	-	371	349	-	720
Total noncurrent liabilities	481	391,813	1,340,766	-	1,733,060
Total liabilities	38,250	439,635	1,456,249	67,986	2,002,120
NET ASSETS					
Invested in capital assets	5	-	-	-	5
Restricted for single family bond programs	-	123,037	225,036	94	348,167
Restricted for grant programs	8,297	-	-	-	8,297
Restricted for Homebuyers Revolving Loan Program	3,154	-	-	-	3,154
Unrestricted	10,376	-	-	-	10,376
Total net assets	$ 21,832	$ 123,037	$ 225,036	$ 94	$ 369,999

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	$ 132	$ 24,231	$ 82,771	$ -	$ 107,134
Investment income:					
Interest	1,881	10,093	18,112	31	30,117
Net increase in the fair value of investments	1,082	4,512	7,895	1,525	15,014
Federal grant administration fees	8,457	-	-	-	8,457
Fees and other income	1,235	54	162	-	1,451
Total operating revenues	12,787	38,890	108,940	1,556	162,173
OPERATING EXPENSES					
Salaries and benefits	7,368	-	-	-	7,368
Contractual services	1,402	-	-	-	1,402
Materials and supplies	319	-	-	-	319
Rentals and insurance	771	-	-	-	771
Other administrative expenses	262	-	-	-	262
Other program expenses	-	244	1,693	256	2,193
Interest expense	-	25,536	75,373	1,504	102,413
Mortgage service fees	1	1,142	4,281	-	5,424
Issuance costs	-	197	563	65	825
Depreciation	5	-	-	-	5
Total operating expenses	10,128	27,119	81,910	1,825	120,982
Operating income (loss)	2,659	11,771	27,030	(269)	41,191
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	127,611	-	-	-	127,611
Federal grants expenses	(127,611)	-	-	-	(127,611)
Local grants expenses	(8,007)	-	(2,020)	-	(10,027)
Payment to primary government	(35,367)	-	-	-	(35,367)
Total nonoperating revenues (expenses)	(43,374)	-	(2,020)	-	(45,394)
Income (loss) before transfers	(40,715)	11,771	25,010	(269)	(4,203)
Transfers (to) other funds	-	(3,887)	(42)	-	(3,929)
Transfers from other funds	3,731		-	198	3,929
Change in net assets	(36,984)	7,884	24,968	(71)	(4,203)
Total net assets, July 1	58,816	115,153	200,068	165	374,202
Total net assets, June 30	$ 21,832	$ 123,037	$ 225,036	$ 94	$ 369,999

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	$ 442	$ 74,739	$ 218,560	$ -	$ 293,741
Receipts from federal government	8,457	-	-	-	8,457
Receipts from other funds	-	-	1,033	25	1,058
Other miscellaneous receipts	1,235	54	165	-	1,454
Acquisition of mortgage loans	-	-	(224,842)	-	(224,842)
Payments to service mortgages	(1)	(1,142)	(4,281)	-	(5,424)
Payments to suppliers	(2,511)	(349)	(568)	(1)	(3,429)
Payments to federal government	-	-	(3,686)	(255)	(3,941)
Payments to local government	(2,441)	-	-	-	(2,441)
Payments to other funds	-	(1,058)	-	-	(1,058)
Payments to employees	(7,481)	-	-	-	(7,481)
Net cash provided (used) by operating activities	(2,300)	72,244	(13,619)	(231)	56,094
Cash flows from non-capital financing activities:					
Operating grants received	124,656	-	-	-	124,656
Operating transfers in (out)	3,731	(3,767)	(5)	41	-
Negative cash balance implicitly financed (repaid)	-	(1,361)	1,387	-	26
Proceeds from sale of bonds	-	-	209,580	-	209,580
Proceeds from issuance of notes	-	-	-	67,985	67,985
Operating grants paid	(136,411)	-	(2,020)	-	(138,431)
Call premium paid	-	-	(1,929)	-	(1,929)
Advance on bond sale	-	-	850	-	850
Cost of issuance paid	-	-	(1,874)	(65)	(1,939)
Principal payments	-	(38,940)	(202,455)	(84,865)	(326,260)
Interest paid	-	(26,664)	(69,914)	(1,479)	(98,057)
Net cash used by non-capital financing activities	(8,024)	(70,732)	(66,380)	(18,383)	(163,519)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	6,425	284,222	249,048	-	539,695
Purchases of investments	(19,890)	(263,256)	(274,082)	-	(557,228)
Investment interest received	1,769	10,604	17,718	1,556	31,647
Net cash provided (used) by investing activities	(11,696)	31,570	(7,316)	1,556	14,114
Net increase (decrease) in cash and cash equivalents	(22,020)	33,082	(87,315)	(17,058)	(93,311)
Cash and cash equivalents, July 1	32,698	28,859	211,497	85,138	358,192
Cash and cash equivalents, June 30	$ 10,678	$ 61,941	$ 124,182	$ 68,080	$ 264,881

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	$ 2,659	$ 11,771	$ 27,030	$ (269)	$ 41,191
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	5	197	563	65	830
Changes in assets and liabilities:					
(Increase) in accounts receivable	(2,485)	(338)	(649)	-	(3,472)
(Increase) decrease in mortgage interest receivable	(2)	376	(673)	-	(299)
(Increase) decrease in first mortgage loans receivabl	326	50,857	(87,669)	-	(36,486)
(Increase) decrease in deferred charges	(7)	20	139	-	152
Decrease in other receivables	-	-	3		3
(Increase) decrease in interfund receivables	-	(1,013)	45	-	(968)
Increase (decrease) in interfund payables	-	(45)	988	25	968
Increase (decrease) in accounts payable	148	(345)	(140)	-	(337)
Increase in accrued payroll	15	-	-	-	15
Increase in due to primary government	4	-	-	-	4
(Decrease) in deferred revenue	-	(66)	(71)	-	(137)
(Decrease) in arbitrage rebate liability	-	(101)	(2,551)	-	(2,652)
Investment income included as operating revenue	(2,963)	(14,605)	(26,007)	(1,556)	(45,131)
Interest expense included as operating expense	-	25,536	75,373	1,504	102,413
Total adjustments	(4,959)	60,473	(40,649)	38	14,903
Net cash provided (used) by operating activities	$ (2,300)	$ 72,244	$ (13,619)	$ (231)	$ 56,094
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	$ -	$ -	$ 4,111	$ -	$ 4,111
Increase in fair value of investments	1,101	3,633	17,872	47	22,653
Total noncash investing, capital, and financing activities	$ 1,101	$ 3,633	$ 21,983	$ 47	$ 26,764

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF NET ASSETS - OPERATING GROUP
JUNE 30, 2002
(Expressed in Thousands)

	Assets Fund	Housing Program Fund	Operating Group Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ -	$ 10,678	$ 10,678
Receivables:			
Accounts	21	-	21
Interest	346	-	346
First mortgage loans	223	75	298
Due from federal government	-	8,933	8,933
Due from other funds	-	294	294
Total current assets	590	19,980	20,570
Noncurrent assets:			
Investments	35,628	-	35,628
First mortgage loans receivable	1,072	595	1,667
Deferred charges	-	22	22
Advance to local government	-	2,484	2,484
Capital assets:			
Furniture and equipment	-	71	71
Less accumulated depreciation	-	(66)	(66)
Total noncurrent assets	36,700	3,106	39,806
Total assets	37,290	23,086	60,376
LIABILITIES			
Current liabilities:			
Accounts payable	-	1,847	1,847
Accrued payroll and related liabilities	-	246	246
Compensated absences	-	256	256
Due to primary government	35,367	53	35,420
Due to other funds	294	-	294
Total current liabilities	35,661	2,402	38,063
Noncurrent liabilities:			
Compensated absences	-	267	267
Escrow deposits	-	214	214
Total noncurrent liabilities	-	481	481
Total liabilities	35,661	2,883	38,544
NET ASSETS			
Invested in capital assets	-	5	5
Restricted for grant programs	1,629	6,668	8,297
Restricted for Homebuyers Revolving Loan Program	-	3,154	3,154
Unrestricted	-	10,376	10,376
Total net assets	$ 1,629	$ 20,203	$ 21,832

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2002
(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	$ 42,540	$ 13,709	$ 56,249	$ 2,429	$ 58,678
Investments	9,750	1,009	10,759	-	10,759
Receivables:					
Accounts	2,453	6	2,459	-	2,459
Interest	3,546	678	4,224	131	4,355
First mortgage loans	10,113	536	10,649	-	10,649
Due from other funds	-	1,643	1,643	123	1,766
Total current assets	68,402	17,581	85,983	2,683	88,666
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	3,263	-	3,263	-	3,263
Investments	53,982	-	53,982	-	53,982
Investment interest receivable	685	-	685	-	685
Investments	58,010	47,071	105,081	11,632	116,713
First mortgage loans receivable	289,451	8,534	297,985	-	297,985
Deferred charges	2,131	-	2,131	-	2,131
Total noncurrent assets	407,522	55,605	463,127	11,632	474,759
Total assets	475,924	73,186	549,110	14,315	563,425
LIABILITIES					
Current liabilities:					
Investments purchased	1,169	829	1,998	-	1,998
Interest payable	12,439	-	12,439	-	12,439
Escrow deposits	-	-	-	579	579
Prepayments on mortgage loans	243	13	256	-	256
Due to other funds	753	-	753	-	753
Bonds payable	32,550	-	32,550	-	32,550
Total current liabilities	47,154	842	47,996	579	48,575
Noncurrent liabilities:					
Bonds payable (net of deferred amount on refundings)	377,563	-	377,563	-	377,563
Escrow deposits	-	568	568	13,272	13,840
Arbitrage rebate payable	39	-	39	-	39
Deferred revenue	10	6	16	355	371
Total noncurrent liabilities	377,612	574	378,186	13,627	391,813
Total liabilities	424,766	1,416	426,182	14,206	440,388
NET ASSETS					
Restricted for single family bond programs	51,158	71,770	122,928	109	123,037
Unrestricted	-	-	-	-	-
Total net assets	$ 51,158	$ 71,770	$ 122,928	$ 109	$ 123,037

* 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.