TENNESSEE HOUSING DEVELOPMENT AGENCY

FINANCIAL STATEMENTS

June 30, 2005

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

October 6, 2005

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

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2005, and June 30, 2004, and the related statements of revenues, expenses, and changes in net assets 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency; approving accounting policies of the state as prepared by the state's

Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to the bond finance committee of the Tennessee Housing Development Agency.

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, 2005, and June 30, 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2005, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/tlh

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND JUNE 30, 2004

This section of the Tennessee Housing Development Agency's (Agency) annual financial statements presents management's discussion and analysis of the financial performance of the Agency for the years ended June 30, 2005 and June 20, 2004. This information is being presented to provide additional information regarding the activities of the Agency and to meet the disclosure requirements of the Governmental Accounting Standards Board Statement Number 34. *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments.* This analysis should be read in conjunction with the Agency's financial statements, which follow this section.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The Tennessee Housing Development Agency was established by the Tennessee General Assembly in 1973,

> In order to promote the production of more affordable new housing units for very low, low and moderate income individuals and families in the state, to promote the preservation and rehabilitation of existing housing units for such persons, and to bring greater stability to the residential construction industry and related industries so as to assure a steady flow of production of new housing units… (*Tennessee Code Annotated* 13-23-102)

The mission of the Agency is to be the lead State Agency promoting sound and affordable housing for people who need help. THDA's goal is to provide housing assistance to those in need, and to do so by offering a variety of programs to serve various types of need. One of the primary ways the Agency assists people is by offering mortgages for first-time homebuyers at below conventional market interest rates. In 2002, the Agency celebrated the financing of the 80,000th homebuyer. The Agency also serves as the master servicer for all active mortgages funded by THDA. In addition to helping homebuyers, THDA administers the federal Section 8 rental assistance programs, including both tenant- and project-based assistance. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of Bond Authority to be allocated to local authorities for specific multifamily developments.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of the Agency at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about the Agency's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide useful

information regarding the Agency's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. The Agency's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, other supplementary information is also included.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2005

- Total assets increased by $11.8 million, or .5 %.
- Total liabilities decreased $22.6 million, or 1.2%.
- Total assets exceeded total liabilities by $432.5 million. This is an increase of $34.4 million, or 8.6%, from fiscal year 2004.
- Cash and cash equivalents increased $68.2 million, or 18.1%.
- Total investments decreased $27 million, or 7.1%.
- Bonds and notes payable decreased $17.2 million, or 1%.
- The Agency originated $215.3 million in new loans, which is a decrease of $57.9 million, or 21.2% from the prior year.

Year Ended June 30, 2004

- Total assets decreased by $76 million, or 3.3 %.
- Total liabilities decreased by $68.4 million, or 3.6%.
- Total assets exceeded total liabilities by $398.1 million. This is a decrease of $7.6 million, or 1.9%, from fiscal year 2003.
- Cash and cash equivalents increased $9.9 million, or 2.7%.
- Total investments decreased $73.2 million, or 16.2%.
- Bonds and notes payable decreased $58.0 million, or 3.2%.
- The Agency originated $273.2 million in new loans, which is an increase of $114.3 million, or .72% from the prior year.

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets. The following table focuses on the changes in net assets between fiscal years (expressed in thousands):

	2005	2004	2003
Current assets	$ 508,384	$ 459,245	$ 486,913
Capital assets	16	16	-
Other noncurrent assets	1,727,813	1,765,131	1,813,491
Total assets	2,236,213	2,224,392	2,300,404
Current liabilities	355,537	138,620	308,264
Noncurrent liabilities	1,448,152	1,687,697	1,586,424
Total liabilities	1,803,689	1,826,317	1,894,688
Invested in capital assets	16	16	-
Restricted net assets	425,198	388,913	396,203
Unrestricted net assets	7,310	9,146	9,513
Total net assets	$ 432,524	$ 398,075	$ 405,716

2005 to 2004

- The Agency's total net assets increased $34.4 million, or 8.6%, from $398.1 million at June 30, 2004 to $432.5 million at June 30, 2005. This primarily resulted from the increase in the fair value of investments.

- Mortgage loans receivable decreased $25.3 million, or 1.8%, from $1,417.0 million at June 30, 2004 to $1,391.7 million at June 30, 2005. The decrease resulted from loan prepayments exceeding loan originations.

- Total liabilities decreased $22.6 million, or 1.2%, from $1,826.3 million at June 30, 2004 to $1,803.7 million at June 30, 2005. The decrease is primarily due to the retirement of debt.

2004 to 2003

- The Agency's total net assets decreased $7.6 million, or 1.9%, from $405.7 million at June 30, 2003 to $398.1 million at June 30, 2004. This primarily resulted from the decrease in the fair value of investments.

- Mortgage loans receivable decreased $9.3 million, or .7%, from $1,426.3 million at June 30, 2003 to $1,417.0 million at June 30, 2004. The decrease resulted from loan prepayments exceeding loan originations.

- Total liabilities decreased $68.4 million, or 3.6%, from $1,894.7 million at June 30, 2003 to $1,826.3 million at June 30, 2004. The decrease is primarily due to the retirement of debt.

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

	2005	2004	2003
Operating revenues			
Mortgage interest income	$ 88,438	$ 93,763	$ 104,714
Investment income (loss)	39,007	(67)	48,538
Other	13,035	12,174	11,055
Total operating revenues	140,480	105,870	164,307
Operating expenses			
Interest expense	81,294	83,326	102,164
Other	20,660	24,005	19,772
Total operating expenses	101,954	107,331	121,936
Operating income (loss)	38,526	(1,461)	42,371
Nonoperating revenues (expenses)			
Grant revenues	151,630	143,630	138,123
Grant expenses	(155,707)	(149,810)	(144,777)
Total nonoperating revenues (expenses)	(4,077)	(6,180)	(6,654)
Changes in net assets	$ 34,449	$ (7,641)	$ 35,717

2005 to 2004

For the year ended June 30, 2005, total operating revenues increased $34.6 million from $105.9 million for the year ended June 30, 2004, to $140.5 million for the year ended June 30, 2005. The primary reasons for this increase are as follows:

- Mortgage interest income decreased $5.4 million, or 5.7%, from $93.8 million in 2004 to $88.4 million in 2005. This is due to mortgage loan prepayments of higher interest loans, as well as new loans originated at lower interest rates.

- Investment income increased $39 million, from a net loss of $67,000 in 2004 to a net gain of $39 million in 2005. This increase is primarily due to a net increase in the fair value of investments of $18.2 million in 2005 as compared to a net decrease of $22.2 million in 2004. In addition, new investments are yielding low interest rates due to current market conditions.

For the year ended June 30, 2005, total operating expenses decreased $5.4 million, or 5%, from $107.3 million in 2004 to $101.9 million in 2005. This decrease is primarily due to a decrease in interest expense of $2.0 million, from $83.3 million in 2004 to $81.3 million in 2005. This decrease occurred as a result of the Agency continuing to use mortgage loan prepayments to call higher-interest bonds.

While the total net assets for fiscal year 2005 increased $34.4 million from the previous year, the non-monetary accretion of deep discount bonds, and the change in the fair value of investments contributed $12.4 million toward this increase. When considered without these non-monetary components, net assets increased $21.5 million.

2004 to 2003

For the year ended June 30, 2004, total operating revenues decreased $58.4 million from $164.3 million for the year ended June 30, 2003 to $105.9 million for the year ended June 30, 2004. The primary reasons for this decrease are as follows:

- Mortgage interest income decreased $10.9 million, or 10.5%, from $104.7 million in 2003 to $93.8 million in 2004. This is due to mortgage loan prepayments of higher interest loans, as well as new loans originated at record-low rates.

- Investment income decreased $48.6 million, from $48.5 million in 2003 to a net loss of $67,000 in 2004. This decrease is due to a net decrease in the fair value of investments of $22.2 million in 2004 (as compared to a net increase of $18.1 million in 2003) as well as higher coupon investments that were called, which were subsequently re-invested into investments having a lower interest rate.

For the year ended June 30, 2004, total operating expenses decreased $14.6 million, or 12%, from $121.9 million in 2003 to $107.3 million in 2004. This decrease is primarily due to a decrease in interest expense of $18.8 million, from $102.1 million in 2003 to $83.3 million in

2004. This decrease occurred as a result of the Agency continuing to use mortgage loan prepayments to call higher-interest bonds.

While the total net assets for fiscal year 2004 decreased $7.6 million from the previous year, the non-monetary portion of accretion of deep discount bonds, and the change in the fair value of investments contributed $19.2 million toward this decrease. When considered without these non- monetary components, net assets increased $11.6 million.

CASH FLOWS

Cash flows for fiscal years ending 2005, 2004, and 2003 were as follows (expressed in thousands):

	2005	2004	2003
Cash, July 1	$ 376,297	$ 366,383	$ 264,881
Net cash provided by operating activities	100,663	97,401	203,205
Net cash used by non-capital financial activities	(98,539)	(157,673)	(216,757)
Cash flows from capital and related financing activities	(5)	(16)	-
Net cash provided by investing activities	66,170	70,202	115,054
Net increase in cash and cash equivalents	68,289	9,914	101,502
Cash and cash equivalents, June 30	$ 444,586	$ 376,297	$ 366,383

The Agency has generated positive cash flow for each of the past three years. The increase in cash and cash equivalents for fiscal year 2004 was reduced due to the Agency's aggressiveness in calling higher interest debt in the face of increasing mortgage prepayments.

Under Chapter 825, Public Acts of 2002 and section 9.(2) of Chapter 827, Public Acts of 2002, for the sole purpose of meeting the requirements of funding the operations of the primary government for fiscal year ended June 30, 2002, a payment in the amount of $35.4 million was authorized from the Agency's net assets. This transfer was established as a payable and as a non-operating expense for the year ended June 30, 2002, and a use of cash for the year ended June 30, 2003.

DEBT ACTIVITY

Bonds and notes outstanding at June 30 were as follows (expressed in thousands):

	2005	2004	2003
Bonds payable	$1,433,430	$1,489,299	$1,769,506
Notes payable	311,900	273,240	51,070
Total bonds and notes payable	$1,745,330	$1,762,539	$1,820,576

Year Ended June 30, 2005

Total bonds and notes payable decreased $17.2 million, or 1%, due primarily to retirement of debt. During the fiscal year, the Agency issued debt totaling $319 million, with activity arising from two bond issues totaling $203.5 million and three draws under the single family mortgage note program totaling $115.5 million.

Year Ended June 30, 2004

Total bonds and notes payable decreased $58.0 million, or 3.2%, due primarily to retirement of debt. During the fiscal year, the Agency issued debt totaling $741.0 million, with activity arising from four bond issues totaling $406.9 million and four draws under the single family mortgage note program totaling $334.1 million.

Note Authority

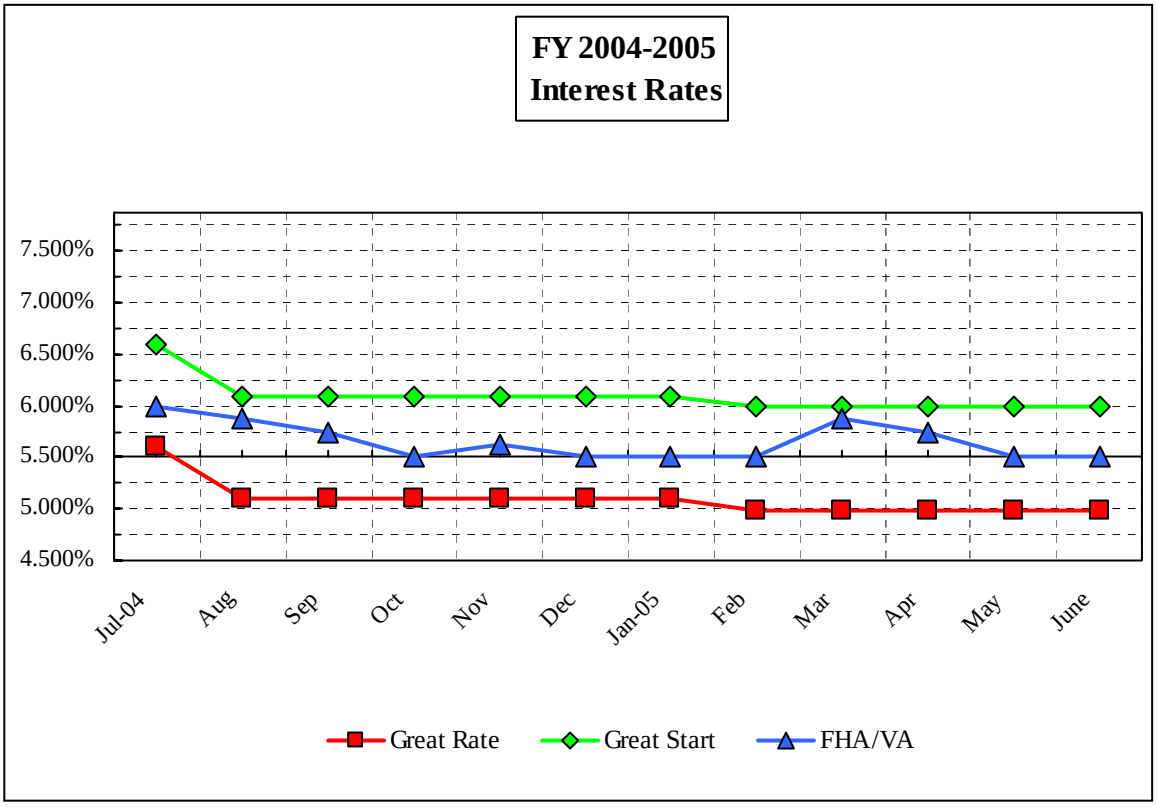
On March 18, 2004, the Agency's board of directors authorized the issuance of Single Family Mortgage Note, Series 2004CN-1. This $450 million drawdown note with a maturity of up to three years closed on August 31, 2004.

Additional information on the Agency's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS

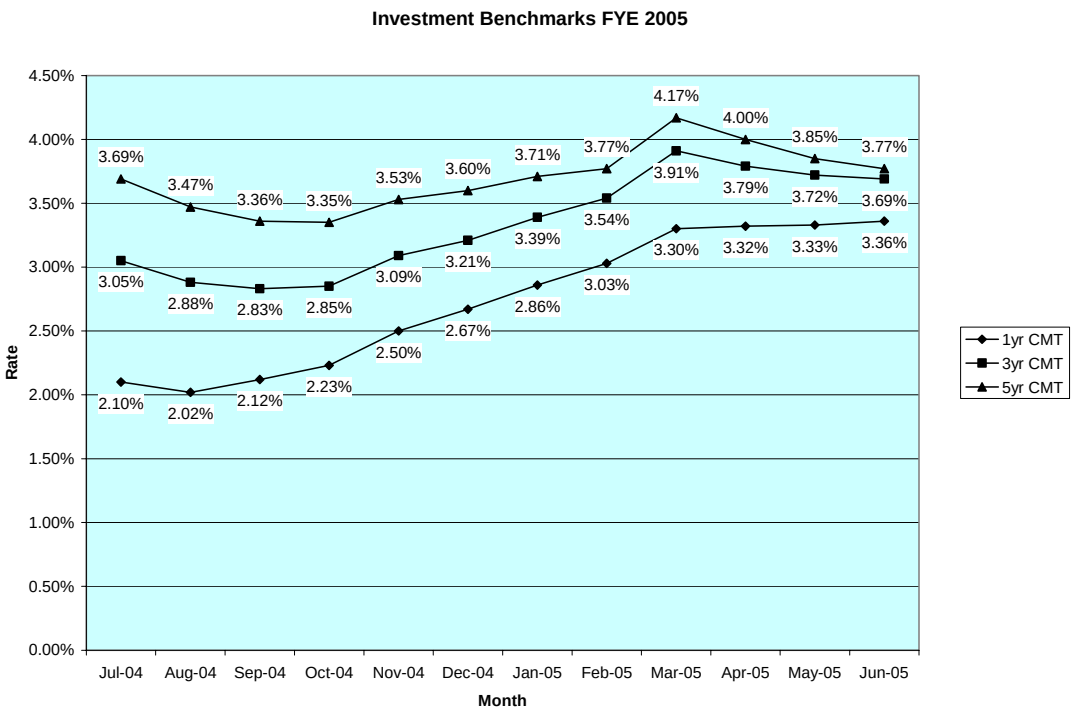
Fiscal Year 2005 saw considerable reduction in the amount of prepayments as compared to fiscal years 2004 and 2003. Prepayments for fiscal year 2005 were $190.1 million, which is a $59.1 million, or 23.7%, reduction from the $249.2 million as recorded in fiscal year 2004. Prepayments for fiscal year 2003 were $231.3 million.

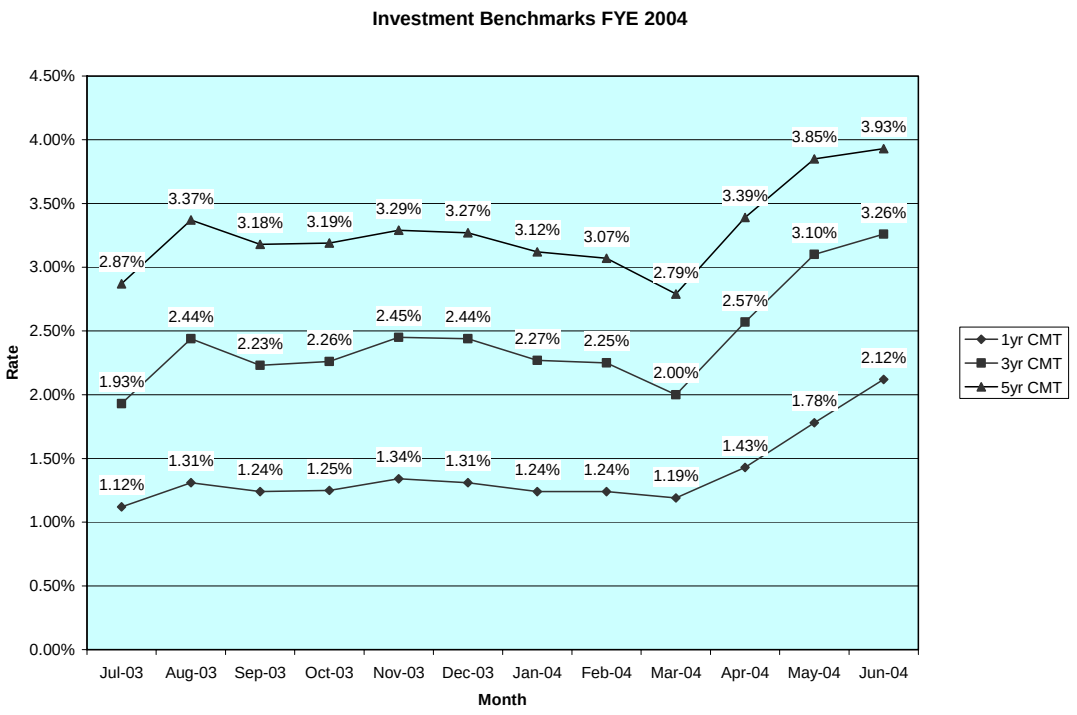
New mortgage loan originations continued at below average interest rates. The following chart depicts the Agency's mortgage interest rates for fiscal year 2005, with the comparable FHA/VA rate:



The Agency continued to use the proceeds from mortgage loan prepayments to call its bond debt on a quarterly basis. Additionally, mortgage loan repayments were reinvested into investments with lower yields, although not quite as low as was seen in the prior fiscal year. As a result, the Agency experienced a net increase in the fair value of investments of $18.2 million, as compared to a net decrease of $22.2 million for fiscal year 2004.

The change in market interest rates directly affects the rate of reinvestment of the Agency's cash. In general, the market rates for fiscal year 2005 were somewhat higher than those noted in fiscal year 2004, but still remain relatively low when considered with rates over the past two decades. The following charts depict the one, three, and five year Constant Maturity Treasury (CMT) rates:


Investment Benchmarks FYE 2005
Rate
Month
Jul-04
Aug-04
Sep-04
Oct-04
Nov-04
Dec-04
Jan-05
Feb-05
Mar-05
Apr-05
May-05
Jun-05
1yr CMT
3yr CMT
5yr CMT


Investment Benchmarks FYE 2004
Rate
Month
Jul-03
Aug-03
Sep-03
Oct-03
Nov-03
Dec-03
Jan-04
Feb-04
Mar-04
Apr-04
May-04
Jun-04
1yr CMT
3yr CMT
5yr CMT

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's stakeholders with a general overview of the Agency's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Ted Fellman, CPA, Deputy Executive Director / Chief Financial Officer at (615) 741-1104 or via e-mail at Ted.Fellman@state.tn.us.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND JUNE 30, 2004
(Expressed in Thousands)

	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 444,096	$ 376,254
Investments (Note 2)	-	15,000
Receivables:		
Accounts	12,054	11,771
Interest	12,006	13,369
First mortgage loans	32,939	32,786
Due from federal government	7,289	10,065
Total current assets	508,384	459,245
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)	490	43
Investments (Note 2)	186,856	184,336
Investment interest receivable	2,367	2,412
Investments (Note 2)	165,474	180,044
First mortgage loans receivable	1,358,785	1,384,193
Deferred charges	11,124	11,436
Advance to local government	2,707	2,657
Other receivables	10	10
Capital assets:		
Furniture and equipment	93	87
Less accumulated depreciation	(77)	(71)
Total noncurrent assets	1,727,829	1,765,147
Total assets	2,236,213	2,224,392
LIABILITIES		
Current liabilities:		
Checks payable	1,764	995
Accounts payable	746	1,355
Accrued payroll and related liabilities	279	278
Compensated absences	313	275
Due to primary government	42	42
Interest payable	35,315	36,423
Escrow deposits	1,485	1,343
Prepayments on mortgage loans	1,268	1,450
Advance on bond sale	-	1,000
Notes payable (Note 4)	235,595	-
Bonds payable (Note 4)	78,730	95,459
Total current liabilities	355,537	138,620
Noncurrent liabilities:		
Notes payable (Note 4)	76,305	273,240
Bonds payable (Note 4)	1,354,700	1,393,840
Compensated absences	326	297
Escrow deposits	13,875	13,863
Arbitrage rebate payable	2,687	6,110
Deferred revenue	259	347
Total noncurrent liabilities	1,448,152	1,687,697
Total liabilities	1,803,689	1,826,317
NET ASSETS		
Invested in capital assets	16	16
Restricted for single family bond programs (Note 5)	421,584	384,955
Restricted for grant programs (Note 5)	460	804
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154
Unrestricted (Note 7)	7,310	9,146
Total net assets	$ 432,524	$ 398,075

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004
(Expressed in Thousands)

	2005	2004
OPERATING REVENUES		
Mortgage interest income	$ 88,438	$ 93,763
Investment income:		
Interest	20,779	22,143
Net increase (decrease) in the fair value of investments	18,228	(22,210)
Federal grant administration fees	9,861	9,786
Fees and other income	3,174	2,388
Total operating revenues	140,480	105,870
OPERATING EXPENSES		
Salaries and benefits	9,778	8,702
Contractual services	1,707	1,560
Materials and supplies	460	559
Rentals and insurance	996	1,035
Other administrative expenses	371	382
Other program expenses	1,566	5,960
Interest expense	81,294	83,326
Mortgage service fees	5,074	5,135
Issuance costs	703	672
Depreciation	5	-
Total operating expenses	101,954	107,331
Operating income (loss)	38,526	(1,461)
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	151,630	143,630
Federal grants expenses	(151,630)	(143,630)
Local grants expenses	(4,077)	(6,180)
Total nonoperating revenues (expenses)	(4,077)	(6,180)
Change in net assets	34,449	(7,641)
Total net assets, July 1	398,075	405,716
Total net assets, June 30	$ 432,524	$ 398,075

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004
(Expressed in Thousands)

	2005	2004
Cash flows from operating activities:		
Receipts from customers	$ 329,852	$ 379,476
Receipts from federal government	6,079	6,916
Other miscellaneous receipts	3,174	2,389
Acquisition of mortgage loans	(215,315)	(273,234)
Payments to service mortgages	(5,074)	(5,135)
Payments to suppliers	(4,625)	(3,758)
Payments to federal government	(3,423)	(224)
Payments to employees	(10,005)	(9,029)
Net cash provided by operating activities	100,663	97,401
Cash flows from non-capital financing activities:		
Operating grants received	158,188	145,575
Negative cash balance implicitly financed	769	430
Proceeds from sale of bonds	203,534	411,066
Proceeds from issuance of notes	115,490	334,085
Operating grants paid	(155,889)	(150,127)
Call premium paid	(175)	(3,053)
Advance on bond sale	-	1,000
Cost of issuance paid	(1,698)	(3,194)
Principal payments	(339,256)	(802,459)
Interest paid	(79,502)	(90,996)
Net cash used by non-capital financing activities	(98,539)	(157,673)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(5)	(16)
Net cash used by capital and related financing activities	(5)	(16)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	57,150	326,259
Purchases of investments	(18,366)	(281,844)
Investment interest received	27,386	25,787
Net cash provided by investing activities	66,170	70,202
Net increase in cash and cash equivalents	68,289	9,914
Cash and cash equivalents, July 1	376,297	366,383
Cash and cash equivalents, June 30	$ 444,586	$ 376,297

(continued)

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

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004
(Expressed in Thousands)

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$ 38,526	$ (1,461)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	708	672
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(283)	2,823
Decrease in mortgage interest receivable	1,294	744
Decrease in first mortgage loans receivable	25,205	9,253
(Increase) in due from federal government	(3,782)	(2,870)
Decrease in deferred charges	607	964
Decrease in other receivables	-	4
Increase (decrease) in accounts payable	(456)	96
Increase (decrease) in accrued payroll / compensated absences	68	(47)
Increase in due to primary government	-	42
(Decrease) in deferred revenue	(88)	(45)
Increase (decrease) in arbitrage rebate liability	(3,423)	3,833
Investment (income) loss included as operating revenue	(39,007)	67
Interest expense included as operating expense	81,294	83,326
Total adjustments	62,137	98,862
Net cash provided by operating activities	$ 100,663	$ 97,401
Noncash investing, capital, and financing activities:		
Accretion of deep discount bonds	$ 1,957	$ 2,180
Increase (decrease) in fair value of investments	10,400	(21,344)
Total noncash investing, capital, and financing activities	$ 12,357	$ (19,164)

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.

The Agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and the Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining board members are appointed by the Governor, the Speaker of the State Senate and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, and home building industries, the mortgage profession, local governments, and the three grand divisions of the state and be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E.

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 operating 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 generally follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Agency also has the option of following subsequent private-sector guidance subject to this same limitation. The Agency has elected not to follow subsequent private-sector guidance. Certain accounting policies and procedures are stipulated in the Agency's Mortgage Finance Program, Single Family Program, and Homeownership Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

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

d. Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of $5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

Description	Estimated Life
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds. The bond resolutions require the agency to establish a Debt Service Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund to cover any deficiency.

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

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the interest method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.

2. Bond and Note Refunding Costs: The agency amortizes bond and note refunding costs using the straight-line method. Bonds and notes payable are reported net of the deferred amount on refundings.

3. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

4. 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.

5. 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.

g. 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.

h. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value.

i. Accrual of Interest Income

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

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

l. Direct Servicing

On May 1, 2003, the agency began a pilot program called Direct Servicing for servicing mortgages originated by the agency. On March 17, 2005, the agency's Board of Directors voted to terminate the pilot program. The loans will be sold to U. S. Bank, one of the agency's existing servicers, on July 1, 2005.

NOTE 2. DEPOSITS AND INVESTMENTS

The agency has implemented Governmental Accounting Standards Board Statement 40, *Deposit and Investment Risk Disclosures*, which established and modified the disclosure requirements for deposits and investments. Therefore, the 2004 deposit and investment disclosures have been presented in compliance with GASB 40, for comparative purposes.

a. Deposits

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned to it.

The laws of the State of Tennessee require that collateral be pledged at 105% of the value of uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

At June 30, 2005, $1,307,005 of the agency's bank balances of $2,683,008 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's agent but not in the agency's name.

At June 30, 2004, $2,066,355 of the agency's bank balances of $3,410,184 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's agent but not in the agency's name.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $2,262,490 on June 30, 2005. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $2,362,600 on June 30, 2004. The State Treasurer's pooled investment fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required disclosures are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

b. Investments

As stated in the Agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of Agency assets. Investments are made as a prudent person would be expected to act in the management of their own affairs. That would be to consider the safety of capital and the probability of income, while avoiding speculative investments.

The agency's investment policy states that the agency portfolios will be diversified in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest one hundred percent (100%) of its portfolio in U.S. government securities due to the absence of credit risk. A minimum of five percent (5%) of the par value of total investments must mature within five years. No more than fifty percent (50%) of the par value of the combined portfolios can be invested in maturities greater than fifteen (15) years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk. Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

	June 30, 2005		June 30, 2004	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
U.S. Agency Coupon	$232,415,639	4.944	$252,424,864	3.949
U.S. Agency Discount	78,542,489	0.389	3,427,981	24.693
U.S. Treasury Coupon	112,160,524	7.820	107,590,269	8.131
U.S Treasury Discount	236,024,519	0.035	273,366,546	0.019
Municipal Securities	413,255	3.274	451,049	3.844
Variable Rate Securities	3,464,290	0.019	0	NA
Repurchase Agreements	91,000,000	0.000	95,000,000	0.000
Municipal Discount Bonds	500,000	0.000	486,855	0.987
Pass Through Securities	1,277,526	4.397	0	NA
Total	$755,798,242		$732,747,564	

As of June 30, 2005, the portfolios include the following investments (stated at par or face value) that have fair values highly sensitive to interest rate changes. These investments are recorded at fair value in the statement of net assets.

Collateralized Mortgage Obligations. The agency purchased $1,400,000 face value, mortgage-backed pass through securities on January 31, 2005, at .8125003 over par. The fair value of these securities on June 30, 2005, is $1,277,526. These securities will mature on April 15, 2015. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

Variable Rate Bonds.
The agency invested $2,000,000 in range bonds issued by Federal Home Loan Bank. It was purchased at 95.125 of par on August 8, 2003, and matures August 6, 2015. The fair value of these securities on June 30, 2005, is $1,925,600 which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the six month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 6.625%, then the interest rate on the bond is 6.50%. If the LIBOR rate exceeds 6.625%, then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 6.625%. At June 29, 2005, the LIBOR rate was 3.69%, and at no time during fiscal year 2005 did the LIBOR rate exceed 6.625%.

The agency also invested $3,475,000 in variable rate bonds issued by Federal Home Loan Bank. It was purchased at 99.975 of par on February 22, 2005, and matures February 22, 2007. The fair value of these securities on June 30, 2005, is $3,464,290. The amount of the quarterly interest payment is calculated at Constant Maturing Treasury (CMT) minus a 0.40% spread. The CMT is reset quarterly on the interest payment dates.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments.

The Agency's investments in securities of United States agencies were rated AAA by Standard & Poor's, and Aaa by Moody's Investors Service. The municipal securities were rated AA/Aa2. Funds held in a money market mutual fund were rated AAAm/Aaa. The agency's investments in repurchase agreements were collateralized by securities of United States agencies which were rated AAA by Standard & Poor's, and Aaa by Moody's Investors Service.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than five percent of the agency's investments are invested in the following single issuers:

	June 30, 2005		June 30, 2004	
Issuer	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Federal Home Loan Bank	$169,383,650	22.41	$107,957,728	14.73
Federal Home Loan Mortgage Corp	$68,909,191	09.12	$70,636,286	09.64
Federal National Mortgage Assoc	$56,697,282	07.50	$55,746,328	07.61
Repurchase Agreements – U.S. Agency	$91,000,000	12.04	$95,000,000	12.96

NOTE 3. CHECKS PAYABLE

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

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 06/30/2005	Ending Balance 6/30/2004
MORTGAGE FINANCE PROGRAM BONDS					
1994A	1/1/96-7/1/2025	$60,000	4.40 to 6.90	$ -0-	$2,200
1994B	7/1/96-7/1/2025	100,000	4.50 to 6.60	1,645	7,335
1995B/C	1/1/97-7/1/2026	100,000	4.80 to 6.55	8,605	26,890
2003A	7/1/2004-7/1/2034	191,885	1.70 to 5.35	182,690	191,885
Total Mortgage Finance Program Bonds		$451,885		192,940	$228,310
Less: Deferred Amount on Refundings				(3,720)	(4,132)
Net Mortgage Finance Program Bonds				$189,220	$224,178
HOMEOWNERSHIP PROGRAM BONDS					
Issue K	7/1/92-7/1/2021	$74,775	6.4 to 8.125	$ 1	$ 1
			Interest accretion	3	3
Issue Y1/Z1	1/1/95-7/1/2024	50,000	3.50 to 6.10	-0-	13,095
Issue Y2/Z2	1/1/95-7/1/2024	30,000	3.50 to 5.75	-0-	8,885
1995-1	1/1/97-7/1/2026	65,000	4.35 to 6.48	5,780	11,035
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	15,790	19,695
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	23,030	29,495
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	20,115	24,975
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	14,060	22,255
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	33,520	38,980
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	31,245	37,755
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	27,095	32,995
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	24,184	30,473
			Interest accretion	11,836	12,561
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	26,630	33,230
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	13,590	17,670
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	36,860	46,470
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	17,305	23,790
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	45,500	58,120

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 06/30/2005	Ending Balance 6/30/2004
HOMEOWNERSHIP PROGRAM BONDS (cont.)					
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	43,535	55,660
2000-1	7/1/2001-7/1/2031	105,000	4.60 to 6.40	29,240	52,910
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	63,370	78,860
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	85,195	95,370
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	43,395	51,370
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	45,385	53,690
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	62,050	74,505
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	70,535	79,015
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	46,325	49,340
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	57,300	60,000
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	71,155	75,000
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	78,075	80,000
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	100,000	-0-
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	100,000	-0-
Total Homeownership Program Bonds		$2,271,638		$1,242,104	$1,267,203
Plus: Unamortized Bond Premiums				8,689	4,655
Less: Deferred Amount on Refundings				(6,583)	(6,737)
Net Homeownership Program Bonds				1,244,210	1,265,121
Net Total All Issues				$1,433,430	$1,489,299

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2005 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2006	$74,139	$72,049	$146,188
2007	50,330	70,616	120,946
2008	51,279	69,311	120,590
2009	46,369	63,687	110,056
2010	44,950	60,538	105,488
2011 – 2015	190,715	272,687	463,402
2016 – 2020	140,565	232,088	372,653
2021 – 2025	212,771	190,957	403,728
2026 – 2030	213,026	135,772	348,798
2031 – 2035	391,855	72,687	464,542
2036	15,895	389	16,284
Total	$1,431,894	$1,240,781	$2,672,675

The debt principal in the preceding table is $1.536 million less than that presented in the accompanying financial statements. Of this amount, $11.839 million represents the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2006-2010) in which the bonds mature. Also, $10.303 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the year ended June 30, 2005, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $12,320,000 and in the Homeownership Program in the amount of $86,406,071. The respective carrying values of the bonds were $12,255,060 and $85,858,454. This resulted in an expense to the Mortgage Finance Program of $64,940 and the Homeownership Program of $547,617.

On July 1, 2004, the agency used $39,185,000 of Single Family Mortgage Program notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $27,955,000 early redemption and $11,230,000 current maturities). The carrying amount of these bonds was $38,994,680. The refunding resulted in a difference of $190,320 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On July 15, 2004, the agency issued $100,000,000 in Homeownership Program Bonds, Issue 2004-2. On August 1, 2004, the agency used $7,835,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $7,835,000 early redemption and $0 current maturities). The carrying amount of these bonds was $7,760,168. The refunding resulted in a difference of $74,832 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 2020. On August 12, 2004, the agency used $43,920,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $16,960,633 over the next 26 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $12,082,652.

On October 1, 2004, the agency used $34,145,000 of Single Family Mortgage Program Notes, 2004CN-1, drawn down on August 31, 2004, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $34,145,000 early redemption and $0 current maturities). The carrying amount of these bonds was $33,943,005. The refunding resulted in a difference of $201,995 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On January 3, 2005, the second drawdown was made on the Series 2004CN-1 Notes in the amount of $42,160,000. These proceeds were used to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($28,685,000 early redemption and $13,475,000 current maturities). The carrying amount of these bonds was $41,996,549. The refunding resulted in a difference of $163,451 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On January 13, 2005, a principal redemption was made on the Series 2002CN-1 Notes in the amount of $32,910,000.

On January 13, 2005, the agency issued $100,000,000 in Homeownership Program Bonds, Issue 2004-3. The agency used $32,910,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. On March 1, 2005, all outstanding Y1Z1 and Y2Z2 Series bonds in the amount of $18,175,000 were called. Of this

amount, $700,000 were called at par and the Optional Redemption provision was used to call the remaining $17,475,000 bonds at 101 percent. Mortgage prepayments and excess reserves were used to call $1,175,000 of the bonds. The remaining $17,000,000 was refunded by 2004-3. The carrying amount of these bonds was $16,913,790. A call premium of $165,150 was paid on the redemption of these bonds. The refunding resulted in a difference of $251,360 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 2016. The refunding increased the agency's debt service by $586,997 over the next 26 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $7,701,042.

During the year ended June 30, 2004, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $49,335,000 and in the Homeownership Program in the amount of $91,623,222. The respective carrying values of the bonds were $49,016,496 and $90,981,765. This resulted in an expense to the Mortgage Finance Program of $318,504 and the Homeownership Program of $641,457.

On July 1, 2003, the agency used $190,465,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $180,485,000 early redemption and $9,980,000 current maturities). The carrying amount of these bonds was $188,991,633. The refunding resulted in a difference of $1,473,367 between the reacquisition price and the net carrying amount of the old debt. A portion of these notes were refunded with bonds on November 13, 2003, March 11, 2004, August 12, 2004, and January 13, 2005.

On July 31, 2003, the agency issued $60,000,000 in Homeownership Program Bonds, Issue 2003-2 A & B. On August 14, 2003, the agency used $27,070,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding reduced the agency's debt service by $2,694,900 over the next 28 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $4,923,598.

On August 14, 2003 a principal redemption was made on the Series 2002CN-1 Notes in the amount of $27,070,000.

On September 4, 2003, the agency issued $191,885,000 in Mortgage Finance Program Bonds, Issue 2003A. On September 17, 2003, all outstanding 1993 Series A bonds were refunded by issue 2003A. Mortgage prepayments and excess reserves were used to call $39,250,000 of the bonds at par. The Optional Redemption provision was used to call the remaining $152,670,000 of bonds at 102 percent. The carrying amount of these bonds was $191,219,164. A call premium of $3,053,400 was paid on the redemption of these bonds. The refunding resulted in a difference of $3,754,236 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 2028. The refunding increased the agency's debt service by $27,458,335 over the next 25 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $7,499,720.

On November 3, 2003, the agency used $89,355,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $89,355,000 early redemption and $0 current maturities). The carrying amount of these bonds was $88,675,883. The refunding resulted in a

difference of $679,117 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On November 5, 2003, the agency issued $75,000,000 in Homeownership Program Bonds, Issue 2003-3 A & B. On November 13, 2003, the agency used $37,555,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 and July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding increased the agency's debt service by $6,527,806 over the next 30 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $4,000,240.

On November 13, 2003 a principal redemption was made on the Series 2002CN-1 Notes in the amount of $37,555,000.

On January 2, 2004, the agency used $27,700,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $22,955,000 early redemption and $4,745,000 current maturities). The carrying amount of these bonds was $27,534,157. The refunding resulted in a difference of $165,843 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On March 4, 2004, the agency issued $80,000,000 in Homeownership Program Bonds, Issue 2004-1. On March 11, 2004, the agency used $47,290,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program. The refunding increased the agency's debt service by $3,917,718 over the next 22.5 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $5,637,611.

On March 11, 2004 a principal redemption was made on the Series 2002CN-1 Notes in the amount of $47,290,000.

On April 1, 2004, the agency used $26,565,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $26,565,000 early redemption and $0 current maturities). The carrying amount of these bonds was $26,372,070. The refunding resulted in a difference of $192,930 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On June 10, 2004 the Series 2002CN-1 Notes were remarketed in the amount of $273,240,000.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2005.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Amounts Due Within One Year
Notes Payable	$273,240	$115,490	($76,830)	$311,900	$235,595
Bonds Payable	1,495,513	201,957	(262,426)	1,435,044	78,730
Plus: Unamortized Bond Premiums	4,655	4,534	(500)	8,689	-0-
Less: Deferred Amount on Refundings	(10,869)	(690)	1,256	(10,303)	-0-
Compensated Absences	572	496	(429)	639	313
Escrow Deposits	15,206	5,006	(4,852)	15,360	1,485
Arbitrage Rebate Payable	6,110	128	(3,551)	2,687	-0-
Deferred Revenue	347	108	(196)	259	-0-
Total	$1,784,774	$327,028	($347,527)	$1,764,275	$316,123

The following table is a summary of the long-term liability activity for the year ended June 30, 2004.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts Due Within One Year
Notes Payable	$51,070	$334,085	($111,915)	$273,240	$-0-
Bonds Payable	1,776,991	409,065	(690,543)	1,495,513	95,459
Plus: Unamortized Bond Premiums	-0-	4,781	(126)	4,655	-0-
Less: Deferred Amount on Refundings	(7,485)	(4,246)	862	(10,869)	-0-
Compensated Absences	627	334	(389)	572	275
Escrow Deposits	15,302	4,029	(4,125)	15,206	1,343
Arbitrage Rebate Payable	2,277	4,261	(428)	6,110	-0-
Deferred Revenue	392	977	(1,022)	347	-0-
Total	$1,839,174	$753,286	($807,686)	$1,784,774	$97,077

e. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provided for the issuance of agency drawdown notes with a maximum aggregate principal amount of $65,000,000. On April 1, 1999, the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be $200,000,000. On December 1, 2002, the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be $450,000,000.

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date. On December 1, 2002 the interest rate was changed to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2005.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2004	Additions	Reductions	Ending Balance 6/30/2005
SINGLE FAMILY MORTGAGE NOTES							
2002CN-1	12/8/2005	$ 450,000	1.010 to 2.753	$273,240	$39,185	($76,830)	$235,595
2004CN-1	8/9/2007	$ 450,000	1.466 to 2.990	-0-	76,305	(-0-)	76,305
Total Single Family Mortgage Notes				$273,240	$115,490	($76,830)	$311,900

The following table is a summary of the note activity for the year ended June 30, 2004.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2003	Additions	Reductions	Ending Balance 6/30/2004
SINGLE FAMILY MORTGAGE NOTES							
2002CN-1	12/8/2005	$450,000	.738 to 1.010	$51,070	$334,085	($111,915)	$273,240

The activity of the 2002CN-1 and 2004CN-1 notes shown above is also included in the summary of long-term liability activity in part d. of this note.

NOTE 5. RESTRICTED NET ASSETS

The amount shown on the Statement of Net Assets as Restricted for single family bond programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net assets that are restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of these net assets is restricted under legislation enacted in fiscal year 1986.

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their

beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 10.52% 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, 2005, 2004, and 2003, were $753,275, $480,912, and $448,684. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has designated $750,000 of unrestricted net assets as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional $232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and $500,000 has been designated for self-insurance of second mortgages.

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management 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 Risk Management 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 Risk Management 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 Risk Management Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 10. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, $15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, $43,000,000 was transferred from the agency to the State General Fund. The $43,000,000 transferred from the agency came from the following resources of the agency: (i) $15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) $5,028,761 from the Housing Program Reserve Fund; and (iii) $22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of $35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

NOTE 11. SUBSEQUENT EVENTS

a. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

July 1, 2005	Mortgage Finance Program	$ 1,895,000
	Homeownership Program	$22,408,949
	Total	$24,303,949

b. On July 1, 2005 a third drawdown was made on the Series 2004CN-1 Notes in the amount of $34,620,000. These proceeds were used to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($16,185,000 early redemption and $18,435,000 current maturities).

c. Homeownership Program Bonds, Issue 2005-1, were sold on July 28, 2005. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2005-1	7/1/2006-1/1/2036	$100,000	2.75 to 5.00
TOTAL ALL ISSUES		$100,000	

On August 11, 2005, the agency used $28,740,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003, November 3, 2003, January 2, 2004, and July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

d. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

October 1, 2005	Mortgage Finance Program	$ 3,475,000
	Homeownership Program	$51,610,000
	Total	$55,085,000

Exhibit A

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS
JUNE 30, 2005
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2,838	$ 25,014	$ 103,717	$ 312,527	$ 444,096
Receivables:					
Accounts	-	1,631	10,423	-	12,054
Interest	-	2,774	9,232	-	12,006
First mortgage loans	75	8,728	24,136	-	32,939
Due from federal government	7,289	-	-	-	7,289
Total current assets	10,202	38,147	147,508	312,527	508,384
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	447	43	-	490
Investments	-	41,189	145,667	-	186,856
Investment Interest receivable	-	551	1,816	-	2,367
Investments	-	73,069	92,405	-	165,474
First mortgage loans receivable	371	198,328	1,160,086	-	1,358,785
Deferred charges	27	1,169	7,639	2,289	11,124
Advance to local government	2,707	-	-	-	2,707
Other receivables	-	-	10	-	10
Capital assets:					
Furniture and equipment	93	-	-	-	93
Less accumulated depreciation	(77)	-	-	-	(77)
Total noncurrent assets	3,121	314,753	1,407,666	2,289	1,727,829
Total assets	13,323	352,900	1,555,174	314,816	2,236,213
LIABILITIES					
Current liabilities:					
Checks payable	66	503	1,170	25	1,764
Accounts payable	653	37	56	-	746
Accrued payroll and related liabilities	279	-	-	-	279
Compensated absences	313	-	-	-	313
Due to primary government	42	-	-	-	42
Interest payable	-	4,411	30,376	528	35,315
Escrow deposits	466	1,019	-	-	1,485
Prepayments on mortgage loans	-	139	1,129	-	1,268
Notes payable	-	-	-	235,595	235,595
Bonds payable	-	14,220	64,510	-	78,730
Total current liabilities	1,819	20,329	97,241	236,148	355,537
Noncurrent liabilities:					
Notes payable	-	-	-	76,305	76,305
Bonds payable	-	175,001	1,179,699	-	1,354,700
Compensated absences	326	-	-	-	326
Escrow deposits	238	13,636	1	-	13,875
Arbitrage rebate payable	-	-	2,687	-	2,687
Deferred revenue	-	259	-	-	259
Total noncurrent liabilities	564	188,896	1,182,387	76,305	1,448,152
Total liabilities	2,383	209,225	1,279,628	312,453	1,803,689
NET ASSETS					
Invested in capital assets	16	-	-	-	16
Restricted for single family bond programs	-	143,675	275,546	2,363	421,584
Restricted for grant programs	460	-	-	-	460
Restricted for Homebuyers Revolving Loan Program	3,154	-	-	-	3,154
Unrestricted	7,310	-	-	-	7,310
Total net assets	$ 10,940	$ 143,675	$ 275,546	$ 2,363	$ 432,524

Exhibit B

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	$ -	$ 14,545	$ 73,893	$ -	$ 88,438
Investment income:					
Interest	135	4,999	15,644	1	20,779
Net increase in the fair value of investments	-	3,438	8,586	6,204	18,228
Federal grant administration fees	9,861	-	-	-	9,861
Fees and other income	2,315	859	-	-	3,174
Total operating revenues	12,311	23,841	98,123	6,205	140,480
OPERATING EXPENSES					
Salaries and benefits	9,778	-	-	-	9,778
Contractual services	1,707	-	-	-	1,707
Materials and supplies	460	-	-	-	460
Rentals and insurance	996	-	-	-	996
Other administrative expenses	371	-	-	-	371
Other program expenses	342	206	1,004	14	1,566
Interest expense	-	9,872	65,320	6,102	81,294
Mortgage service fees	-	736	4,338	-	5,074
Issuance costs	-	88	450	165	703
Depreciation	5	-	-	-	5
Total operating expenses	13,659	10,902	71,112	6,281	101,954
Operating income (loss)	(1,348)	12,939	27,011	(76)	38,526
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	151,630	-	-	-	151,630
Federal grants expenses	(151,630)	-	-	-	(151,630)
Local grants expenses	(1,082)	-	(2,995)	-	(4,077)
Total nonoperating revenues (expenses)	(1,082)	-	(2,995)	-	(4,077)
Income (loss) before transfers	(2,430)	12,939	24,016	(76)	34,449
Transfers (to) other funds	-	(16,758)	-		(16,758)
Transfers from other funds	250	-	16,077	431	16,758
Change in net assets	(2,180)	(3,819)	40,093	355	34,449
Total net assets, July 1	13,120	147,494	235,453	2,008	398,075
Total net assets, June 30	$ 10,940	$ 143,675	$ 275,546	$ 2,363	$ 432,524

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	$ 221	$ 56,028	$ 273,603	$ -	$ 329,852
Receipts from federal government	6,079	-	-	-	6,079
Receipts from other funds		14,441			14,441
Other miscellaneous receipts	2,315	859	-	-	3,174
Acquisition of mortgage loans	-	-	(215,315)	-	(215,315)
Payments to service mortgages	-	(736)	(4,338)	-	(5,074)
Payments to suppliers	(4,095)	(116)	(400)	(14)	(4,625)
Payments to federal government	-	(1,606)	(1,792)	(25)	(3,423)
Payments to other funds	(36)		(14,404)	(1)	(14,441)
Payments to employees	(10,005)	-	-	-	(10,005)
Net cash provided (used) by operating activities	(5,521)	68,870	37,354	(40)	100,663
Cash flows from non-capital financing activities:					
Operating grants received	158,188	-	-	-	158,188
Transfers in (out)	250	(16,715)	16,286	179	-
Negative cash balance implicitly financed	64	343	337	25	769
Proceeds from sale of bonds	-	-	203,534	-	203,534
Proceeds from issuance of notes	-	-	-	115,490	115,490
Operating grants paid	(152,894)	-	(2,995)	-	(155,889)
Call premium paid	-	-	(175)	-	(175)
Cost of issuance paid	-	-	(1,533)	(165)	(1,698)
Principal payments	-	(35,370)	(227,056)	(76,830)	(339,256)
Interest paid	-	(10,331)	(63,439)	(5,732)	(79,502)
Net cash provided (used) by non-capital financing activities	5,608	(62,073)	(75,041)	32,967	(98,539)
Cash flows from capital and related financing activities:					
Purchases of capital assets	(5)	-	-	-	(5)
Net cash used by capital and related financing activities	(5)	-	-	-	(5)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	21,785	51,906	-	73,691
Purchases of investments	-	(21,432)	(13,475)	-	(34,907)
Investment interest received	135	4,907	16,139	6,205	27,386
Net cash provided by investing activities	135	5,260	54,570	6,205	66,170
Net increase in cash and cash equivalents	217	12,057	16,883	39,132	68,289
Cash and cash equivalents, July 1	2,621	13,404	86,877	273,395	376,297
Cash and cash equivalents, June 30	$ 2,838	$ 25,461	$ 103,760	$ 312,527	$ 444,586

(continued)

Exhibit C

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	$ (1,348)	$ 12,939	$ 27,011	$ (76)	$ 38,526
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	5	88	450	165	708
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	-	786	(1,069)	-	(283)
Decrease in mortgage interest receivable	-	441	853	-	1,294
(Incease) decrease in first mortgage loans receivable	-	40,466	(15,261)	-	25,205
(Increase) in due from federal government	(3,782)	-	-	-	(3,782)
(Increase) decrease in deferred charges	(6)	65	548	-	607
(Increase) in interfund receivables	(36)	-	(14,404)	(1)	(14,441)
Increase in interfund payables	-	14,441	-	-	14,441
(Decrease) in accounts payable	(287)	(97)	(72)	-	(456)
Increase in accrued payroll / compensated absences	68	-	-	-	68
(Decrease) in deferred revenue	-	(88)	-	-	(88)
(Decrease) in arbitrage rebate liability	-	(1,606)	(1,792)	(25)	(3,423)
Investment (income) included as operating revenue	(135)	(8,437)	(24,230)	(6,205)	(39,007)
Interest expense included as operating expense	-	9,872	65,320	6,102	81,294
Total adjustments	(4,173)	55,931	10,343	36	62,137
Net cash provided (used) by operating activities	$ (5,521)	$ 68,870	$ 37,354	$ (40)	$ 100,663
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	$ -	$ -	$ 1,957	$ -	$ 1,957
Increase in fair value of investments	-	2,911	7,489	-	10,400
Total noncash investing, capital, and financing activities	$ -	$ 2,911	$ 9,446	$ -	$ 12,357

Exhibit D

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - OPERATING GROUP
JUNE 30, 2005
(Expressed in Thousands)

	Housing Program Fund	Direct Servicing	Operating Group Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,263	$ 575	$ 2,838
Receivables:			
First mortgage loans	75	-	75
Due from federal government	7,289	-	7,289
Total current assets	9,627	575	10,202
Noncurrent assets:			
First mortgage loans receivable	371	-	371
Deferred charges	27	-	27
Advance to local government	2,707	-	2,707
Capital assets:			
Furniture and equipment	93	-	93
Less accumulated depreciation	(77)	-	(77)
Total noncurrent assets	3,121	-	3,121
Total assets	12,748	575	13,323
LIABILITIES			
Current liabilities:			
Checks payable	-	66	66
Accounts payable	652	1	653
Accrued payroll and related liabilities	279	-	279
Compensated absences	313	-	313
Due to primary government	42	-	42
Escrow deposits	-	466	466
Due to other funds	-	-	-
Total current liabilities	1,286	533	1,819
Noncurrent liabilities:			
Compensated absences	326	-	326
Escrow deposits	238	-	238
Total noncurrent liabilities	564	-	564
Total liabilities	1,850	533	2,383
NET ASSETS			
Invested in capital assets	16	-	16
Restricted for grant programs	460	-	460
Restricted for Homebuyers Revolving Loan Program	3,154	-	3,154
Unrestricted	7,268	42	7,310
Total net assets	$ 10,898	$ 42	$ 10,940

Exhibit E

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
JUNE 30, 2005
(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	$ 20,011	$ 3,304	$ 23,315	$ 1,699	$ 25,014
Receivables:					
Accounts	1,631	-	1,631	-	1,631
Interest	2,157	497	2,654	120	2,774
First mortgage loans	8,255	473	8,728	-	8,728
Total current assets	32,054	4,274	36,328	1,819	38,147
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	447	-	447	-	447
Investments	41,189	-	41,189	-	41,189
Investment interest receivable	551	-	551	-	551
Investments	36,949	24,401	61,350	11,719	73,069
First mortgage loans receivable	193,321	5,007	198,328	-	198,328
Deferred charges	1,169	-	1,169	-	1,169
Total noncurrent assets	273,626	29,408	303,034	11,719	314,753
Total assets	305,680	33,682	339,362	13,538	352,900
LIABILITIES					
Current liabilities:					
Checks payable / Wires Payable	305	14	319	184	503
Accounts payable	9	28	37	-	37
Interest payable	4,411	-	4,411	-	4,411
Escrow deposits	-	-	-	1,019	1,019
Prepayments on mortgage loans	133	6	139	-	139
Bonds payable	14,220	-	14,220	-	14,220
Total current liabilities	19,078	48	19,126	1,203	20,329
Noncurrent liabilities:					
Bonds payable	175,001	-	175,001	-	175,001
Escrow deposits	-	1,408	1,408	12,228	13,636
Deferred revenue	-	219	219	40	259
Total noncurrent liabilities	175,001	1,627	176,628	12,268	188,896
Total liabilities	194,079	1,675	195,754	13,471	209,225
NET ASSETS					
Restricted for single family bond programs	111,601	32,007	143,608	67	143,675
Total net assets	$ 111,601	$ 32,007	$ 143,608	$ 67	$ 143,675

* 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.