TENNESSEE HOUSING DEVELOPMENT AGENCY

FOR THE YEAR ENDED
JUNE 30, 1996

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Technical Reviewer

Leslie Bethea
Editor

March 5, 1997

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee Housing Development Agency
and
Mr. W. Jeff Reynolds, 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, 1996. 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 the internal control structure and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/tp
97/012

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, 1996

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

AUDIT REPORT
TENNESSEE HOUSING DEVELOPMENT AGENCY
FOR THE YEAR ENDED JUNE 30, 1996

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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.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine the fairness of the presentation of the financial statements;
3. to determine compliance with laws, regulations, contracts, and grants; 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 of 1984 and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure 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 of 1984 and OMB Circular A-128.

SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1995, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1996, and for comparative purposes, the year ended June 30, 1995. The Tennessee Housing Development Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered allotment code 316.20.

BACKGROUND AND ORGANIZATION

LEGISLATIVE HISTORY

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, nine 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 representative of the public at large.

ORGANIZATION

The agency comprises ten 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. The production divisions—community programs, mortgage administration, homeownership mortgage, and housing management—report to the deputy executive director. The financial and administrative support divisions—finance, management information systems, and administrative services—report to the chief financial officer.

Executive Division - This division is responsible for program development, legal affairs, and public relations.

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 financial and compliance audits of all agency operations, serves as coordinator for the agency's external audit function, performs audits of servicing institutions, and is responsible for the agency's quality control plan over mortgage loans.

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. The Low Income Housing Tax Credit Program for low-income tenants is administered by this division.

Mortgage Administration Division - This division oversees the collection of loans for the agency. The division provides full in-house servicing of multifamily 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.

Housing Management Division - This division administers the Section 8 Housing Assistance Program. The division's functions include administering housing assistance payment contracts, monitoring and auditing housing developments and subcontractors, and accounting for the reporting on federal grant funds.

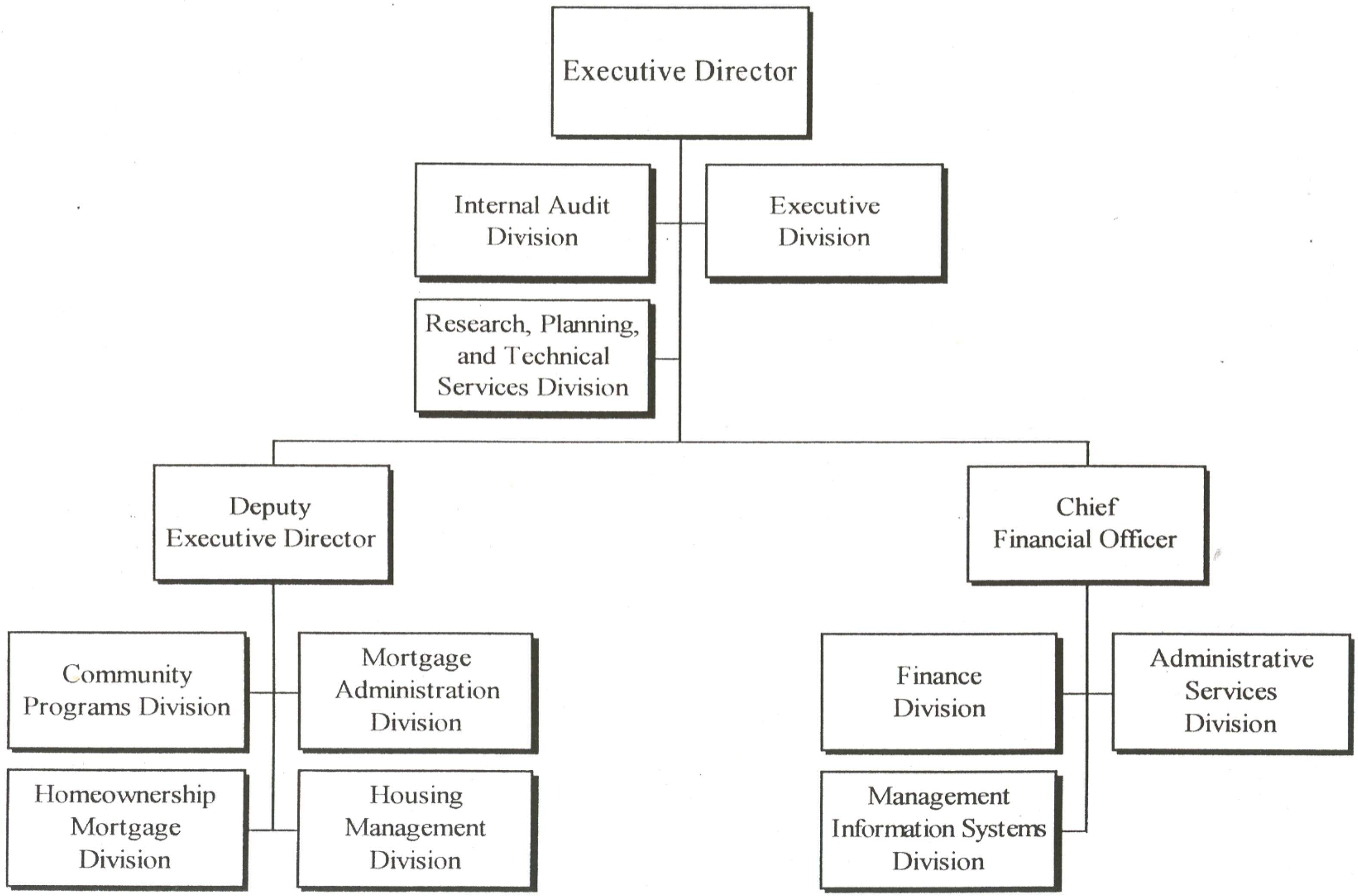
Finance Division - This division manages the financial affairs of the agency. This division's major functions are accounting, debt management, investment of funds, and financial reporting.

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

Administrative Services Division - This division is responsible for general administrative areas such as personnel, training, purchasing, and fiscal budget planning.

The agency presents a financing proposal each fiscal year for the State Funding Board's approval. The bond finance committee of the Tennessee Housing Development Agency's board of directors sells bonds and notes on behalf of the agency. An organization chart for the agency is on the following page.

TENNESSEE HOUSING DEVELOPMENT AGENCY
ORGANIZATION CHART



PRIOR AUDIT FINDINGS

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 October 31, 1996. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the agency has corrected the previous audit finding concerning controls over originating agent files.

Four previous audits of the agency contained a finding regarding the late completion of funded loan files by the Homeownership Mortgage Division. Although the division is still unable to complete all files within 90 days after loan closing, the reduction of the percent of files closed late reflects a marked improvement in procedures. Because of the progress made, the finding will not be repeated in this report. Subsequent audits will continue to monitor the division to determine if continued progress is being made.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, 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 June 30, 1994, and each June 30 thereafter. For the year ended June 30, 1996, the Tennessee Housing Development Agency filed its compliance report and implementation plan on June 27, 1996.

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 State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the executive branch will be the new monitoring agency.

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 Structure

As part of the audit of the Tennessee Housing Development Agency's financial statements for the year ended June 30, 1996, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Tennessee Housing Development Agency. In our opinion, the statements included in this report present fairly, in all material respects, the financial position of the agency as of June 30, 1996, and the results of its operations and cash flows for the year then ended. The independent auditor's report follows the compliance report.

Compliance with Laws and Regulations

The results of our audit tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. The compliance report follows the report on the internal control structure.

Report on the Internal Control Structure Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

December 4, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

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, 1996, and have issued our report thereon dated December 4, 1996.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The agency's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the agency's financial statements for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the agency's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/tp

Compliance Report Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

December 4, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

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, 1996, and have issued our report thereon dated December 4, 1996.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Tennessee Housing Development Agency is the responsibility of the agency's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

However, we noted certain other less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/tp

Independent Auditor's Report

December 4, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 1996, and June 30, 1995, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency, as of June 30, 1996, and June 30, 1995, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

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

In accordance with generally accepted government auditing standards, we have also issued reports dated December 4, 1996, regarding our consideration of the agency's internal control structure and its compliance with laws and regulations.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/tp

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
COMPARATIVE BALANCE SHEETS
JUNE 30, 1996, AND JUNE 30, 1995
(Expressed in Thousands)

	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 147,577	$ 109,776
Short-term investments (Note 2)	126,727	33,271
Receivables:		
Accounts	3,419	4,454
Interest	18,155	17,496
First mortgage loans	22,580	21,482
Due from federal government	408	-
Total current assets	318,866	186,479
Other assets:		
Long-term investments (Note 2)	407,687	356,675
First mortgage loans receivable	1,230,550	1,240,267
Deferred charges	2,536	2,627
Other receivables	24	40
Total other assets	1,640,797	1,599,609
Fixed assets:		
Office furniture and fixtures	596	488
Less: accumulated depreciation	(412)	(248)
Total fixed assets	184	240
Total assets	$ 1,959,847	$ 1,786,328
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Warrants payable	$ 883	$ 1,252
Checks payable (Note 3)	3,537	5,059
Accounts payable and accruals	4,332	2,350
Due to primary government	4	15,035
Interest payable	53,165	51,511
Escrow deposits payable	10,647	10,583
Prepayments on mortgage loans	1,045	1,406
Deferred revenue	1,156	2,128
Bonds payable (Note 4)	50,185	34,938
Total current liabilities	124,954	124,262

Exhibit A (Cont.)

TENNESSEE HOUSING DEVELOPMENT AGENCY
COMPARATIVE BALANCE SHEETS
JUNE 30, 1996, AND JUNE 30, 1995
(Expressed in Thousands)

	1996	1995
Noncurrent liabilities:		
Bonds payable (Note 4)	1,598,341	1,457,792
Less: Unamortized bond discount	(10,968)	(11,823)
Unamortized bond refunding costs	(958)	(497)
Total noncurrent liabilities	1,586,415	1,445,472
Total liabilities	1,711,369	1,569,734
Equity:		
Contributed capital (Note 5)	2,500	2,500
Retained earnings:		
Reserved for HOUSE Program (Note 5)	57,603	55,892
Reserved for Mortgage Finance Program Bonds (Note 5)	17,974	11,702
Reserved for Homebuyers Revolving Loan Program (Note 5)	122	78
Unreserved (Note 7)	170,279	146,422
Total retained earnings	245,978	214,094
Total equity	248,478	216,594
Total liabilities and equity	$ 1,959,847	$ 1,786,328

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

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995
(Expressed in Thousands)

	1996	1995
OPERATING REVENUES		
Interest income:		
Mortgages	$ 101,837	$ 99,138
Investments	34,019	30,490
Fees and other income	705	715
Total operating revenues	136,561	130,343
OPERATING EXPENSES		
Salaries and benefits	2,784	2,802
Contractual services	597	571
Materials and supplies	99	261
Rentals and insurance	358	316
Other administrative expenses	119	193
Other program expenses	360	374
Interest expense	102,032	97,658
Mortgage service fees	4,429	4,183
Bond issuance costs	231	128
Depreciation	166	69
Total operating expenses	111,175	106,555
Operating income	25,386	23,788
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	36,845	35,301
Gain on sale of investments	2,698	11
Interdepartmental tax revenue	12,806	11,212
Federal grants expenses	(36,845)	(35,301)
Local grants expenses	(8,644)	(7,989)
Total nonoperating revenues (expenses)	6,860	3,234
Net income before transfer and extraordinary loss	32,246	27,022
Operating transfers to primary government	-	(15,000)
Income before extraordinary loss	32,246	12,022
Extraordinary loss on early retirement of debt (Note 4)	(362)	(978)
Net income	31,884	11,044
Retained earnings, July 1	214,094	203,050
Retained earnings, June 30	$ 245,978	$ 214,094

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

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995
(Expressed in Thousands)

	1996	1995
Cash flows from operating activities:		
Operating income	$ 25,386	$ 23,788
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	284	(66)
Changes in assets and liabilities:		
Decrease in accounts receivable	1,035	2,053
(Increase) in interest receivable	(403)	(1,049)
(Increase) decrease in first mortgage loans receivable	8,619	(122,385)
(Increase) decrease in due from federal government	(87)	1,247
Decrease in deferred charges	28	87
Decrease in other receivables	16	-
(Decrease) in warrants payable	(369)	(545)
Increase (decrease) in accounts payable	1,685	(20)
Increase (decrease) in due to primary government	(31)	6
Increase (decrease) in deferred revenue	(1,115)	807
Investment income included as operating revenue	(34,019)	(30,490)
Bond interest expense included as operating expense	102,032	97,658
Total adjustments	77,675	(52,697)
Net cash provided (used) by operating activities	103,061	(28,909)
Cash flows from noncapital financing activities:		
Operating grants received	36,845	35,301
Operating transfer to primary government	(15,000)	-
Taxes received	12,806	11,212
Negative cash balance implicitly financed	(1,522)	(1,544)
Proceeds from sale of bonds	304,726	277,478
Operating grants paid	(45,489)	(43,290)
Cost of issuance paid	(378)	(582)
Principal payments	(151,639)	(148,025)
Interest paid	(97,492)	(91,754)
Net cash provided by noncapital financing activities	42,857	38,796
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(110)	(126)
Net cash used by capital and related financing activities	(110)	(126)

Exhibit C (Cont.)

TENNESSEE HOUSING DEVELOPMENT AGENCY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995
(Expressed in Thousands)

	1996	1995
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	501,331	611,983
Purchases of investments	(643,101)	(637,372)
Investment interest received	33,763	28,972
Net cash provided (used) by investing activities	(108,007)	3,583
Net increase in cash and cash equivalents	37,801	13,344
Cash and cash equivalents, July 1	109,776	96,432
Cash and cash equivalents, June 30	$ 147,577	$ 109,776
Noncash investing, capital, and financing activities:		
Disposition of fixed assets	$ 3	$ -
Accretion of deep discount bonds	2,174	2,250
Total noncash investing, capital, and financing activities	$ 2,177	$ 2,250

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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 non-profit 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 1974, 1981, and 1985 bond resolutions. 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. Depreciation

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.

e. Bond Issuance Costs, Discounts, 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 Discount and Refunding Costs: The agency amortizes bond discount using the bonds outstanding method over the life of the related bond issue. Bond refunding costs are amortized using the straight-line method. The bonds outstanding method approximates the effective

interest method of amortization. Bonds payable are reported net of the applicable unamortized bond discount and unamortized bond refunding costs.

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.

f. 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.

g. 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 cost or amortized cost.

h. Accrual of Interest Income

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

i. Mortgages

Mortgages are carried at their original amount less principal collected.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

Deposits with financial institutions are required to be categorized to indicate the level of custodial risk assumed by the agency. Category 1 consists of deposits insured or collateralized with securities held by the agency or by its agent in the agency's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the agency's name. Category 3 deposits are uncollateralized. This includes any bank balance collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the agency's name.

At June 30, 1996, the carrying amount of the agency's demand deposits was ($3,536,377) and the bank balance was $1,777,214. The carrying amount and bank balance of the savings deposits were $20,725,915. All bank balances are category 1.

At June 30, 1995, the carrying amount of the agency's demand deposits was ($5,059,019) and the bank balance was $888,377. Of the $888,377 bank balance, $100,000 was category 1 and $788,377 was category 3. Of the $788,377 in category 3, $785,000 was temporarily invested in repurchase agreements in accordance with the agency's corporate sweep account agreement and would be considered category 3 because the underlying securities were held by the counterparty. The carrying amount and bank balance of the savings deposits were $12,675,082. The entire bank balance was category 1.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $26,399,138 on June 30, 1996, and $32,122,836 on June 30, 1995.

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 counter-party'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. Investments are categorized as follows:

	June 30, 1996				
	Category			Carrying	Market
	1	2	3	Amount	Value
Cash equivalents and short-term investments					
Repurchase agreements	$ 83,500,000			$ 83,500,000	$ 83,642,324
U.S. government securities	143,678,465			143,678,465	142,563,926
Total cash equivalents and short-term investments	227,178,465			227,178,465	226,206,250
Long-term investments					
U.S. government securities	399,067,014			399,067,014	411,278,887
Citibank investment agreement	7,768,600			7,768,600	7,768,600
State and local government securities	851,649			851,649	862,632
Total long-term investments	407,687,263			407,687,263	419,910,119
Total	$634,865,728			$634,865,728	$646,116,369

	June 30, 1995				
	Category			Carrying	Market
	1	2	3	Amount	Value
Cash equivalents and short-term investments					
Repurchase agreements	$ 75,722,535		$ 647,465	$ 76,370,000	$ 76,370,000
U.S. government securities	21,879,106		-	21,879,106	21,919,616
Total cash equivalents and short-term investments	97,601,641		647,465	98,249,106	98,289,616
Long-term investments					
U.S. government securities	348,073,108		-	348,073,108	373,465,902
Citibank investment agreement	7,768,600		-	7,768,600	7,768,600
State and local government securities	831,762		-	831,762	857,638
Total long-term investments	356,673,470		-	356,673,470	382,092,140
Total	$454,275,111		$ 647,465	$454,922,576	$480,381,756

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. REVENUE BONDS PAYABLE

a. Bonds Issued and Outstanding

The following tables are a summary of bonds issued and outstanding as of June 30, 1996, and June 30, 1995:

	BONDS ISSUED (Thousands)						BONDS OUTSTANDING (Thousands)	
	SERIAL BONDS			TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	6/30/96	6/30/95
Mortgage Finance Program Bonds								
1993A	1/1/99-7/1/08	$136,420	4.70 to 5.70	7/1/10	$ 15,365	5.80		
				7/1/13	25,540	5.85		
				7/1/18	28,815	5.90		
				7/1/28	59,770	5.95	$ 265,910	$ 265,910
1994A	1/1/96-7/1/09	14,760	4.40 to 6.35	1/1/19	20,835	6.40		
				7/1/25	24,405	6.90	59,655	60,000
1994B	1/1/96-7/1/11	30,095	4.50 to 6.40	7/1/14	10,015	6.45		
				7/1/19	21,810	6.55		
				7/1/25	38,080	6.60	100,000	100,000
1995A	1/1/97-7/1/08	14,270	5.45 to 6.55	7/1/10	3,735	6.65		
				7/1/14	9,350	6.85		
				7/1/20	20,485	7.05		
				7/1/26	32,160	7.125	80,000	80,000
1995B				7/1/15	3,135	6.15		
				7/1/18	12,155	6.20	15,290	15,290
1995C	1/1/97-7/1/09	22,990	4.80 to 5.95	7/1/15	15,300	6.10		
				7/1/21	14,685	6.45		
				7/1/26	31,735	6.55	84,710	84,710
Total Mortgage Finance Program Bonds		$218,535			$ 387,375		$ 605,565	$ 605,910
Homeownership Program Bonds								
Issue B				7/1/13	$ 16,550	8.00		
				7/1/16	1,418	8.70	$ -	$ 7,063
					Interest accretion		-	1,634
Issue C	7/1/88-7/1/00	$ 6,460	4.50 to 7.30	7/1/06	5,980	7.50		
				7/1/10	5,565	6.625		
				7/1/16	11,995	7.50	21,200	21,725
Issue D	7/1/88-7/1/02	11,575	4.25 to 7.00	7/1/07	7,565	7.25		
				7/1/18	30,860	7.375	45,395	46,155
Issue F	7/1/89-7/1/00	12,910	5.30 to 7.90	7/1/16	52,340	7.90		
				7/1/19	19,750	8.50	29,575	33,185
Issue G	7/1/89-7/1/02	16,345	5.25 to 7.50	7/1/06	8,500	7.65	11,145	13,015
Issue H				7/1/15	33,000	7.825		
				7/1/19	27,155	8.375	11,500	14,100

	BONDS ISSUED (Thousands)						BONDS OUTSTANDING (Thousands)	
	SERIAL BONDS			TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	6/30/96	6/30/95
Homeownership Program Bonds (cont.)								
Issue I	7/1/90-7/1/03	15,535	5.80 to 8.00	7/1/13	26,250	8.00		
				7/1/19	33,215	8.375	13,720	16,480
Issue J	7/1/92-7/1/03	6,010	6.25 to 7.40	7/1/08	4,555	7.625		
				7/1/17	14,435	7.75	23,515	23,925
Issue K	7/1/92-7/1/03	18,960	6.40 to 7.70	7/1/21	52,755	8.125		
				7/1/04 to		7.90 to		
				7/1/08	3,060	8.10	28,055	70,990
					Interest accretion		2,518	2,097
Issue L	7/1/91-7/1/03	21,240	6.60 to 8.00	7/1/12	11,890	8.125		
				7/1/20	38,625	8.25		
				7/1/04 to		8.20 to		
				7/1/08	3,189	8.40	30,339	31,699
					Interest accretion		2,679	2,221
Issue M				7/1/17	28,740	7.125	26,225	27,240
Issue N	7/1/91-7/1/08	29,000	6.70 to 7.50	7/1/11	8,725	7.60		
				7/1/20	19,275	7.65	52,160	53,240
Issue O	7/1/91-7/1/05	21,580	6.40 to 7.50	7/1/09	10,675	7.70		
				7/1/20	51,745	7.75	79,025	80,150
Issue P	7/1/97-7/1/10	17,540	6.85 to 7.50	7/1/16	22,460	7.70	32,728	35,083
					Interest accretion		6,592	5,313
Issue Q				7/1/22	35,000	7.95	25,835	28,220
Issue S	7/1/92-7/1/05	16,210	6.20 to 7.40	7/1/10	10,985	7.50		
				7/1/22	51,405	7.625	71,565	72,400
Issue T	7/1/92-7/1/02	9,560	5.00 to 6.75	7/1/11	15,875	7.30		
				7/1/23	46,940	7.375	69,680	70,420
Issue U	7/1/00-7/1/06	10,570	6.40 to 6.95	7/1/11	11,460	7.35		
				7/1/16	15,660	7.40	28,350	30,630
Issue V	7/1/92-7/1/99	7,725	5.30 to 6.55	7/1/22	29,585	7.65	29,025	29,815
Issue WR	7/1/94-7/1/07	15,020	4.25 to 6.45	7/1/12	9,725	6.70		
				7/1/17	25,155	6.80	46,980	49,490
Issue XR				7/1/22	8,555	6.875	8,555	8,555
Issue Y1	1/1/95-7/1/07	4,860	3.50 to 5.60	7/1/13	3,660	5.80		
				7/1/17	3,245	5.90	11,030	11,625
Issue Z1	1/1/95-7/1/07	5,505	3.75 to 5.85	7/1/13	3,535	6.00		
				7/1/23	16,250	5.375		
				7/1/24	12,945	6.10	34,280	37,080
Issue Y2	1/1/04-7/1/07	1,520	5.00 to 5.20	7/1/13	2,965	5.45		
				7/1/17	2,575	5.55	6,890	7,060

	BONDS ISSUED (Thousands)						BONDS OUTSTANDING (Thousands)	
	SERIAL BONDS			TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	6/30/96	6/30/95
Homeownership Program Bonds (cont.)								
Issue Z2	1/1/95-7/1/03	3,790	3.50 to 5.00	7/1/23	12,000	5.00		
				7/1/24	7,150	5.75	21,035	22,710
1994-1				1/1/98	9,500	5.20		
				1/1/99	24,000	5.50	33,500	33,500
1995-1	1/1/97-7/1/10	16,965	4.35 to 6.05	7/1/16	13,060	6.35		
				7/1/21	15,635	6.40		
				1/1/26	19,340	6.48	29,400	-
1996-1A	1/1/97	290	4.00	7/1/98 to		4.10 to		
				1/1/26	38,905	5.85	39,195	-
1996-1B	7/1/10-1/1/11	805	5.35 to 5.45				805	-
1996-1C				2/6/97	40,465	3.25	40,465	-
1996-2A	1/1/98-7/1/14	20,310	4.40 to 6.15	7/1/16	4,675	6.00		
				7/1/22	18,360	6.35		
				1/1/27	18,835	6.375	62,180	-
1996-2B	7/1/09-1/1/11	2,820	5.70 to 5.75				2,820	-
1996-3				5/29/97	65,000	3.85	65,000	-
Total Homeownership Program Bonds		$ 293,105			$1,142,717		$1,042,961	$ 886,820
Total All Issues		$ 511,640			$1,530,092		$1,648,526	$1,492,730

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 1996, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
1997	$ 57,585	$ 100,998	$ 158,583
1998	94,899	99,955	194,854
1999	53,633	96,951	150,584
2000	38,031	94,313	132,344
2001	38,112	92,879	130,991
2002-2029	1,343,509	1,261,481	2,604,990
Total	$1,625,769	$1,746,577	$3,372,346

The debt principal above is $11,789 million less than that presented in the accompanying financial statements. This amount, representing the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds, has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2005-2018) in which the bonds mature.

c. Redemption of Bonds

During the year ended June 30, 1996, bonds were retired at par before maturity in the Homeownership Program Bonds in the amount of $26,397,998. The carrying value of these bonds was $26,036,569. This resulted in a loss to the Homeownership Program of $361,429 attributable to unamortized bond discount and issuance costs associated with the redeemed bonds.

On November 15, 1995, the agency issued $29,795,000 in short-term bonds due May 2, 1996. $28,995,000 of these proceeds were used for refunding of certain bonds outstanding in each of the issues 1986F, 1986G, 1986H, 1987I, 1988K, 1990Q, 1992Z1, and 1992Z2. The carrying amount of those bonds was $28,686,887. The refunding resulted in a difference of $308,113 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 2017.

On February 21, 1996, the agency issued $80,465,000 in Homeownership Program Bonds, of which $50,670,000 was used for refunding certain bonds outstanding in each of the issues 1988K, 1990Q, and 1995-1. The carrying amount of those bonds was $50,451,964. The refunding resulted in a difference of $218,036 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 2026. The remaining $29,795,000 was used to pay at maturity on May 2, 1996, the short-term bonds (Issue 1995-2&3) discussed in the preceding paragraph.

The refundings were accomplished using proceeds of short-term bonds, which will in turn be refunded upon maturity; therefore the full economic impact of these refundings was not determined as of June 30, 1996.

During the year ended June 30, 1995, bonds were retired at par before maturity in the Homeownership Program Bonds in the amount of $83,260,000. The carrying value of these bonds was $82,282,458. This resulted in a loss to the Homeownership Program Bonds of $977,542 attributable to unamortized bond discount and issuance costs associated with the redeemed bonds.

On April 26, 1995, the agency issued $100,000,000 in Mortgage Finance Program Bonds with an average interest rate of 5.32 percent, $52,720,000 of which was used for retirement, at par, of certain bonds outstanding in each of the issues 1986B, 1988L, 1989M, 1990P/Q, and 1991U. The carrying amount of those bonds was $52,257,136. The refunding resulted in a difference of $462,864 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 2022. The agency completed the refunding to reduce its total debt service payments over the next 31 years by $50,990,513 and realized an economic gain (the difference between the present value of the old and new debt service payments) of $25,878,977.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 1996

Date of Call	Issue	Par Value	Carrying Amount	Loss	Deferred Amount	Source of Funds
Homeownership Program Bonds						
07/01/95	86F	$ 1,295,000	$ 1,281,684	$ (13,316)	$ -	Prepayments
07/01/95	86G	285,000	282,120	(2,880)	-	Prepayments
07/01/95	86H	1,100,000	1,088,882	(11,118)	-	Prepayments
07/01/95	87I	1,065,000	1,054,657	(10,343)	-	Prepayments
07/01/95	92Z1	800,000	792,246	(7,754)	-	Prepayments
07/01/95	92Z2	400,000	396,146	(3,854)	-	Prepayments
07/24/95	86B	7,062,998	6,901,580	(161,418)	-	Prepayments
07/24/95	88K	4,680,000	4,627,071	(52,929)	-	Prepayments
07/24/95	89M	260,000	256,450	(3,550)	-	Prepayments
07/24/95	90P	475,000	471,539	(3,461)	-	Prepayments
07/24/95	90Q	745,000	739,572	(5,428)	-	Prepayments
07/24/95	91U	990,000	978,734	(11,266)	-	Prepayments
11/27/95	88K	22,325,000	22,077,809	-	(247,191)	Current Refunding
11/27/95	89M	495,000	488,380	(6,620)	-	Prepayments

Year Ended June 30, 1996

Date of Call	Issue	Par Value	Carrying Amount	Loss	Deferred Amount	Source of Funds
Homeownership Program Bonds (cont.)						
11/27/95	90P	1,385,000	1,375,099	(9,901)	-	Prepayments
11/27/95	90Q	1,210,000	1,201,350	-	(8,650)	Current Refunding
11/27/95	91U	735,000	726,796	(8,204)	-	Prepayments
11/27/95	91Wr	1,020,000	1,007,268	(12,732)	-	Prepayments
11/27/95	92Y1	310,000	307,062	(2,938)	-	Prepayments
11/27/95	92Y2	170,000	168,399	(1,601)	-	Prepayments
01/01/96	86F	1,245,000	1,232,709	-	(12,291)	Current Refunding
01/01/96	86G	75,000	74,276	(724)	-	Prepayments
01/01/96	86G	415,000	410,992	-	(4,008)	Current Refunding
01/01/96	87H	235,000	232,730	(2,270)	-	Prepayments
01/01/96	86H	1,265,000	1,252,781	-	(12,219)	Current Refunding
01/01/96	87I	40,000	39,633	(367)	-	Prepayments
01/01/96	87I	955,000	946,230	-	(8,770)	Current Refunding
01/01/96	92Z1	540,000	534,869	(5,131)	-	Prepayments
01/01/96	92Z1	1,020,000	1,010,308	-	(9,692)	Current Refunding
01/01/96	92Z2	240,000	237,732	(2,268)	-	Prepayments
01/01/96	92Z2	560,000	554,708	-	(5,292)	Current Refunding
03/20/96	88K	14,640,000	14,481,444	-	(158,556)	Current Refunding
03/20/96	89M	260,000	256,590	(3,410)	-	Prepayments
03/20/96	90P	495,000	491,525	(3,475)	-	Prepayments
03/20/96	90Q	430,000	426,981	-	(3,019)	Current Refunding
03/20/96	91U	555,000	548,916	(6,084)	-	Prepayments
03/20/96	91Wr	685,000	676,613	(8,387)	-	Prepayments
03/20/96	95-1	35,600,000	35,543,539	-	(56,461)	Current Refunding
Total		$106,062,998	$105,175,420	$ (361,429)	$ (526,149)	

Year Ended June 30, 1995

Date of Call	Issue	Par Value	Carrying Amount	Loss	Deferred Amount	Source of Funds
Homeownership Program Bonds						
07/01/94	86F	$ 1,440,000	$ 1,424,809	$ (15,191)	$ -	Prepayments
07/01/94	86G	1,540,000	1,523,846	(16,154)	-	Prepayments
07/01/94	86H	13,570,000	13,427,658	(142,342)	-	Prepayments
07/01/94	87I	12,940,000	12,761,425	(178,575)	-	Prepayments
07/01/94	90P	470,000	466,376	(3,624)	-	Prepayments
07/01/94	90Q	745,000	739,256	(5,744)	-	Prepayments

Year Ended June 30, 1995

Date of Call	Issue	Par Value	Carrying Amount	Loss	Deferred Amount	Source of Funds
Homeownership Program Bonds (cont.)						
08/26/94	86H	7,815,000	7,733,785	(81,215)	-	Prepayments
08/26/94	87I	9,415,000	9,281,068	(133,932)	-	Prepayments
08/26/94	90P	695,000	689,683	(5,317)	-	Prepayments
08/26/94	90Q	1,105,000	1,096,546	(8,454)	-	Prepayments
11/01/94	86H	5,270,000	5,215,895	(54,105)	-	Prepayments
11/01/94	87I	6,350,000	6,257,174	(92,826)	-	Prepayments
11/01/94	90P	350,000	347,347	(2,653)	-	Prepayments
11/01/94	90Q	550,000	545,832	(4,168)	-	Prepayments
01/01/95	86F	2,360,000	2,335,557	(24,443)	-	Prepayments
01/01/95	86G	725,000	717,649	(7,351)	-	Prepayments
01/01/95	86H	6,800,000	6,731,049	(68,951)	-	Prepayments
01/01/95	87I	7,190,000	7,082,828	(107,172)	-	Prepayments
01/01/95	88L	2,085,000	2,075,691	(9,309)	-	Prepayments
01/01/95	90P	355,000	352,333	(2,667)	-	Prepayments
01/01/95	90Q	545,000	540,906	(4,094)	-	Prepayments
03/01/95	92Z1	945,000	935,745	(9,255)	-	Prepayments
05/08/95	86B	10,905,000	10,623,053	-	(281,947)	Current Refunding
05/08/95	88L	36,260,000	36,101,587	-	(158,413)	Current Refunding
05/08/95	89M	1,500,000	1,495,838	-	(4,162)	Current Refunding
05/08/95	90P	1,225,000	1,217,700	-	(7,300)	Current Refunding
05/08/95	90Q	1,195,000	1,187,879	-	(7,121)	Current Refunding
05/08/95	91U	1,635,000	1,631,079	-	(3,921)	Current Refunding
Total		$135,980,000	$134,539,594	$ (977,542)	$ (462,864)	

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.

NOTE 5. EQUITY

Retained earnings reserved for the Mortgage Finance Program Bonds represent the equity that is unavailable for transfer to the operating group from the other funds established under the 1974 Bond Resolution.

The $2,500,000 shown as contributed capital on the balance sheet is an appropriation by the State of Tennessee for the Homebuyers Revolving Loan Program, a pilot demonstration program to fund low interest mortgages. Earnings from the Homebuyers Revolving Loan Program are reserved for use in the Homebuyers Revolving Loan Program.

Effective July 1, 1988, the legislature of the State of Tennessee established the assets fund, the housing program fund, and the housing program reserve fund (HPRF). This legislation restricts to specific uses all agency funds that are not necessary to support the bond and note obligations and which can be withdrawn from the specific funds of the various bond resolutions as provided under the resolutions. These uses include supporting the rental rehabilitation program, construction loans, grants to local governments and nonprofit organizations, and agency operating expenses.

Initially an amount of $49,018,410 was transferred on the books of the agency to the assets fund from the general fund. In addition to the funds provided by the agency, a portion of the real estate transfer taxes and the mortgage taxes levied by the state have been permanently allocated to the housing program fund. The permanent status of the tax allocation was approved by legislation on April 25, 1991.

NOTE 6. DEFINED BENEFIT PENSION PLAN

All of the agency's full-time employees participate in a cost-sharing multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The payroll for employees covered by the TCRS plan and total payroll were $3,778,759 for the year ended June 30, 1996, and $3,570,877 for the year ended June 30, 1995.

TCRS members may retire at age 60 with five years of service or at any age with 30 years of service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Benefits are based on the number of years of creditable service and highest average salary for five consecutive years. Members are vested after five years of service. The TCRS also provides death and disability benefits. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. Benefits are established and amended by state statute.

The agency is required by state statute, effective July 1, 1981, to contribute the amounts necessary to pay benefits when due. Prior to that date, the employee bore a portion of the contribution. Members with contributory service who leave the agency are eligible for a refund of their contributions along with contributions made after July 1, 1981, on the employees' behalf by the agency. The actuarially required contribution made for the year ended June 30, 1996, was $238,829, which represented 6.32% of the covered payroll, and for the year ended June 30, 1995, was $225,671, which represented 6.32% of the covered payroll.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the funding status of the TCRS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The TCRS does not make separate measurements of assets and pension benefit obligation for individual state employees. Therefore, the following information is provided for the entire state employee portion of the TCRS. The pension benefit obligation at June 30, 1996, and at June 30, 1995, determined through an actuarial update performed as of June 30, 1996, was $11,610.6 million and through an actuarial valuation performed as of June 30, 1995, was $10,697.4 million. The net assets, at cost or amortized cost, available for benefits were $12,925.0 million at June 30, 1996, and $11,566.8 million at June 30, 1995, leaving assets in excess of pension benefit obligation of $1,314.4 million at June 30, 1996, and $869.4 million at June 30, 1995. The market value of the net assets available for benefits was $14,100.9 million at June 30, 1996, and $12,552.1 million at June 30, 1995. The agency's 1996 and 1995 contributions represented 0.05% of total contributions required of all participating entities.

Ten-year historical trend information showing the TCRS' progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1996, *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report*.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by Veteran's Administration (VA). The agency's Board of Directors has designated $750,000 of unreserved retained earnings 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. PRIOR PERIOD RESTATEMENT

The Statement of Revenues, Expenses, and Changes in Retained Earnings for the year ended June 30, 1995, has been restated to reflect the appropriate display of the operating transfer. The operating transfer was placed after net income, thereby overstating net income before extraordinary item and net income by $15,000,000.

NOTE 11. SUBSEQUENT EVENTS

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

July 1, 1996	85 Resolution	$32,335,000
October 11, 1996	85 Resolution	$16,430,000

b. Homeownership Program Bonds, Issues 1996-4 and 1996-5, were sold September 19, 1996. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

	SERIAL BONDS			TERM BONDS		
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)
Homeownership Program Bonds						
1996-4A	7/1/98-7/1/11	$13,535	4.35 to 6.00	7/1/16	$ 8,975	6.05
				7/1/22	15,485	6.375
				1/1/27	16,400	6.45
1996-4B	1/1/11	605	5.85			
1996-5				8/21/97	60,000	4.00
	Total	$14,140			$100,860	

Exhibit D

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY COMPARATIVE BALANCE SHEETS
JUNE 30, 1996, AND JUNE 30, 1995

(Expressed in Thousands)

	1996				1995			
	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Totals	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Totals
ASSETS								
Current assets:								
Cash and cash equivalents	$ 25,162	$ 30,826	$ 91,589	$ 147,577	$ 29,955	$ 32,217	$ 48,047	$ 110,219
Short-term investments	2,000	10,330	114,397	126,727	770	15,557	16,944	33,271
Receivables:								
Accounts	1,144	815	1,460	3,419	1,150	778	2,526	4,454
Interest	966	5,990	11,199	18,155	931	5,859	10,706	17,496
First mortgage loans	273	10,377	11,930	22,580	280	9,331	11,871	21,482
Due from other funds	-	-	-	-	191	-	-	191
Due from federal government	408	-	-	408	321	-	-	321
Total current assets	29,953	58,338	230,575	318,866	33,598	63,742	90,094	187,434
Other assets:								
Long-term investments	49,120	130,184	228,383	407,687	52,245	146,763	157,667	356,675
First mortgage loans receivable	2,946	504,786	722,818	1,230,550	3,430	477,935	758,902	1,240,267
Deferred charges	2	738	1,796	2,536	30	780	1,817	2,627
Other receivables	-	-	24	24	-	-	40	40
Total other assets	52,068	635,708	953,021	1,640,797	55,705	625,478	918,426	1,599,609
Fixed assets:								
Office furniture and fixtures	596	-	-	596	488	-	-	488
Less: accumulated depreciation	(412)	-	-	(412)	(248)	-	-	(248)
Total fixed assets	184	-	-	184	240	-	-	240
Total assets	$ 82,205	$ 694,046	$ 1,183,596	$ 1,959,847	$ 89,543	$ 689,220	$ 1,008,520	$ 1,787,283
LIABILITIES AND EQUITY								
Liabilities:								
Current liabilities:								
Warrants payable	$ 865	$ 18	$ -	$ 883	$ 1,252	$ -	$ -	$ 1,252
Checks payable	-	875	2,662	3,537	-	5,502	-	5,502
Accounts payable and accruals	3,241	602	489	4,332	2,017	18	315	2,350
Due to primary government	4	-	-	4	15,035	-	-	15,035
Interest payable	-	22,755	30,410	53,165	-	20,668	30,843	51,511
Escrow deposits payable	-	10,608	39	10,647	-	10,540	43	10,583
Prepayments on mortgage loans	-	410	635	1,045	-	571	835	1,406
Deferred revenue	-	23	1,133	1,156	13	1,127	1,309	2,449
Due to other funds	-	-	-	-	-	191	-	191
Bonds payable	-	3,010	47,175	50,185	-	345	34,593	34,938
Total current liabilities	4,110	38,301	82,543	124,954	18,317	38,962	67,938	125,217
Noncurrent liabilities:								
Bonds payable	-	602,555	995,786	1,598,341	-	605,565	852,227	1,457,792
Less: Unamortized bond discount	-	(3,762)	(7,206)	(10,968)	-	(3,977)	(7,846)	(11,823)
Unamortized bond refunding costs	-	-	(958)	(958)	-	-	(497)	(497)
Total noncurrent liabilities	-	598,793	987,622	1,586,415	-	601,588	843,884	1,445,472
Total liabilities	4,110	637,094	1,070,165	1,711,369	18,317	640,550	911,822	1,570,689
Equity:								
Contributed capital	-	2,500	-	2,500	-	2,500	-	2,500
Retained earnings:								
Reserved for HOUSE Program	57,603	-	-	57,603	55,892	-	-	55,892
Reserved for Mortgage Finance Program Bonds	-	17,974	-	17,974	-	11,702	-	11,702
Reserved for Homebuyers Revolving Loan Program	-	122	-	122	-	78	-	78
Unreserved	20,492	36,356	113,431	170,279	15,334	34,390	96,698	146,422
Total retained earnings	78,095	54,452	113,431	245,978	71,226	46,170	96,698	214,094
Total equity	78,095	56,952	113,431	248,478	71,226	48,670	96,698	216,594
Total liabilities and equity	$ 82,205	$ 694,046	$ 1,183,596	$ 1,959,847	$ 89,543	$ 689,220	$ 1,008,520	$ 1,787,283

Exhibit E

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995
(Expressed in Thousands)

	1996				1995			
	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Totals	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Totals
OPERATING REVENUES								
Interest income:								
Mortgages	$ 318	$ 38,368	$ 63,151	$ 101,837	$ 357	$ 27,609	$ 71,172	$ 99,138
Investments	5,258	8,721	20,040	34,019	5,366	8,725	16,399	30,490
Fees and other income	536	166	3	705	374	316	25	715
Total operating revenues	6,112	47,255	83,194	136,561	6,097	36,650	87,596	130,343
OPERATING EXPENSES								
Salaries and benefits	2,784	-	-	2,784	2,802	-	-	2,802
Contractual services	597	-	-	597	570	-	-	570
Materials and supplies	99	-	-	99	261	-	-	261
Rentals and insurance	358	-	-	358	316	-	-	316
Other administrative expenses	119	-	-	119	193	-	-	193
Other program expenses	-	120	240	360	7	98	270	375
Interest expense	-	37,004	65,028	102,032	-	28,067	69,591	97,658
Mortgage service fees	6	1,698	2,725	4,429	7	1,139	3,037	4,183
Bond issuance costs	-	42	189	231	-	16	112	128
Depreciation	166	-	-	166	69	-	-	69
Total operating expenses	4,129	38,864	68,182	111,175	4,225	29,320	73,010	106,555
Operating income	1,983	8,391	15,012	25,386	1,872	7,330	14,586	23,788
NONOPERATING REVENUES (EXPENSES)								
Federal grants revenue	36,845	-	-	36,845	35,301	-	-	35,301
Gain on sale of investments	533	147	2,018	2,698	-	11	-	11
Interdepartmental tax revenue	12,806	-	-	12,806	11,212	-	-	11,212
Federal grants expenses	(36,845)	-	-	(36,845)	(35,301)	-	-	(35,301)
Local grants expenses	(8,644)	-	-	(8,644)	(7,989)	-	-	(7,989)
Total nonoperating revenues (expenses)	4,695	147	2,018	6,860	3,223	11	-	3,234
Net income before transfer and extraordinary loss	6,678	8,538	17,030	32,246	5,095	7,341	14,586	27,022
Transfer (to) from other funds	191	(256)	65	-	220	(220)	-	-
Operating transfers to primary government	-	-	-	-	(15,000)	-	-	(15,000)
Income before extraordinary loss	6,869	8,282	17,095	32,246	(9,685)	7,121	14,586	12,022
Extraordinary loss on early retirement of debt	-	-	(362)	(362)	-	-	(978)	(978)
Net income (loss)	6,869	8,282	16,733	31,884	(9,685)	7,121	13,608	11,044
Retained earnings, July 1	71,226	46,170	96,698	214,094	80,911	39,049	83,090	203,050
Retained earnings, June 30	$ 78,095	$ 54,452	$ 113,431	$ 245,978	$ 71,226	$ 46,170	$ 96,698	$ 214,094

Exhibit F

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995
(Expressed in Thousands)

	1996				1995			
	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Totals	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Totals
Cash flows from operating activities:								
Operating income	$ 1,983	$ 8,391	$ 15,012	$ 25,386	$ 1,872	$ 7,330	$ 14,586	$ 23,788
Adjustments to reconcile operating income to net cash provided (used) by operating activities:								
Depreciation and amortization	166	40	78	284	69	15	(150)	(66)
Changes in assets and liabilities:								
(Increase) decrease in accounts receivable	6	(37)	1,066	1,035	(21)	38	2,036	2,053
(Increase) decrease in interest receivable	4	(917)	510	(403)	17	(1,139)	73	(1,049)
(Increase) decrease in first mortgage loans receivable	491	(27,897)	36,025	8,619	1,294	(211,812)	88,133	(122,385)
(Increase) decrease in due from federal government	(87)	-	-	(87)	-	1,247	-	1,247
(Increase) decrease in deferred charges	28	-	-	28	(24)	111	-	87
(Increase) decrease in other receivables	-	-	16	16	-	-	-	-
(Increase) decrease in interfund receivables	191	-	-	191	(6)	77	-	71
Increase (decrease) in interfund payables	-	(191)	-	(191)	(77)	6	-	(71)
Increase (decrease) in warrants payable	(387)	18	-	(369)	1,208	(1,753)	-	(545)
Increase (decrease) in accounts payable	1,224	491	(30)	1,685	1,288	(756)	(552)	(20)
Increase (decrease) in due to primary government	(31)	-	-	(31)	6	-	-	6
Increase (decrease) in deferred revenue	(13)	(1,102)	-	(1,115)	(308)	1,115	-	807
Investment income included as operating revenue	(5,258)	(8,721)	(20,040)	(34,019)	(5,356)	(8,735)	(16,399)	(30,490)
Bond interest expense included as operating expense	-	37,004	65,028	102,032	-	28,067	69,591	97,658
Total adjustments	(3,666)	(1,312)	82,653	77,675	(1,910)	(193,519)	142,732	(52,697)
Net cash provided (used) by operating activities	(1,683)	7,079	97,665	103,061	(38)	(186,189)	157,318	(28,909)
Cash flows from noncapital financing activities:								
Operating grants received	36,845	-	-	36,845	35,301	-	-	35,301
Operating transfers in (out)	191	(256)	65	-	220	(220)	-	-
Operating transfer to primary government	(15,000)	-	-	(15,000)	-	-	-	-
Taxes received	12,806	-	-	12,806	11,212	-	-	11,212
Negative cash balance implicitly financed	-	(4,627)	2,662	(1,965)	-	(1,859)	-	(1,859)
Proceeds from sale of bonds	-	-	304,726	304,726	-	277,478	-	277,478
Operating grants paid	(45,489)	-	-	(45,489)	(43,290)	-	-	(43,290)
Cost of issuance paid	-	-	(378)	(378)	-	(530)	(52)	(582)
Principal payments	-	(345)	(151,294)	(151,639)	-	-	(148,025)	(148,025)
Interest paid	-	(34,702)	(62,790)	(97,492)	-	(19,025)	(72,729)	(91,754)
Net cash provided (used) by noncapital financing activities	(10,647)	(39,930)	92,991	42,414	3,443	255,844	(220,806)	38,481
Cash flows from capital and related financing activities:								
Acquisition of fixed assets	(110)	-	-	(110)	(126)	-	-	(126)
Net cash used by capital and related financing activities	(110)	-	-	(110)	(126)	-	-	(126)
Cash flows from investing activities:								
Proceeds from sales and maturities of investments	14,158	174,100	313,073	501,331	16,000	312,824	283,159	611,983
Purchases of investments	(11,730)	(152,147)	(479,224)	(643,101)	(13,571)	(375,416)	(248,385)	(637,372)
Investment interest received	5,219	9,507	19,037	33,763	5,464	6,927	16,581	28,972
Net cash provided (used) by investing activities	7,647	31,460	(147,114)	(108,007)	7,893	(55,665)	51,355	3,583
Net increase (decrease) in cash and cash equivalents	(4,793)	(1,391)	43,542	37,358	11,172	13,990	(12,133)	13,029
Cash and cash equivalents, July 1	29,955	32,217	48,047	110,219	18,783	18,227	60,180	97,190
Cash and cash equivalents, June 30	$ 25,162	$ 30,826	$ 91,589	$ 147,577	$ 29,955	$ 32,217	$ 48,047	$ 110,219
Noncash investing, capital, and financing activities:								
Disposition of fixed assets	$ 3	$ -	$ -	$ 3	$ -	$ -	$ -	$ -
Accretion of deep discount bonds	-	-	2,174	2,174	-	-	2,250	2,250
Total noncash investing, capital, and financing activities	$ 3	$ -	$ 2,174	$ 2,177	$ -	$ -	$ 2,250	$ 2,250

Exhibit G

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY BALANCE SHEET - OPERATING GROUP
JUNE 30, 1996
(Expressed in Thousands)

	Assets Fund	Housing Program Fund	Housing Program Reserve Fund	Operating Group Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,001	$ 25,811	$ (1,650)	$ 25,162
Short-term investments	2,000	-	-	2,000
Receivables:				
Accounts	2	1,142	-	1,144
Interest	874	-	92	966
First mortgage loans	273	-	-	273
Due from other funds	-	-	3,795	3,795
Due from federal government	-	408	-	408
Total current assets	4,150	27,361	2,237	33,748
Other assets:				
Long-term investments	43,384	-	5,736	49,120
First mortgage loans receivable	2,946	-	-	2,946
Deferred charges	-	2	-	2
Total other assets	46,330	2	5,736	52,068
Fixed assets:				
Office furniture and fixtures	-	596	-	596
Less: accumulated depreciation	-	(412)	-	(412)
Total fixed assets	-	184	-	184
Total assets	$ 50,480	$ 27,547	$ 7,973	$ 86,000
LIABILITIES AND EQUITY				
Liabilities:				
Warrants payable	$ -	$ 865	$ -	$ 865
Accounts payable and accruals	-	3,241	-	3,241
Due to primary government	-	4	-	4
Due to other funds	850	2,945	-	3,795
Total liabilities	850	7,055	-	7,905
Equity:				
Retained earnings:				
Reserved for HOUSE Program	49,630	-	7,973	57,603
Unreserved	-	20,492	-	20,492
Total equity	49,630	20,492	7,973	78,095
Total liabilities and equity	$ 50,480	$ 27,547	$ 7,973	$ 86,000

Exhibit H

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY BALANCE SHEET - MORTGAGE FINANCE PROGRAM
JUNE 30, 1996
(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	$ 26,282	$ 3,842	$ 30,124	$ 702	$ 30,826
Short-term investments	1,234	6,996	8,230	2,100	10,330
Receivables:					
Accounts	708	107	815	-	815
Interest	5,379	420	5,799	191	5,990
First mortgage loans	10,314	63	10,377	-	10,377
Total current assets	43,917	11,428	55,345	2,993	58,338
Other assets:					
Long-term investments	91,765	26,510	118,275	11,909	130,184
First mortgage loans receivable	503,397	1,389	504,786	-	504,786
Deferred charges	738	-	738	-	738
Total other assets	595,900	27,899	623,799	11,909	635,708
Total assets	$ 639,817	$ 39,327	$ 679,144	$ 14,902	$ 694,046
LIABILITIES AND EQUITY					
Liabilities:					
Current liabilities:					
Warrants payable	$ -	$ 18	$ 18	$ -	$ 18
Checks payable	614	192	806	69	875
Accounts payable and accruals	602	-	602	-	602
Interest payable	18,391	-	18,391	4,364	22,755
Escrow deposits payable	-	151	151	10,457	10,608
Prepayments on mortgage loans	410	-	410	-	410
Deferred revenue	23	-	23	-	23
Bonds payable	3,010	-	3,010	-	3,010
Total current liabilities	23,050	361	23,411	14,890	38,301
Noncurrent liabilities:					
Bonds payable	602,555	-	602,555	-	602,555
Less: Unamortized bond discount	(3,762)	-	(3,762)	-	(3,762)
Total noncurrent liabilities	598,793	-	598,793	-	598,793
Total liabilities	621,843	361	622,204	14,890	637,094
Equity:					
Contributed capital	-	2,500	2,500	-	2,500
Retained earnings:					
Reserved for Mortgage Finance Program Bonds	17,974	-	17,974	-	17,974
Reserved for Homebuyers Revolving Loan Program	-	122	122	-	122
Unreserved	-	36,344	36,344	12	36,356
Total retained earnings	17,974	36,466	54,440	12	54,452
Total equity	17,974	38,966	56,940	12	56,952
Total liabilities and equity	$ 639,817	$ 39,327	$ 679,144	$ 14,902	$ 694,046

* 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.