Tennessee Housing Development Agency

For the Year Ended
June 30, 1997

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June 26, 1998

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, 1997. 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 a deficiency, which is detailed in the Results of the Audit section of this report. The agency's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/sk
97/111

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, 1997

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.

INTERNAL CONTROL FINDING

The Computer System for Section 8 Is Not Adequate
The agency's computer system cannot efficiently accommodate the increasing volume of Section 8 tenants and complex new HUD requirements. Also, the agency failed to retain copies of reports transmitted to HUD (page 9).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 1997

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Tennessee Housing Development Agency
For the Year Ended June 30, 1997

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.

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 fiscal administration—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 and reporting on federal grant funds.

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.

Fiscal Administration Division - This division is responsible for accounting, financial reporting, and 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.

AUDIT SCOPE

The audit was limited to the period July 1, 1996, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards 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, 1997, and for comparative purposes, the year ended June 30, 1996. 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.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

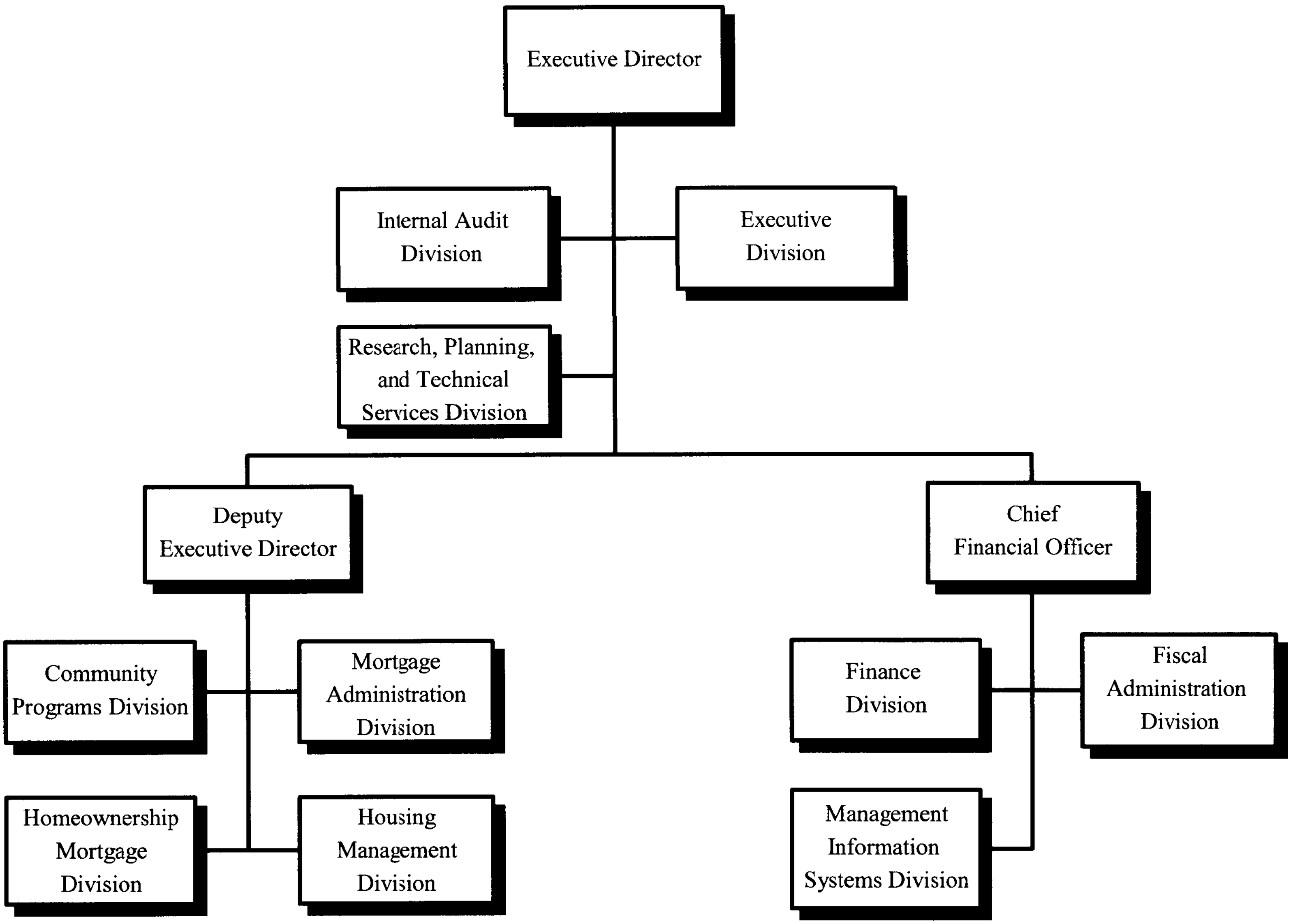
1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

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

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

4. to recommend appropriate actions to correct any deficiencies.

Tennessee Housing Development Agency
Organizational Chart



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, as amended by the Single Audit Act Amendments of 1996, and OMB Circular A-133.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

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 ending June 30, 1997, the Tennessee Housing Development Agency filed its compliance report and implementation plan on June 30, 1997.

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 ground 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

As part of the audit of the Tennessee Housing Development Agency's financial statements for the year ended June 30, 1997, 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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.

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 15, 1997

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, 1997, and have issued our report thereon dated December 15, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

<u>Internal Control Over Financial Reporting</u>

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 a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 condition was noted : The computer system for Section 8 is not adequate. This condition is described in the Finding and Recommendation 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, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting 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/sk

FINDING AND RECOMMENDATION

<u>The computer system for Section 8 is not adequate</u>

Finding

The agency's Housing Management Division maintains a computer system that contains information on all tenants participating in its U. S. Department of Housing and Urban Development (HUD) Section 8 program. One purpose of this system is to interface with the State of Tennessee Accounting and Reporting System (STARS) so that assistance payments can be issued. Another purpose is to accumulate information (such as names, dates of birth, social security numbers, expected income, unit address, rent to owner, and utility allowance) to be transmitted to HUD's Multifamily Tenant Characteristics System (MTCS) processing center.

Designed 11 years ago only to generate payment schedules, the agency's system has been reprogrammed frequently to cope with expanding demands. However, the system cannot efficiently accommodate the increasing volume of Section 8 tenants and complex new HUD requirements. The following weaknesses in the computer system were noted:

- When a tenant is relocating or terminating, agency personnel use a cumbersome method of deleting information (to prevent erroneous payments to tenants or landlords), reentering the same information to ensure accurate data is transmitted to MTCS, then deleting the information a final time.

- Tenant histories cannot be accessed on the agency's computer system. The only tenant histories available are printouts kept on file at the central office. However, these printouts are unreliable. For example, the printout for one tenant may contain information from another tenant's file. Update screens contain only current information, not histories, and information on the viewing screen is also undependable because data that has been overwritten or deleted may still appear.

- Because the nine field offices have no access to the computer system, information gathered there is manually sent to the central office to be entered into the system.

- In four of 40 files tested (10%), tenant information was not submitted to HUD. Relocation information should have been submitted in three of the four cases, and annual reexamination data should have been submitted for the fourth case.

- The agency's computer system cannot track total payments to individual Section 8 landlords during the calendar year; therefore, the agency cannot easily verify the state's list of Section 8 landlords who should receive IRS form 1099, which reports payments in excess of $600.

- Obsolescence and programming errors affect the accuracy and efficiency of the system, increasing the possibility of incorrect payments to tenants and landlords, errors in reporting to HUD, and noncompliance with HUD regulations.

In addition, after transmission to MTCS, staff of the Management Information Systems (MIS) Division deleted all error correction reports, all error analysis reports, and most of the files of resubmissions for the fiscal year ending June 30, 1997. The Director of the MIS Division indicated he was not aware of the requirement to retain information after transmission to HUD. HUD instructions for the submission of this data on Form 50058 state:

> Record Retention: Housing Agencies are required to retain copies of form HUD-50058 for a three-year period from the date of the latest transaction. This includes paper reports (including facsimiles) as well as electronic media (diskettes, tapes or memory).

Deleting information from the computer system after it has been transmitted to MTCS does not leave an adequate audit trail.

After the completion of the audit field work, the agency purchased new software to be used for the Section 8 program.

Recommendation

The Management Information Systems Division should install the new software as soon as possible and provide the necessary staff training to ensure reliable and accurate information.

Management's Comment

We concur. The computer system currently used for the Section 8 Certificate and Voucher Programs was custom designed for the agency approximately 11 years ago for the primary purpose of generating monthly housing assistance payments to tenants and owners. During the last several years, there have been numerous changes to the Section 8 program regulations. Two of the more significant changes were the creation of the Voucher Program and the requirement that housing authorities electronically transmit tenant and payment data to HUD monthly.

THDA responded to the new demands by making alterations to the existing computer system. However, the current system was not designed to meet the changing requirements, and the decision was made in late 1995 to purchase a new software package from a vendor. There are several vendors who sell software for the Section 8 Certificate and Voucher Program. However, most of the packages are designed for local housing authorities administering the pro-grams in a single locality. Few vendors have software capable of handling a multi-jurisdictional program, such as THDA's. In the first attempt to acquire new software (in early 1996), bids were received from three vendors, and a contract was signed. In August 1996, the contract was canceled when it became apparent that the software could not meet the specifications in the bid request and would not satisfy THDA's needs. In the second attempt to acquire new software (in February 1997), THDA requested proposals from vendors. While three bids were received, none was acceptable. THDA requested bids a third time (in the fall of 1997), and a contract was awarded in February 1998. The software has been installed, and it is anticipated that the new system will be fully operational by June 1, 1998.

While it took three attempts to acquire new software, THDA is confident that we made the right decisions by not accepting software which would not have met our needs nor satisfied the requirements of the Section 8 program. The delay was unfortunate, but it was imperative that the new software meet our needs. We are confident that the system being implemented will do that.

Independent Auditor's Report

December 15, 1997

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, 1997, and June 30, 1996, 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 generall y accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency, as of June 30, 1997, and June 30, 1996, 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 *Government Auditing Standards*, we have also issued our report dated December 15, 1997, 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.

Sincerely,

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

AAH/sk

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
COMPARATIVE BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996
(Expressed in Thousands)

	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 181,627	$ 147,577
Short-term investments (Note 2)	205,403	126,727
Receivables:		
Accounts	5,485	3,419
Interest	21,902	18,155
First mortgage loans	23,640	22,580
Due from federal government	108	429
Total current assets	438,165	318,887
Other assets:		
Long-term investments (Note 2)	419,109	407,687
First mortgage loans receivable	1,226,883	1,230,550
Deferred charges	2,789	2,536
Other receivables	24	24
Total other assets	1,648,805	1,640,797
Fixed assets:		
Office furniture and fixtures	540	596
Less: accumulated depreciation	(410)	(412)
Total fixed assets	130	184
Total assets	$ 2,087,100	$ 1,959,868
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Warrants payable	$ 1,734	$ 883
Checks payable (Note 3)	1,468	3,537
Accounts payable and accruals	4,895	4,332
Due to primary government	35	4
Interest payable	52,856	53,165
Escrow deposits payable	15,659	10,668
Prepayments on mortgage loans	1,263	1,045
Deferred revenue	978	1,156
Bonds payable (Note 4)	224,585	50,185
Total current liabilities	303,473	124,975

Exhibit A (Cont.)

TENNESSEE HOUSING DEVELOPMENT AGENCY
COMPARATIVE BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996
(Expressed in Thousands)

	1997	1996
Noncurrent liabilities:		
Bonds payable (Note 4)	1,513,492	1,598,341
Less: Unamortized bond discount	(10,829)	(10,968)
Unamortized bond refunding costs	(1,272)	(958)
Total noncurrent liabilities	1,501,391	1,586,415
Total liabilities	1,804,864	1,711,390
Equity:		
Contributed capital (Note 5)	2,500	2,500
Retained earnings:		
Reserved for HOUSE Program (Note 5)	20,742	57,603
Reserved for Mortgage Finance Program Bonds (Note 5)	24,488	17,974
Reserved for Homebuyers Revolving Loan Program (Note 5)	177	122
Reserved for primary government (Note 5)	43,000	-
Unreserved (Note 7)	191,329	170,279
Total retained earnings	279,736	245,978
Total equity	282,236	248,478
Total liabilities and equity	$ 2,087,100	$ 1,959,868

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, 1997, AND JUNE 30, 1996
(Expressed in Thousands)

	1997	1996
OPERATING REVENUES		
Interest income:		
Mortgages	$ 100,393	$ 101,837
Investments	44,025	34,019
Fees and other income	813	705
Total operating revenues	145,231	136,561
OPERATING EXPENSES		
Salaries and benefits	2,667	2,784
Contractual services	686	597
Materials and supplies	97	99
Rentals and insurance	352	358
Other administrative expenses	84	119
Other program expenses	560	360
Interest expense	106,967	102,032
Mortgage service fees	4,488	4,429
Bond issuance costs	163	231
Depreciation	98	166
Total operating expenses	116,162	111,175
Operating income	29,069	25,386
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	39,178	36,845
Gain on sale of investments	124	2,698
Interdepartmental tax revenue	14,182	12,806
Federal grants expenses	(39,178)	(36,845)
Local grants expenses	(9,452)	(8,644)
Total nonoperating revenues (expenses)	4,854	6,860
Income before extraordinary loss	33,923	32,246
Extraordinary loss on early retirement of debt (Note 4)	(165)	(362)
Net income	33,758	31,884
Retained earnings, July 1	245,978	214,094
Retained earnings, June 30	$ 279,736	$ 245,978

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, 1997, AND JUNE 30, 1996
(Expressed in Thousands)

	1997	1996
Cash flows from operating activities:		
Operating income	$ 29,069	$ 25,386
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	83	284
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(2,066)	1,035
(Increase) in interest receivable	(994)	(403)
Decrease in first mortgage loans receivable	2,607	8,619
(Increase) decrease in due from federal government	321	(87)
(Increase) decrease in deferred charges	(7)	28
Decrease in other receivables	-	16
Increase (decrease) in warrants payable	851	(369)
Increase in accounts payable	4,757	1,685
Increase (decrease) in due to primary government	31	(31)
(Decrease) in deferred revenue	-	(1,115)
Investment income included as operating revenue	(44,025)	(34,019)
Bond interest expense included as operating revenue	106,967	102,032
Total adjustments	68,525	77,675
Net cash provided by operating activities	97,594	103,061
Cash flows from noncapital financing activities:		
Operating grants received	39,178	36,845
Operating transfer to primary government	-	(15,000)
Taxes received	14,182	12,806
Negative cash balance implicitly financed	(2,069)	(1,522)
Proceeds from sale of bonds	221,864	304,726
Operating grants paid	(48,630)	(45,489)
Issuance costs paid	(543)	(378)
Principal payments	(135,495)	(151,639)
Interest paid	(104,300)	(97,492)
Net cash provided (used) by noncapital financing activities	(15,813)	42,857
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(44)	(110)
Net cash used by capital and related financing activities	(44)	(110)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	673,453	501,331
Purchases of investments	(763,427)	(643,101)
Investment interest received	42,287	33,763
Net cash used by investing activities	(47,687)	(108,007)
Net increase in cash and cash equivalents	34,050	37,801
Cash and cash equivalents, July 1	147,577	109,776
Cash and cash equivalents, June 30	$ 181,627	$ 147,577
Noncash investing, capital, and financing activities:		
Disposition of fixed assets	$ 100	$ 3
Accretion of deep discount bonds	2,160	2,174
Total noncash investing, capital, and financing activities	$ 2,260	$ 2,177

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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*.

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.

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.

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.

Bond Issuance Costs, Discounts, Refunding Costs, and Interest Accretion

a. 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.

b. 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.

c. 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.

d. 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.

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.

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.

Accrual of Interest Income

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

Mortgages

Mortgages are carried at their original amount less principal collected.

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits

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

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $33,298,397 on June 30, 1997, and $26,399,138 on June 30, 1996.

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. Investments are categorized as follows:

June 30, 1997

	Category 1	Category 2 / 3	Carrying Amount	Market Value
Cash equivalents and short-term investments				
Repurchase agreements	$148,600,000		$148,600,000	$148,600,000
U.S. government securities	197,500,737		197,500,737	197,264,291
State and local government securities	400,000		400,000	400,020
Total cash equivalents and short-term investments	346,500,737		346,500,737	346,264,311
Long-term investments				
U.S. government securities	410,894,069		410,894,069	429,006,986
Citibank investment agreement	7,768,600		7,768,600	7,768,600
State and local government securities	446,536		446,536	451,521
Total long-term investments	419,109,205		419,109,205	437,227,107
Total	$765,609,942		$765,609,942	$783,491,418

June 30, 1996

	Category 1	Category 2 3	Carrying Amount	Market 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	851,679		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

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

Bonds Issued and Outstanding

The following tables are a summary of bonds issued and outstanding as of June 30, 1997, and June 30, 1996:

Tennessee Housing Development Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

	BONDS ISSUED (Thousands)						BONDS OUTSTANDING (Thousands)	
	SERIAL BONDS			TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	6/30/97	6/30/96
Mortgage Finance Program Bonds								
1993A	1/1/99-7/1/2008	$ 136,420	4.70 to 5.70	7/1/2010	$ 15,365	5.80		
				7/1/2013	25,540	5.85		
				7/1/2018	28,815	5.90		
				7/1/2028	59,770	5.95	$ 265,910	$ 265,910
1994A	1/1/96-7/1/2009	14,760	4.40 to 6.35	1/1/2019	20,835	6.40		
				7/1/2025	24,405	6.90	57,120	59,655
1994B	1/1/96-7/1/2011	30,095	4.50 to 6.40	7/1/2014	10,015	6.45		
				7/1/2019	21,810	6.55		
				7/1/2025	38,080	6.60	98,745	100,000
1995A	1/1/97-7/1/2008	14,270	5.45 to 6.55	7/1/2010	3,735	6.65		
				7/1/2014	9,350	6.85		
				7/1/2020	20,485	7.05		
				7/1/2026	32,160	7.125	79,600	80,000
1995B				7/1/2015	3,135	6.15		
				7/1/2018	12,155	6.20	15,290	15,290
1995C	1/1/97-7/1/2009	22,990	4.80 to 5.95	7/1/2015	15,300	6.10		
				7/1/2021	14,685	6.45		
				7/1/2026	31,735	6.55	84,090	84,710
Total Mortgage Finance Program Bonds		$ 218,535			$ 387,375		$ 600,755	$ 605,565
Homeownership Program Bonds								
Issue C	7/1/88-7/1/2000	$ 6,460	4.50 to 7.30	7/1/2006	$ 5,980	7.50		
				7/1/2010	5,565	6.625		
				7/1/2016	11,995	7.50	$ 20,645	$ 21,200
Issue D	7/1/88-7/1/2002	11,575	4.25 to 7.00	7/1/2007	7,565	7.25		
				7/1/2018	30,860	7.375	44,585	45,395
Issue F	7/1/89-7/1/2000	12,910	5.30 to 7.90	7/1/2016	52,340	7.90		
				7/1/2019	19,750	8.50	26,315	29,575
Issue G	7/1/89-7/1/2002	16,345	5.25 to 7.50	7/1/2006	8,500	7.65	9,200	11,145
Issue H				7/1/2015	33,000	7.825		
				7/1/2019	27,155	8.375	9,300	11,500
Issue I	7/1/90-7/1/2003	15,535	5.80 to 8.00	7/1/2013	26,250	8.00		
				7/1/2019	33,215	8.375	1,040	13,720
Issue J	7/1/92-7/1/2003	6,010	6.25 to 7.40	7/1/2008	4,555	7.625		
				7/1/2017	14,435	7.75	23,080	23,515
Issue K	7/1/92-7/1/2003	18,960	6.40 to 7.70	7/1/2021	52,755	8.125		
				7/1/2004 to 7/1/2008	3,060	7.90 to 8.10	15,945	28,055
					Interest		2,973	2,518
Issue L	7/1/91-7/1/2003	21,240	6.60 to 8.00	7/1/2012	11,890	8.125		
				7/1/2020	38,625	8.25		
				7/1/2004 to 7/1/2008	3,189	8.20 to 8.40	-	30,339
					Interest		-	2,679
Issue M				7/1/2017	28,740	7.125	25,585	26,225
Issue N	7/1/91-7/1/2008	29,000	6.70 to 7.50	7/1/2011	8,725	7.60		
				7/1/2020	19,275	7.65	49,885	52,160
Issue O	7/1/91-7/1/2005	21,580	6.40 to 7.50	7/1/2009	10,675	7.70		

Tennessee Housing Development Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

	BONDS ISSUED (Thousands)						BONDS OUTSTANDING (Thousands)	
	SERIAL BONDS			TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	6/30/97	6/30/96
				7/1/2020	51,745	7.75	77,825	79,025
Issue P	7/1/97-7/1/2010	17,540	6.85 to 7.50	7/1/2016	22,460	7.70	30,113	32,728
					Interest		7,966	6,592
Issue Q				7/1/2022	35,000	7.95	22,900	25,835
Issue S	7/1/92-7/1/2005	16,210	6.20 to 7.40	7/1/2010	10,985	7.50		
	7/1/92-7/1/2002			7/1/2022	51,405	7.625	70,675	71,565
Issue T		9,560	5.00 to 6.75	7/1/2011	15,875	7.30		
	7/1/00-7/1/2006			7/1/2023	46,940	7.375	68,890	69,680
Issue U		10,570	6.40 to 6.95	7/1/2011	11,460	7.35		
	7/1/92-7/1/99			7/1/2016	15,660	7.40	27,235	28,350
Issue V	7/1/94-7/1/2007	7,725	5.30 to 6.55	7/1/2022	29,585	7.65	27,005	29,025
Issue Wr		15,020	4.25 to 6.45	7/1/2012	9,725	6.70		
				7/1/2017	25,155	6.80	45,095	46,980
Issue Xr	1/1/95-7/1/2007			7/1/2022	8,555	6.875	6,670	8,555
Issue Y1		4,860	3.50 to 5.60	7/1/2013	3,660	5.80		
	1/1/95-7/1/2007			7/1/2017	3,245	5.90	10,735	11,030
Issue Z1		5,505	3.75 to 5.85	7/1/2013	3,535	6.00		
				7/1/2023	16,250	5.375		
	1/1/2004-7/1/2007			7/1/2024	12,945	6.10	31,630	34,280
Issue Y2		1,520	5.00 to 5.20	7/1/2013	2,965	5.45		
	1/1/95-7/1/2003			7/1/2017	2,575	5.55	6,890	6,890
Issue Z2		3,790	3.50 to 5.00	7/1/2023	12,000	5.00		
				7/1/2024	7,150	5.75	19,545	21,035
1994-1				1/1/98	9,500	5.20		
				1/1/99	24,000	5.50	33,500	33,500
1995-1	1/1/97-7/1/2010	16,965	4.35 to 6.05	7/1/2016	13,060	6.35		
				7/1/2021	15,635	6.40		
				1/1/2026	19,340	6.48	29,210	29,400
1996-1A	7/1/97	290	4.00	7/1/98 to		4.10 to		
				7/1/2012	12,225	5.60		
				7/1/2015	4,210	5.70		
				7/1/2017	3,255	5.75		
				7/1/2022	10,090	5.80		
				1/1/2026	9,125	5.85	39,195	39,195
1996-1B	7/1/2010-1/1/2011	805	5.35 to 5.45				805	805
1996-1C				2/6/97	40,465	3.25	-	40,465
1996-2A	1/1/98-7/1/2014	20,310	4.40 to 6.15	7/1/2016	4,675	6.00		
				7/1/2022	18,360	6.35		
				1/1/2027	18,835	6.375	62,180	62,180
1996-2B	7/1/2009-1/1/2011	2,820	5.70 to 5.80				2,820	2,820
1996-3				5/29/97	65,000	3.85	-	65,000
1996-3	7/1/99-7/1/2012	16,490	4.30 to 5.65	7/1/2017	10,670	5.85		
				7/1/2023	18,540	5.85		
				1/1/2028	19,300	6.00	65,000	-
1996-4A	7/1/98-7/1/2011	13,535	4.35 to 6.00	7/1/2016	8,975	6.05		
				7/1/2022	15,485	6.375		

	BONDS ISSUED (Thousands)						BONDS OUTSTANDING (Thousands)	
	SERIAL BONDS			TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	6/30/97	6/30/96
				1/1/2027	16,400	6.45	54,395	-
1996-4B	1/1/2011	605	5.85				605	-
1996-5				8/21/97	60,000	4.00	60,000	-
1997-1				2/19/98	57,885	3.75	57,885	-
1997-2				6/4/98	50,000	4.00	50,000	-
Total Homeownership Program Bonds		$323,735			$1,382,004		$1,137,322	$1,042,961
Total All Issues		$542,270			$1,769,379		$1,738,077	$1,648,526

Debt Service Requirements

Debt service requirements to maturity at June 30, 1997, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
1998	$ 195,485	$ 108,910	$ 304,395
1999	51,933	98,575	150,508
2000	36,986	96,084	133,070
2001	36,909	94,797	131,706
2002	38,042	92,752	130,794
2003 - 2029	1,356,953	1,218,591	2,575,544
Total	$1,716,308	$1,709,709	$3,426,017

The debt principal in the preceding table is $10.94 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 here as interest in those years (2000-2010) in which the bonds mature.

Redemption of Bonds

During the year ended June 30, 1997, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of $1,800,000 and in the Homeownership Program Bonds in the amount of $15,745,000. The respective carrying values of these bonds were $1,789,980 and $15,590,483. This resulted in losses to the Mortgage Finance Program of $10,020 and the Homeownership Program of $154,517 attributable to unamortized bond discount and issuance costs associated with the redeemed bonds.

On June 20, 1996, the agency issued $65,000,000 in Homeownership Program Bonds, Issue 1996-2, of which $41,400,000 was used for refunding certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program on July 1, 1996 (this amount consists of $28,025,000 early redemptions and $13,375,000 current maturities). The carrying amount of those bonds was $41,191,223. The refunding resulted in a difference of $208,777 between the reacqusition 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 2024. The agency completed the refunding to reduce its total debt service over the next 31 years by $13,223,783 and to obtain an economic gain (the difference between the present value of the old and new debt service payments) of $14,651,821.

On September 19, 1996, the agency issued $55,000,000 in Homeownership Program Bonds, Issue 1996-4 A & B, of which $14,185,000 was used for refunding certain bonds previously issued in the Homeownership Program on October 11, 1996. The carrying amount of those bonds was $14,124,546. The refunding resulted in a difference of $60,454 between the reacqusition 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 $7,173,515 and to obtain an economic gain (the difference between the present value of the old and new debt service payments) of $12,244,877.

On February 5, 1997, the agency issued $57,885,000 in Homeownership Program Bonds, Issue 1997-1, all of which was used for refunding certain bonds previously issued in the Homeownership Program on March 3, 1997 (this amount consists of $17,129,167 early redemptions and $40,755,833 from current maturities). The carrying amount of those bonds was $57,780,728. The refunding resulted in a difference of $104,272 between the reacqusition 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 refunding was 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, 1997.

On May 29, 1997, the agency issued $50,000,000 in Homeownership Program Bonds, Issue 1997-2, $29,725,000 of which will be used to refund certain bonds previously issued in the Mortgage Finance Program and Homeownership Program on July 1, 1997 (this amount consists of $27,240,000 early redemptions and $2,485,000 current maturities). This refunding will be 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, 1997.

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 Homeownership Program Bonds, Issues 1995-2 and 3, $28,995,000 of which was used to refund 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, Issues 1996-1 A, B, and C, 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 of November 15, 1995, and February 21, 1996, 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.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 1997

Date of Call	Issue	Par Value	Carrying Amount	Loss	Deferred Amount	Source of Funds
Mortgage Finance Program Bonds						
01/01/97	94A	$ 1,800,000	$ 1,789,980	$(10,020)	$ -	Prepayments
	Subtotal	$ 1,800,000	$ 1,789,980	$(10,020)	$ -	
Homeownership Program Bonds						
07/01/96	86F	$ 1,090,000	$ 1,079,828	$ -	$(10,172)	Current Refunding
07/01/96	86G	385,000	381,458	-	(3,542)	Current Refunding
07/01/96	86H	1,100,000	1,089,881	-	(10,119)	Current Refunding
07/01/96	87I	920,000	912,052	-	(7,948)	Current Refunding
07/01/96	88K	10,730,000	10,616,452	-	(113,548)	Current Refunding
07/01/96	88L	11,815,000	11,767,379	-	(47,621)	Current Refunding
07/01/96	89M	640,000	631,756	(8,244)	-	Prepayments
07/01/96	90P	1,230,000	1,221,506	(8,494)	-	Prepayments
07/01/96	90Q	1,070,000	1,062,610	-	(7,390)	Current Refunding
07/01/96	91U	1,115,000	1,102,977	(12,023)	-	Prepayments
07/01/96	91Wr	1,040,000	1,027,487	(12,513)	-	Prepayments
07/01/96	92Z1	200,000	198,153	(1,847)	-	Prepayments
07/01/96	92Z1	650,000	643,996		(6,004)	Current Refunding
07/01/96	92Z2	85,000	84,219	(781)		Prepayments
07/01/96	92Z2	265,000	262,567	-	(2,433)	Current Refunding
10/11/96	88L	13,580,000	13,523,655	-	(56,345)	Current Refunding
10/11/96	89N	390,000	384,990	(5,010)		Prepayments
10/11/96	90P	605,000	600,891	-	(4,109)	Current Refunding
10/11/96	90Q	700,000	695,246	(4,754)	-	Prepayments
10/11/96	91V	450,000	445,154	(4,846)	-	Prepayments
10/11/96	91Xr	705,000	696,533	(8,467)	-	Prepayments
01/01/97	86F	1,020,000	1,010,368	(9,632)	-	Prepayments
01/01/97	86G	385,000	381,432	(3,568)	-	Prepayments
01/01/97	86H	1,100,000	1,089,805	(10,195)	-	Prepayments
01/01/97	87I	900,000	892,243	(7,757)	-	Prepayments
01/01/97	92Z1	1,340,000	1,327,769	(12,231)	-	Prepayments
01/01/97	92Z2	650,000	644,097	(5,903)	-	Prepayments
03/03/97	87I	10,150,000	10,064,719	-	(85,281)	Current Refunding
03/03/97	88L	6,199,167	6,185,348	-	(13,819)	Current Refunding
03/03/97	89N	725,000	715,920	(9,080)	-	Prepayments
03/03/97	90P	780,000	774,828	-	(5,172)	Current Refunding
03/03/97	90Q	1,165,000	1,157,276	(7,724)	-	Prepayments
03/03/97	91V	725,000	717,372	(7,628)	-	Prepayments
03/03/97	91Xr	1,180,000	1,166,180	(13,820)	-	Prepayments
	Subtotal	$ 75,084,167	$74,556,147	$(154,517)	$(373,503)	
	Total	$76,884,167	$76,346,127	$(164,537)	$(373,503)	

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
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)	

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.

The Reserve for the HOUSE Program reflects legislation of the State of Tennessee, effective July 1, 1988, which established the Assets Fund, the Housing Program Fund, and the Housing Program Reserve Fund. 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 agency's accounting records to the Assets Fund from the General Fund of the Mortgage Finance Program Group. In addition to the moneys provided by the agency, *Tennessee Code Annotated*, Section 13-23-402, allocates a portion of the real estate transfer taxes and the mortgage taxes levied by the State to the Housing Program Fund.

On May 31, 1997, the General Assembly adopted House Bill 1804/Senate Bill 1943, and on June 19, 1997, the Governor signed the bill into law as Chapter 537 of the Public Acts of 1997 (the "Amendments"). The Amendments modify the Tennessee Housing Development Agency Act by authorizing a transfer of up to $88,000,000 from the agency to the State of Tennessee General Fund, at June 30, 1998.

In the Amendments, the General Assembly specifically stated, "It is hereby declared to be the legislative intent that the transfer authorized herein shall be mitigated to the fullest extent possible pursuant to the applicable provisions contained in the general appropriation act for the year ending June 30, 1998. ” Further, the Amendments provide for replenishing the agency’s Assets Fund, beginning July 1, 1998, from all tax revenues received by the agency in excess of $10,000,000 each fiscal year until the balance of the Assets Fund once again reaches $50,000,000.

The Amendments reallocate to the State of Tennessee General Fund tax revenues directed to the agency in excess of $6,000,000 for the fiscal years ending June 30, 1997, and June 30, 1998. For the fiscal year ended June 30, 1997, the excess amounted to $8,181,925.

In addition to the Amendments, the General Assembly adopted and the Governor signed into law the general appropriation act for the State of Tennessee for the year ending June 30, 1998, as Chapter 552 of the Public Acts of 1997 (the “Appropriations Act"). The Appropriations Act mitigates the amount to be transferred from the agency based on a determination of the amount by which the State of Tennessee’s budgeted appropriation to the Tennessee Consolidated Retirement System for fiscal year 1997-1998 exceeds the State of Tennessee’s required annual contribution. This determination will be based on an actuarial evaluation of the Tennessee Consolidated Retirement System as of June 30, 1997 . On December 9, 1997, it was determined that $45,000,000 will be restored to the agency under the provisions of the Appropriations Act. Thus, the total transfer from the agency to the State of Tennessee General Fund on June 30, 1998, will be $43,000,000.

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency implemented GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for the 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, Ext. 139.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 7.36% 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, 1997, 1996, and 1995 were $276,668, $238,829, and $225,671. Those contributions met the required contributions for each year.

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

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.

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.

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. SUBSEQUENT EVENTS

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

July 1, 1997	74 Resolution		$ 9,420,000
	85 Resolution		18,910,000
		Total	$28,330,000
December 1, 1997	85 Resolution		$94,010,000

b. Homeownership Program Bonds, Issue 1996-5, were remarketed August 21, 1997.

The bond maturities are as follows:

BONDS ISSUED
(Thousands)

	SERIAL BONDS			TERM BONDS		
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)
1996-5A	7/1/99 - 7/1/2012	$ 8,180	4.00 to 5.35	7/1/2017	$ 4,825	5.50
				7/1/2023	7,935	5.55
				7/1/2028	9,060	5.75
1996-5B				8/20/98	30,000	3.85
	Total	$ 8,180			$ 51,820	

c. Homeownership Program Bonds, Issue 1997-3, were sold October 9, 1997.

The bond maturities are as follows:

BONDS ISSUED
(Thousands)

	SERIAL BONDS			TERM BONDS		
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)
1997-3A	1/1/98 - 7/1/2008	$ 40,911	4.00 to 5.35	7/1/2012	$ 23,174	5.125
				1/1/2017	1,133	5.875
				7/1/2017	2,746	5.875
1997-3B				7/1/2016	20,044	5.725
	Total	$ 40,911			$ 47,097	

d. The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency draw-

d. The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency draw-down notes with a current maximum aggregate principal amount of $65,000,000. The Series 1997CN-1 Notes, dated December 1, 1997, will be in the stated principal amount of $65,000,000; however, the initial principal amount drawn down will be $47,755,000 (the "Notes"). The Notes will mature on December 3, 1998, subject to earlier redemption in accordance with the terms of the Trust Indenture, and will bear interest on the initial principal amount drawn down during the initial rate period at a rate per annum to be determined on December 10, 1997, payable on January 2, 1998. Subsequently, the Notes will bear interest during each succeeding rate period, payable on each related interest payment date with respect to the principal amount drawn by the agency. The interest rate for each successive rate period will be equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY COMPARATIVE BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996
(Expressed in Thousands)

	1997				1996			
	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	$ 33,298	$ 29,264	$ 119,521	$ 182,083	$ 26,382	$ 29,606	$ 91,589	$ 147,577
Short-term investments	2,500	14,382	188,521	205,403	2,000	10,330	114,397	126,727
Receivables:								
Accounts	1,402	1,346	2,737	5,485	1,149	810	1,460	3,419
Interest	936	7,187	13,779	21,902	966	5,990	11,199	18,155
First mortgage loans	339	10,571	12,730	23,640	336	10,314	11,930	22,580
Due from other funds	214	-	-	214	-	-	-	-
Due from federal government	108	-	-	108	429	-	-	429
Total current assets	38,797	62,750	337,288	438,835	31,262	57,050	230,575	318,887
Other assets:								
Long-term investments	49,664	155,020	214,425	419,109	49,120	130,184	228,383	407,687
First mortgage loans receivable	3,814	477,038	746,031	1,226,883	4,335	503,397	722,818	1,230,550
Deferred charges	9	693	2,087	2,789	2	738	1,796	2,536
Other receivables	-	-	24	24	-	-	24	24
Total other assets	53,487	632,751	962,567	1,648,805	53,457	634,319	953,021	1,640,797
Fixed assets:								
Office furniture and fixtures	540	-	-	540	596	-	-	596
Less: accumulated depreciation	(410)	-	-	(410)	(412)	-	-	(412)
Total fixed assets	130	-	-	130	184	-	-	184
Total assets	$ 92,414	$ 695,501	$ 1,299,855	$ 2,087,770	$ 84,903	$ 691,369	$ 1,183,596	$ 1,959,868
LIABILITIES AND EQUITY								
Liabilities:								
Current liabilities:								
Warrants payable	$ 1,734	$ -	$ -	$ 1,734	$ 865	$ 18	$ -	$ 883
Checks payable	-	-	1,924	1,924	-	875	2,662	3,537
Accounts payable and accruals	2,667	683	1,545	4,895	3,241	602	489	4,332
Due to primary government	35	-	-	35	4	-	-	4
Interest payable	-	18,261	34,595	52,856	-	22,755	30,410	53,165
Escrow deposits payable	11	15,640	8	15,659	21	10,608	39	10,668
Due to other funds	-	214	-	214	-	-	-	-
Prepayments on mortgage loans	-	433	830	1,263	-	410	635	1,045
Deferred revenue	-	22	956	978	-	23	1,133	1,156
Bonds payable	-	13,635	210,950	224,585	-	3,010	47,175	50,185
Total current liabilities	4,447	48,888	250,808	304,143	4,131	38,301	82,543	124,975
Noncurrent liabilities:								
Bonds payable	-	587,120	926,372	1,513,492	-	602,555	995,786	1,598,341
Less: Unamortized bond discount	-	(3,541)	(7,288)	(10,829)	-	(3,762)	(7,206)	(10,968)
Unamortized bond refunding costs	-	-	(1,272)	(1,272)	-	-	(958)	(958)
Total noncurrent liabilities	-	583,579	917,812	1,501,391	-	598,793	987,622	1,586,415
Total liabilities	4,447	632,467	1,168,620	1,805,534	4,131	637,094	1,070,165	1,711,390
Equity:								
Contributed capital	2,500	-	-	2,500	2,500	-	-	2,500
Retained earnings:								
Reserved for HOUSE Program	20,742	-	-	20,742	57,603	-	-	57,603
Reserved for Mortgage Finance Program Bonds	-	24,488	-	24,488	-	17,974	-	17,974
Reserved for Homebuyers Revolving Loan Program	177	-	-	177	122	-	-	122
Reserved for primary government	43,000	-	-	43,000	-	-	-	-
Unreserved	21,548	38,546	131,235	191,329	20,547	36,301	113,431	170,279
		-						
Total retained earnings	85,467	63,034	131,235	279,736	78,272	54,275	113,431	245,978
Total equity	87,967	63,034	131,235	282,236	80,772	54,275	113,431	248,478
Total liabilities and equity	$ 92,414	$ 695,501	$ 1,299,855	$ 2,087,770	$ 84,903	$ 691,369	$ 1,183,596	$ 1,959,868

Exhibit E

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996
(Expressed in Thousands)

	1997				1996			
	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	$ 273	$ 37,352	$ 62,768	$ 100,393	$ 318	$ 38,368	$ 63,151	$ 101,837
Investments	5,235	10,275	28,515	44,025	5,313	8,666	20,040	34,019
Fees and other income	729	83	1	813	536	166	3	705
Total operating revenues	6,237	47,710	91,284	145,231	6,167	47,200	83,194	136,561
OPERATING EXPENSES								
Salaries and benefits	2,667	-	-	2,667	2,784	-	-	2,784
Contractual services	686	-	-	686	597	-	-	597
Materials and supplies	97	-	-	97	99	-	-	99
Rentals and insurance	352	-	-	352	358	-	-	358
Other administrative expenses	84	-	-	84	119	-	-	119
Other program expenses	2	146	412	560	-	120	240	360
Interest expense	-	36,844	70,123	106,967	-	37,004	65,028	102,032
Mortgage service fees	5	1,690	2,793	4,488	6	1,698	2,725	4,429
Bond issuance costs	-	42	121	163	-	42	189	231
Depreciation	98	-	-	98	166	-	-	166
Total operating expenses	3,991	38,722	73,449	116,162	4,129	38,864	68,182	111,175
Operating income	2,246	8,988	17,835	29,069	2,038	8,336	15,012	25,386
NONOPERATING REVENUES (EXPENSES)								
Federal grants revenue	39,178	-	-	39,178	36,845	-	-	36,845
Gain on sale of investments	-	-	124	124	533	147	2,018	2,698
Interdepartmental tax revenue	14,182	-	-	14,182	12,806	-	-	12,806
Federal grants expenses	(39,178)	-	-	(39,178)	(36,845)	-	-	(36,845)
Local grants expenses	(9,452)	-	-	(9,452)	(8,644)	-	-	(8,644)
Total nonoperating revenues (expenses)	4,730	-	124	4,854	4,695	147	2,018	6,860
Income before transfer and extraordinary loss	6,976	8,988	17,959	33,923	6,733	8,483	17,030	32,246
Transfer (to) from other funds	219	(219)	-	-	191	(256)	65	-
Income before extraordinary loss	7,195	8,769	17,959	33,923	6,924	8,227	17,095	32,246
Extraordinary loss on early retirement of debt	-	(10)	(155)	(165)	-	-	(362)	(362)
Net income	7,195	8,759	17,804	33,758	6,924	8,227	16,733	31,884
Retained earnings, July 1	78,272	54,275	113,431	245,978	71,348	46,048	96,698	214,094
Retained earnings, June 30	$ 85,467	$ 63,034	$ 131,235	$ 279,736	$ 78,272	$ 54,275	$ 113,431	$ 245,978

Exhibit F

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996
(Expressed in Thousands)

	1997				1996			
	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	$ 2,246	$ 8,988	$ 17,835	$ 29,069	$ 2,038	$ 8,336	$ 15,012	$ 25,386
Adjustments to reconcile operating income to net cash provided (used) by operating activities:								
Depreciation and amortization	98	41	(56)	83	166	40	78	284
Changes in assets and liabilities:								
(Increase) decrease in accounts receivable	(253)	(536)	(1,277)	(2,066)	7	(38)	1,066	1,035
(Increase) decrease in interest receivable	3	(632)	(365)	(994)	4	(917)	510	(403)
(Increase) decrease in first mortgage loans receivable	518	26,102	(24,013)	2,607	600	(28,006)	36,025	8,619
(Increase) decrease in due from federal government	321	-	-	321	(87)	-	-	(87)
(Increase) decrease in deferred charges	(7)	-	-	(7)	28	-	-	28
(Increase) decrease in other receivables	-	-	-	-	-	-	16	16
(Increase) decrease in interfund receivables	(214)	-	-	(214)	191	-	-	191
Increase (decrease) in interfund payables	-	214	-	214	-	(191)	-	(191)
Increase (decrease) in warrants payable	869	(18)	-	851	(387)	18	-	(369)
Increase (decrease) in accounts payable	(584)	5,076	265	4,757	1,224	491	(30)	1,685
Increase (decrease) in due to primary government	31	-	-	31	(31)	-	-	(31)
Increase (decrease) in deferred revenue	-	-	-	-	(13)	(1,102)	-	(1,115)
Investment income included as operating revenue	(5,235)	(10,275)	(28,515)	(44,025)	(5,258)	(8,721)	(20,040)	(34,019)
Bond interest expense included as operating expense	-	36,844	70,123	106,967	-	37,004	65,028	102,032
Total adjustments	(4,453)	56,816	16,162	68,525	(3,556)	(1,422)	82,653	77,675
Net cash provided (used) by operating activities	(2,207)	65,804	33,997	97,594	(1,518)	6,914	97,665	103,061
Cash flows from noncapital financing activities:								
Operating grants received	39,178	-	-	39,178	36,845	-	-	36,845
Operating transfers in (out)	219	(219)	-	-	191	(256)	65	-
Operating transfer to primary government	-	-	-	-	(15,000)	-	-	(15,000)
Taxes received	14,182	-	-	14,182	12,806	-	-	12,806
Negative cash balance implicitly financed	-	(875)	(738)	(1,613)	-	(4,627)	2,662	(1,965)
Proceeds from sale of bonds	-	-	221,864	221,864	-	-	304,726	304,726
Operating grants paid	(48,630)	-	-	(48,630)	(45,489)	-	-	(45,489)
Cost of issuance paid	-	-	(543)	(543)	-	-	(378)	(378)
Principal payments	-	(4,810)	(130,685)	(135,495)	-	(345)	(151,294)	(151,639)
Interest paid	-	(41,124)	(63,176)	(104,300)	-	(34,702)	(62,790)	(97,492)
Net cash provided (used) by noncaptial financing activities	4,949	(47,028)	26,722	(15,357)	(10,647)	(39,930)	92,991	42,414
Cash flows from capital and related financing activities:								
Acquisition of fixed assets	(44)	-	-	(44)	(110)	-	-	(110)
Net cash used by capital and related financing activities	(44)	-	-	(44)	(110)	-	-	(110)
Cash flows from investing activities:		-						
Proceeds from sales and maturities of investments	9,800	102,386	561,267	673,453	14,158	174,100	313,073	501,331
Purchases of investments	(10,844)	(131,274)	(621,309)	(763,427)	(11,730)	(152,147)	(479,224)	(643,101)
Investment interest received	5,262	9,770	27,255	42,287	5,219	9,507	19,037	33,763
Net cash provided (used) by investing activities	4,218	(19,118)	(32,787)	(47,687)	7,647	31,460	(147,114)	(108,007)
Net increase (decrease) in cash and cash equivalents	6,916	(342)	27,932	34,506	(4,628)	(1,556)	43,542	37,358
Cash and cash equivalents, July 1	26,382	29,606	91,589	147,577	31,010	31,162	48,047	110,219
Cash and cash equivalents, June 30	$ 33,298	$ 29,264	$ 119,521	$ 182,083	$ 26,382	$ 29,606	$ 91,589	$ 147,577
Noncash investing, capital, and financing activities:								
Disposition of fixed assets	$ 100	$ -	$ -	$ 100	$ 3	$ -	$ -	$ 3
Accretion of deep discount bonds	-	-	2,160	2,160	-	-	2,174	2,174
Total noncash investing, capital, and financing activities	$ 100	$ -	$ 2,160	$ 2,260	$ 3	$ -	$ 2,174	$ 2,177

Exhibit G

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY BALANCE SHEET - OPERATING GROUP
JUNE 30, 1997

(Expressed in Thousands)

	Assets Fund	Housing Program Fund	Housing Program Reserve Fund	Operating Group Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 261	$ 32,800	$ 237	$ 33,298
Short-term investments	2,500	-	-	2,500
Receivables:				
Accounts	2	1,400	-	1,402
Interest	844	-	92	936
First mortgage loans	271	68	-	339
Due from other funds	-	1,108	-	1,108
Due from federal government	-	108	-	108
Total current assets	3,878	35,484	329	39,691
Other assets:				
Long-term investments	43,927	-	5,737	49,664
First mortgage loans receivable	2,583	1,231	-	3,814
Deferred charges	-	9	-	9
Total other assets	46,510	1,240	5,737	53,487
Fixed assets:				
Office furniture and fixtures	-	540	-	540
Less: accumulated depreciation	-	(410)	-	(410)
Total fixed assets	-	130	-	130
Total assets	$ 50,388	$ 36,854	$ 6,066	$ 93,308
LIABILITIES AND EQUITY				
Liabilities:				
Warrants payable	$ -	$ 1,734	$ -	$ 1,734
Accounts payable and accruals	-	2,667	-	2,667
Due to primary government	-	35	-	35
Escrow deposits payable	-	11	-	11
Due to other funds	802	-	92	894
Total liabilities	802	4,447	92	5,341
Equity:				
Contributed capital	-	2,500		2,500
Retained earnings:				
Reserved for HOUSE Program	19,742	-	1,000	20,742
Reserved for Homebuyers Revolving Loan Program	-	177	-	177
Reserved for primary government	29,844	8,182	4,974	43,000
Unreserved	-	21,548	-	21,548
Total retained earnings	49,586	29,907	5,974	85,467
Total equity	49,586	32,407	5,974	87,967
Total liabilities and equity	$ 50,388	$ 36,854	$ 6,066	$ 93,308

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY BALANCE SHEET - MORTGAGE FINANCE PROGRAM
JUNE 30, 1997
(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	$ 28,287	$ 269	$ 28,556	$ 917	$ 29,473
Short-term investments	10,096	3,885	13,981	401	14,382
Receivables:					
Accounts	1,344	2	1,346	-	1,346
Interest	6,503	486	6,989	198	7,187
First mortgage loans	10,571	-	10,571	-	10,571
Total current assets	56,801	4,642	61,443	1,516	62,959
Other assets:					
Long-term investments	106,778	34,309	141,087	13,933	155,020
First mortgage loans receivable	477,038	-	477,038	-	477,038
Deferred charges	693	-	693	-	693
Total other assets	584,509	34,309	618,818	13,933	632,751
Total assets	$ 641,310	$ 38,951	$ 680,261	$ 15,449	$ 695,710
LIABILITIES AND EQUITY					
Liabilities:					
Current liabilities:					
Checks payable	$ 209	$ -	$ 209	$ -	$ 209
Accounts payable and accruals	683	-	683	-	683
Interest payable	18,261	-	18,261	-	18,261
Escrow deposits payable	-	201	201	15,439	15,640
Due to other funds	-	214	214	-	214
Prepayments on mortgage loans	433	-	433	-	433
Deferred revenue	22	-	22	-	22
Bonds payable	13,635	-	13,635	-	13,635
Total current liabilities	33,243	415	33,658	15,439	49,097
Noncurrent liabilities:					
Bonds payable	587,120	-	587,120	-	587,120
Less: Unamortized bond discount	(3,541)	-	(3,541)	-	(3,541)
Total noncurrent liabilities	583,579	-	583,579	-	583,579
Total liabilities	616,822	415	617,237	15,439	632,676
Equity:					
Retained earnings:					
Reserved for Mortgage Finance Program Bonds	24,488	-	24,488	-	24,488
Unreserved	-	38,536	38,536	10	38,546
Total retained earnings	24,488	38,536	63,024	10	63,034
Total equity	24,488	38,536	63,024	10	63,034
Total liabilities and equity	$ 641,310	$ 38,951	$ 680,261	$ 15,449	$ 695,710

* 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.