

**METROPOLITAN DEVELOPMENT
AND HOUSING AGENCY**

NASHVILLE, TENNESSEE

**ANNUAL FINANCIAL REPORT
AND OTHER FINANCIAL INFORMATION**

SEPTEMBER 30, 2008 AND 2007

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

INTRODUCTION

The Metropolitan Housing and Development Agency (“MDHA” or the “Agency”) is pleased to present its Annual Financial Report and Other Financial Information for the years ended September 30, 2008 and 2007.

Responsibility and Controls

MDHA has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting control is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal control. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting control maintains an appropriate cost/benefit relationship.

MDHA’s system of internal accounting control is evaluated on an ongoing basis by MDHA’s internal financial staff. Crosslin & Associates, P.C., our external auditors, also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that MDHA’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the financial position of MDHA as of September 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unqualified opinion of our independent external auditors, Crosslin & Associates, P.C., on the September 30, 2008 and 2007 financial statements is included in this report.



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Metropolitan Development and Housing Agency
Nashville, Tennessee

We have audited the accompanying statements of net assets of the Metropolitan Development and Housing Agency (the "Agency"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of September 30, 2008 and 2007, 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 auditing standards require that we plan and perform the audits 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 Metropolitan Development and Housing Agency as of September 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2009 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, 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 considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 4 through 12 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. This supplementary information is the responsibility of the Agency's management. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Metropolitan Development and Housing Agency's basic financial statements. The accompanying schedule of expenditures of federal awards, pages 37-41, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedule of actual costs for the specified project from inception through completion on page 42, as required by the U.S. Department of Housing and Urban Development are presented for purposes of additional analysis and are not required parts 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.

Crosslin + Associates, P.C.

Nashville, Tennessee
February 2, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Metropolitan Development and Housing Agency's ("MDHA" or the "Agency") annual financial report presents our discussion and analysis of the Agency's financial performance during the fiscal years ended September 30, 2008 and 2007 as compared to fiscal years 2007 and 2006, respectively. Please read this analysis in conjunction with the Agency's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Fiscal year 2008:

- The Agency's total Net Assets increased \$8.4 million (3%)
- Bonds, Notes and Other Liabilities increased \$0.5 million (1%)
- Operating Revenues increased \$0.2 million (0%)
- Operating Expenses increased \$12.5 million (14%)
- Operating Loss increased \$12.4 million (>100%)
- Governmental Capital Contributions decreased \$7.2 million (-38%)

Fiscal year 2007:

- The Agency's total Net Assets increased \$28.6 million (11%)
- Bonds, Notes and Other Liabilities increased \$5.5 million (18%)
- Operating Revenues increased \$8.4 million (9%)
- Operating Expenses decreased \$0.6 million (-1%)
- Operating Income increased \$9.0 million (>100%)
- Governmental Capital Contributions increased \$1.6 million (9%)

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report consists of two parts: management's discussion and analysis and the basic financial statements. The financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and notes to the financial statements. The statement of net assets provides a record or snapshot of the assets and liabilities at the close of the fiscal year. It presents the financial position of the Agency on a full accrual historical cost basis. The statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year. The statement of cash flows is related to the other financial statements by the way it links changes in assets and liabilities to the effects on cash and cash equivalents over the course of the fiscal year. The notes to the financial statements provide useful information regarding the Agency's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events.

The Agency is supported by rentals, fees, and federal and state grants and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Agency. While detailed sub-fund information is not presented, separate accounts are maintained for each program of the Agency to control and manage money for particular purposes or to demonstrate that the Agency is properly using specific grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets

Fiscal year 2008 as compared to fiscal year 2007:

	<u>2008</u>	<u>2007</u>	<u>% Increase (Decrease)</u>
Current Assets	\$ 68,206,792	\$ 69,053,834	(1) %
Noncurrent Assets			
Capital Assets	217,924,780	206,921,160	5 %
Other Assets	<u>36,881,575</u>	<u>38,167,957</u>	(3) %
Total Assets	<u><u>323,013,147</u></u>	<u><u>314,142,951</u></u>	3 %
Bonds and Notes Payable	16,773,648	17,218,420	(3) %
Other Liabilities	<u>20,168,580</u>	<u>19,236,562</u>	5 %
Total Liabilities	<u><u>36,942,228</u></u>	<u><u>36,454,982</u></u>	1 %
Net Assets Invested in Capital Assets	201,151,132	189,702,740	6 %
Net Assets Restricted for Other Purposes	7,316,413	8,454,128	(13) %
Unrestricted Net Assets	<u>77,603,374</u>	<u>79,531,101</u>	(2) %
Total Net Assets	<u><u>\$ 286,070,919</u></u>	<u><u>\$ 277,687,969</u></u>	3 %

The Agency's total net assets increased \$8.4 million, or 3%, in part as a result of the following:

- Capital asset additions, consisting principally of the John Henry Hale HOPE VI and Capital Fund projects, totaled \$21.9 million during the year.
- Increase in net assets of \$1.4 million resulting from excess tax increment funds generated from debt-free projects.
- Decrease in net assets of \$1.5 million resulting primarily from the write off of capitalized energy performance improvements for properties that have been demolished using HOPE VI funding and rebuilt or have undergone significant modernization with Capital Fund program funding. Depreciation has been accelerated on the remaining net book value of improvements to be consistent with the retirement of the energy performance debt in June 2009.
- Decrease of \$1.0 in net assets of the Housing Choice Voucher program due to program expenditures exceeding grant revenues in the current year.
- Decrease in net assets of \$9.7 million resulting from depreciation expense for capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF THE AGENCY (CONTINUED)

Fiscal year 2007 as compared to fiscal year 2006:

	2007	2006	% Increase (Decrease)
Current Assets	\$ 69,053,834	\$ 57,398,152	20 %
Noncurrent Assets			
Capital Assets	206,921,160	183,462,531	13 %
Other Assets	38,167,957	39,143,684	(2) %
Total Assets	<u>314,142,951</u>	<u>280,004,367</u>	12 %
Bonds and Notes Payable	17,218,420	14,694,781	17 %
Other Liabilities	19,236,562	16,252,656	18 %
Total Liabilities	<u>36,454,982</u>	<u>30,947,437</u>	18 %
Net Assets Invested in Capital Assets	189,702,740	168,767,750	12 %
Net Assets Restricted for Other Purposes	8,454,128	6,081,503	39 %
Unrestricted Net Assets	79,531,101	74,207,677	7 %
Total Net Assets	<u>\$ 277,687,969</u>	<u>\$ 249,056,930</u>	11 %

The Agency's total net assets increased \$28.6 million, or 11%, in part as a result of the following:

- The John Henry Hale HOPE VI, and Capital Fund projects had capital improvements of \$27.5 million.
- Increase in net assets of \$4.6 million resulting from excess tax increment funds generated from debt-free projects.
- Decrease in net assets of \$2.0 million resulting from working capital transfers to the Preston Taylor and Vine Hill LLCs from the Low Rent Housing program due to the implementation of Project-Based Accounting.
- Decrease in net assets of \$1 million resulting from impairment allowance recorded for the Vine Hill LLC's note receivable based upon a restricted appraisal valuation performed.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF THE AGENCY (CONTINUED)

Revenues, Expenses and Changes in Net Assets

Fiscal year 2008 as compared to fiscal year 2007:

	2008	2007	% Increase (Decrease)
Operating Revenues			
Rentals	\$ 9,819,650	\$ 9,002,101	9 %
Governmental Operating Revenue	73,130,530	72,073,452	1 %
Local Government Development Activities	12,784,715	13,678,097	(7) %
Other	3,456,341	4,266,162	(19) %
Total Operating Revenues	<u>99,191,236</u>	<u>99,019,812</u>	-
Operating Expenses:			
Administrative expenses	14,926,897	14,505,833	3 %
Other	87,944,935	75,820,313	16 %
Total Operating Expenses	<u>102,871,832</u>	<u>90,326,146</u>	14 %
Operating (Loss) Income	<u>(3,680,596)</u>	<u>8,693,666</u>	>100 %
Nonoperating Revenues	331,706	984,236	(66) %
Capital Contributions	<u>11,731,840</u>	<u>18,953,137</u>	(38) %
			%
Change in Net Assets	<u>\$ 8,382,950</u>	<u>\$ 28,631,039</u>	(71) %

The increase in rental revenue is due the substantial completion of John Henry Hale Homes, which increased the available units by 228. Additionally, the net income of tenants increased, resulting in an average rent increase of \$6 per month per available unit.

The decrease in nonoperating revenue is due to an auction held in the prior year of excess equipment after the conversion to asset based accounting and modification of the Agency's organization chart. Additionally, interest income on investments decreased due to general decreases in rates of returns on certificates of deposit. The Agency also recorded a loss in 2008 on the disposition of equipment acquired with energy performance bond funds for properties that have been demolished using HOPE VI funding and rebuilt or properties that have gone through significant capital fund modernization.

The increase in total other operating expenses is due to an increase in utility expense resulting from the discontinuance of a large customer discount from the water department that had been received in prior years coupled with rate increases for electricity and gas. Housing assistance payments also increased due to the change in average landlord payments. The HOME grant direct program costs increased due to new projects during the current year for site work on property to develop affordable housing, grants to nonprofit agencies, and downpayment assistance grants.

Capital contributions decreased due to the substantial completion of the John Henry Hale Homes during the current year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF THE AGENCY (CONTINUED)

Fiscal year 2007 as compared to fiscal year 2006:

	2007	2006	% Increase (Decrease)
Operating Revenues			
Rentals	\$ 9,002,101	\$ 8,549,137	5 %
Governmental Operating Revenue	72,073,452	70,188,180	3 %
Local Government Development Activities	13,678,097	7,373,869	85 %
Other	4,266,162	4,500,612	(5) %
Total Operating Revenues	<u>99,019,812</u>	<u>90,611,798</u>	9 %
Operating Expenses:			
Administrative expenses	14,505,833	15,813,702	(8) %
Other	75,820,313	75,154,039	1 %
Total Operating Expenses	<u>90,326,146</u>	<u>90,967,741</u>	(1) %
Operating Income (Loss)	8,693,666	(355,943)	>100 %
Nonoperating Revenues	984,236	1,614,947	(39) %
Capital Contributions	<u>18,953,137</u>	<u>17,389,854</u>	9 %
Change in Net Assets	<u>\$ 28,631,039</u>	<u>\$ 18,648,858</u>	54 %

Major projects that MDHA administers on behalf of the Metropolitan Government of Nashville and Davidson County ("Metropolitan Government") and excess funds tax increment funds from debt free projects generated an increase in revenue from local government development activities.

The reduction of administrative, tenant and ordinary maintenance salaries and employees benefits are due to the reduction of MDHA's workforce implemented during fiscal 2006. The reduction resulted in 24 voluntary terminations and 24 involuntary terminations. The cost of termination benefits totaled \$1.6 million in 2006. As of October 1, 2006, the Agency implemented Project-Based Budgeting and Accounting. As a result, the Agency's organization chart was modified and several centralized maintenance functions were transferred to the Asset Management Properties sites. The centralized applications and work order departments were reorganized and moved to the sites during 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSETS

Fiscal year 2008 as compared to fiscal year 2007:

	2008	2007	% Increase (Decrease)
Land	\$ 48,831,993	\$ 44,177,752	11 %
Infrastructure	20,657,288	15,030,788	37 %
Buildings	240,095,573	215,646,704	11 %
Equipment	4,429,520	5,427,907	(18) %
Construction in progress	<u>25,437,492</u>	<u>42,192,424</u>	(40) %
Total	339,451,866	322,475,575	5 %
Less Accumulated Depreciation	<u>(121,527,086)</u>	<u>(115,554,415)</u>	5 %
Net Capital Assets	<u>\$ 217,924,780</u>	<u>\$ 206,921,160</u>	5 %

Capital assets increased \$11 million, or 5% during fiscal year 2008. During fiscal year 2008, the Agency expended \$21.9 million on capital activities. This included \$11.8 million for John Henry Hale Homes, \$2.2 million for the Rolling Mill Hill project, and \$960,000 for site work at the Woods of Monticello subdivision. Also included in additions to capital assets is modernization work performed for \$2.5 million at J.C. Napier Homes, \$1.9 at Parkway Terrace, \$600,000 at I.W. Gernert, and \$350,000 at Madison Towers. Expenditures for engineering and design services totaling \$400,000 for re-roofing at Cayce, Sudekum, and Edgefield homes were also capitalized.

Major projects completed during the fiscal year included \$37.9 million for the John Henry Hale Homes project. The construction in progress account for his project was closed to the respective capital accounts during the year.

Capital asset acquisitions are capitalized at cost. Acquisitions are funded from federal grants and operating subsidy.

Depreciation expense on capital assets totaled \$9.7 million during fiscal year 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal year 2007 as compared to fiscal year 2006:

	<u>2007</u>	<u>2006</u>	<u>% Increase (Decrease)</u>
Land	\$ 44,177,752	\$ 40,353,714	9 %
Infrastructure	15,030,788	11,238,363	34 %
Buildings	215,646,704	183,337,956	18 %
Equipment	5,427,907	5,932,445	(9) %
Construction in progress	<u>42,192,424</u>	<u>52,652,906</u>	(20) %
Total	322,475,575	293,515,384	10 %
Less Accumulated Depreciation	<u>(115,554,415)</u>	<u>(110,052,853)</u>	5 %
Net Capital Assets	<u>\$ 206,921,160</u>	<u>\$ 183,462,531</u>	13 %

Capital assets increased \$23.5 million, or 13% during fiscal year 2007. During fiscal year 2007, the Agency expended \$33 million on capital activities. This included \$20.0 million for John Henry Hale Homes, \$3.4 for the Rolling Mill Hill project, \$8.1 for Parkway Terrace modernization, \$870,000 for Sam Levy Homes, \$214,000 for J.C. Napier Homes modernization, and \$130,000 for HVAC and security upgrades for the administration building.

Major projects completed during the fiscal year included \$27.0 million for the Sam Levy Homes HOPE VI project, \$7.6 million for the J.C. Napier Phase II and III renovations, and \$6.8 million for the Parkway Terrace renovation. The construction in progress accounts for these projects were closed to their respective capital accounts during the year.

Capital asset acquisitions are capitalized at cost. Acquisitions are funded from federal grants and operating subsidy.

Depreciation expense on capital assets totaled \$8.4 million during fiscal year 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DEBT ADMINISTRATION

At September 30, 2008, the Agency's bond and note principal outstanding totaled \$16.8 million - a decrease of 3% from the prior year. The bonds payable consist of Series 2003 Refunding Revenue Bonds that are unsecured. The Series 2003 Bonds were issued to advance refund the Series 1998 Refunding Revenue Bonds in December 2003. The market conditions for lower interest rates and the ability to reissue shorter term bonds provided an opportunity to refinance the outstanding bonds to achieve savings in debt service costs. Repayment of the bond interest and principal will come from the savings generated by the reduction in utilities expense for low rent housing. The notes payable include a promissory note secured by 76 (3-bedroom) apartments; a promissory note secured by the Sam Levy Homes; a construction loan secured by the John Henry Hale Homes; and a line of credit with the Metropolitan Government for the Rolling Mill Hill project secured by the property sales proceeds and an assignment of rents and leases from the property. The Agency's promissory note secured by property for the downtown energy system was repaid during the 2008 fiscal year

Fiscal year 2008 as compared to fiscal year 2007:

	2008	2007	% Increase (Decrease)
Bonds Payable	\$ 2,685,490	\$ 4,018,758	(33) %
Notes Payable - other	<u>14,088,158</u>	<u>13,199,662</u>	7 %
Total Bonds and Notes Payable	<u>\$ 16,773,648</u>	<u>\$ 17,218,420</u>	(3) %

Fiscal year 2007 as compared to fiscal year 2006:

	2007	2006	% Increase (Decrease)
Bonds Payable	\$ 4,018,758	\$ 5,297,026	(24) %
Notes Payable - other	<u>13,199,662</u>	<u>9,397,755</u>	40 %
Total Bonds and Notes Payable	<u>\$ 17,218,420</u>	<u>\$ 14,694,781</u>	17 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

NEW BUSINESS

The Agency has entered into a memorandum of understanding with the Metropolitan Government to manage, control and have responsibility over the predevelopment activities for the new downtown convention center. The Metropolitan Government agrees to reimburse the Agency for all reasonable expenses incurred in connection with this project.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our residents, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Director of Finance at MDHA, P.O. Box 846, Nashville, TN 37202.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENTS OF NET ASSETS

SEPTEMBER 30, 2008 AND 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,731,614	\$ 16,852,748
Restricted cash and cash equivalents	4,476,657	3,878,346
Investments, at fair value	40,288,496	29,671,207
Restricted investments, at fair value	7,316,413	7,338,477
Receivables:		
Tenant, net of allowances	68,807	19,700
Amounts due from other governmental agencies	5,307,690	4,638,456
Current portion of notes receivable, net of allowances	575,862	738,814
Interest on investments	506,931	538,251
Other	315,867	96,542
Inventory	5,141,418	4,763,717
Prepaid expenses	477,037	517,576
TOTAL CURRENT ASSETS	<u>68,206,792</u>	<u>69,053,834</u>
CAPITAL ASSETS, NET	<u>217,924,780</u>	<u>206,921,160</u>
NONCURRENT ASSETS		
Restricted investments, at fair value	-	1,230,418
Investments, equity method	510,219	497,079
Notes receivable, net of allowances	35,314,860	35,704,408
Other assets	1,056,496	736,052
TOTAL NONCURRENT ASSETS	<u>36,881,575</u>	<u>38,167,957</u>
TOTAL ASSETS	<u>\$ 323,013,147</u>	<u>\$ 314,142,951</u>

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
CURRENT LIABILITIES		
Funds held for others	\$ 4,476,657	\$ 3,994,474
Accounts payable	5,142,934	6,315,827
Contract retention payable	60,637	21,489
Compensated absences payable	538,891	662,609
Accrued liabilities	681,410	474,214
Due to tenants	919,062	891,347
Deferred revenue	72,486	72,620
Due to other governments	6,112,421	4,845,092
Current portion of long-term debt	<u>13,061,094</u>	<u>10,821,573</u>
TOTAL CURRENT LIABILITIES	<u>31,065,592</u>	<u>28,099,245</u>
NONCURRENT LIABILITIES		
Deposits	253,478	255,038
Long-term debt, less current maturities	3,712,554	6,396,847
Long-term compensated absences payable	<u>1,910,604</u>	<u>1,703,852</u>
TOTAL NONCURRENT LIABILITIES	<u>5,876,636</u>	<u>8,355,737</u>
TOTAL LIABILITIES	<u>36,942,228</u>	<u>36,454,982</u>
NET ASSETS		
Invested in capital assets, net of related debt	201,151,132	189,702,740
Restricted for other purposes	7,316,413	8,454,128
Unrestricted	<u>77,603,374</u>	<u>79,531,101</u>
TOTAL NET ASSETS	<u>286,070,919</u>	<u>277,687,969</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 323,013,147</u>	<u>\$ 314,142,951</u>

The accompanying notes are an integral part of this financial statement.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Rentals	\$ 9,819,650	\$ 9,002,101
Governmental operating revenue	73,130,530	72,073,452
Program income	235,599	570,278
Local government development activities	12,784,715	13,678,097
Other income	3,220,742	3,694,884
Contributions	-	1,000
	<u>99,191,236</u>	<u>99,019,812</u>
TOTAL OPERATING REVENUES		
OPERATING EXPENSES		
Cost of Services:		
Tenant services	1,113,796	1,044,337
Utilities	7,597,522	6,809,791
Ordinary maintenance and operations	13,165,191	11,780,515
Protective services	918,010	993,254
Other direct program costs	22,798,732	16,082,202
Housing assistance payments	32,648,425	30,722,146
Administration	14,926,897	14,505,833
Depreciation	9,703,259	8,388,068
	<u>102,871,832</u>	<u>90,326,146</u>
TOTAL OPERATING EXPENSES		
OPERATING (LOSS) INCOME	<u>(3,680,596)</u>	<u>8,693,666</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	2,110,074	2,732,269
Impairment allowance on notes receivable	-	(1,233,061)
Loss on disposition of assets	(1,212,844)	(62,176)
Interest expense	(565,524)	(452,796)
	<u>331,706</u>	<u>984,236</u>
TOTAL NONOPERATING REVENUES - NET		
(DECREASE) INCREASE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(3,348,890)	9,677,902
Capital Contributions	<u>11,731,840</u>	<u>18,953,137</u>
INCREASE IN NET ASSETS	8,382,950	28,631,039
NET ASSETS - BEGINNING OF YEAR	<u>277,687,969</u>	<u>249,056,930</u>
NET ASSETS - END OF YEAR	<u>\$ 286,070,919</u>	<u>\$ 277,687,969</u>

The accompanying notes are an integral part of this financial statement.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from rental operations	\$ 9,767,354	\$ 9,063,895
Receipts from program income	210,115	322,068
Receipts from government subsidy for operations	72,422,230	69,944,236
Receipts from local governmental development activities	7,212,224	15,568,012
Receipts from other	7,823,582	4,465,495
Receipts from contributions	174,896	1,000
Receipts from inventory sales	-	224,588
Payments for inventory purchases	(382,283)	(644,912)
Payments to and on behalf of employees	(18,355,335)	(18,341,219)
Payments for other administrative expenses	(3,006,211)	(3,282,038)
Payments for other direct program costs, including housing assistance payments	(71,242,941)	(56,881,575)
Program loan activities:		
Cash expended for program loans	(251,415)	(1,652,457)
Principal collections on notes receivable	747,106	2,274,591
Interest income collections	<u>87,440</u>	<u>87,141</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>5,206,762</u>	<u>21,148,825</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from governmental capital grants	12,487,898	18,128,998
Purchases of capital assets	(21,919,723)	(33,283,873)
Proceeds from capital debt	3,285,726	3,881,717
Principal paid on capital debt	(3,812,234)	(1,439,810)
Proceeds from sale of capital assets	-	1,375,000
Interest paid on capital debt	<u>(459,284)</u>	<u>(346,566)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(10,417,617)</u>	<u>(11,684,534)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(85,614,760)	(98,928,466)
Proceeds from the sales and maturities of investments	76,122,043	98,058,865
Interest received	<u>2,180,749</u>	<u>2,828,438</u>
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(7,311,968)</u>	<u>1,958,837</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(12,522,823)	11,423,128
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>20,731,094</u>	<u>9,307,966</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 8,208,271</u>	<u>\$ 20,731,094</u>

The accompanying notes are an integral part of this financial statement.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss) income	\$ (3,680,596)	\$ 8,693,666
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation expense	9,703,259	8,388,068
Bad debt expense	463,113	152,156
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(2,140,745)	841,901
Increase in inventories	(377,701)	(385)
Increase in prepaid expenses and other assets	(304,409)	(532,621)
Increase in due to tenants	27,715	66,823
Increase in accounts payable and amounts due to other governments	731,899	3,276,796
Decrease in deferred revenue and other deposits	(1,694)	(4,634)
Increase (decrease) in accrued liabilities and compensated absences	290,230	(355,079)
Program loan activities:		
Cash expended for program loans	(251,415)	(1,652,457)
Principal collections on notes receivable	747,106	2,274,591
TOTAL ADJUSTMENTS	<u>8,887,358</u>	<u>12,455,159</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,206,762</u>	<u>\$ 21,148,825</u>

The accompanying notes are an integral part of this financial statement.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

NOTE 1 - NATURE OF THE AGENCY

The Metropolitan Development and Housing Agency of Nashville, Tennessee (“MDHA” or the “Agency”), a public corporate body, was organized in 1938 under the laws of the State of Tennessee and is a discretely presented component unit of the Metropolitan Government of Nashville and Davidson County (the “Metropolitan Government”). The Agency was created for the purpose of providing affordable housing opportunities in a safe environment. MDHA has administrative responsibility for various other community development programs whose primary purpose is the development of viable urban communities including the administration of capital projects on behalf of the Metropolitan Government.

The governing body of the Agency is its Board of Commissioners, composed of seven members appointed by the Mayor and confirmed by the Metropolitan Council of Nashville and Davidson County, Tennessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement focus, basis of accounting and basis of presentation

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Agency has elected to apply all Governmental Accounting Standards Board (“GASB”) pronouncements, as well as the following pronouncements, unless they conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins.

The Agency distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from grant agreements and providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues of the Agency include program specific grants, rental income from tenants of the various single and multi-family housing projects and development fees for the administration of various community development programs and capital projects of the Metropolitan Government. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting entity

As described in GASB Statement No. 34, paragraph 134, the Agency meets the definition of a special purpose government (“SPG”). MDHA is a legally separate entity that is engaged in only business-type activities. Business-type activities are defined as activities that are financed in whole or in part by fees charged to external parties for goods or services. SPGs engaged only in business-type activities are required to present only the financial statements required for proprietary funds, which includes Management’s Discussion and Analysis (“MD&A”), basic financial statements, and Required Supplemental Information (“RSI”).

Cash and cash equivalents

The Agency’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents are stated at fair value.

Investments

Investments consist primarily of certificates of deposit and are stated at cost, which approximates fair value.

Capital assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, and similar items), with an initial, individual cost of more than \$5,000 and an estimated useful life of one year or more. Capital assets are stated at cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The costs of U. S. Department of Housing and Urban Development (“HUD”) “Capital Fund” projects are reported as construction-in-progress until audited cost certification reports are approved by HUD, at which time such costs are transferred to appropriate fixed assets categories. Depreciation is provided by the straight-line method over the following estimated useful lives of the assets:

Building	40 years
Infrastructure	15 years
Furniture and fixtures	5 to 7 years
Equipment	5 to 7 years

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

MDHA's inventory consists of vacant properties that have been purchased or received as contributions from the Metropolitan Government. Inventory also includes single-family homes that were constructed with federal or state funds and are available for sale to qualified agencies or individuals. Properties purchased or constructed are reported at historical cost. Properties contributed by the Metropolitan Government are recorded at fair value at the date of gift. These costs are reported as inventory until such time as the property is sold or used. Additionally, the Agency holds certain properties under agreements with the Metropolitan Government. Under the agreements, the proceeds from sale of such properties revert to the Metropolitan Government. The properties are recorded in inventory at fair value at the date of transfer with a corresponding liability recorded for the expected amount owed to the Metropolitan Government upon sale.

Provision for uncollectible notes

A note receivable is considered impaired when, based on current information, it is probable that all amounts of principal and interest due will not be collected according to the terms of the note agreement. The allowance for uncollectible notes is established by charges to program services expense and is maintained at an amount which management believes adequate to absorb losses on existing notes. Uncollectible notes are charged to the allowance account in the period such determination is made.

Compensated absences

Employees earn annual leave at a rate ranging from 12 days per year for the first five years of service, up to a maximum of 25½ days per year after 20 years. There is no requirement that annual leave be taken; however, the maximum permissible accumulation is 76½ days. Sick leave is accumulated at the rate of one work day per month. Unused sick leave may accumulate to an unlimited amount. At termination, employees are paid for any accumulated annual leave, and employees who have completed 15 years or more of service will be paid 20% of their unused sick leave. All annual leave and vested sick leave are accrued in the period incurred.

Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

Restricted assets consist of certificates of deposit and debt service investments which are legally restricted. The restricted assets are to be used for purposes specified in the bond agreements for debt service investments and under the Housing Choice Voucher or Family Self Sufficiency programs for certificates of deposit. When restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

Reclassifications

Certain reclassifications have been made to the financial statements for fiscal year 2007 to conform to the presentation adopted for 2008, including a \$6,243,567 reclassification from unrestricted net assets to restricted net assets resulting from classification requirements of the Housing Choice Voucher program as administered by the U.S. Department of Housing and Urban Development. The related investment assets have similarly been classified to restricted in the statements of net assets.

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposit and Investment Policy

MDHA's deposit and investment policy is governed by the laws of the State of Tennessee and the Department of Housing and Urban Development guidelines. Permissible investments include direct obligations of the U. S. Government and Agency securities, certificates of deposit, savings accounts, repurchase agreements and the State of Tennessee Local Government Investment Pool.

Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its subdivisions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's bank collateral pool.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

As of September 30, 2008 and 2007, the majority of MDHA's deposits were held by financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregated balance of their public fund accounts for MDHA. The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. 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 in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

Cash and cash equivalents

The carrying amount of cash and cash equivalents at September 30, 2008 and 2007 totaled \$8,208,271 and \$20,731,094, respectively, and the corresponding bank balance was \$8,728,388 and \$20,871,466, respectively. The difference between the carrying amounts of cash and cash equivalents and the corresponding bank balances is due primarily to checks outstanding at September 30, 2008 and 2007. The entire balance of cash and cash equivalents was covered by the State bank collateral pool, federal depository insurance or collateralized with securities held by the government's agent in the government's name.

Included in cash and cash equivalents at September 30, 2008 and 2007, were \$4,476,657 and \$3,878,346, respectively, which is held in MDHA's name and managed by the Agency under a 'Memorandum of Understanding' (MOU) for the benefit of certain not-for-profit organizations and affiliate entities. The amounts managed under the MOU are presented as restricted cash and cash equivalents in the accompanying statements of net assets as of September 30, 2008 and 2007.

Investments

The Agency's investments at September 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Certificates of Deposit	\$46,698,520	\$36,337,156
Federal Obligations	906,389	1,902,946
Investment in Park at Hillside, LLC	<u>510,219</u>	<u>497,079</u>
Total	<u>\$48,115,128</u>	<u>\$38,737,181</u>

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Certificates of deposit were covered by the State bank collateral pool, federal depository insurance or collateralized with securities held by the government's agent in the government's name. Federal obligations consist primarily of federal home loan bank obligations and are guaranteed by the U.S. government.

The Agency has not established a limit on the amount it may invest in any one issuer. More than 5% of the Agency's investments are held by Pinnacle Bank, Fifth-Third Bank, Bank of Nashville, and Citizens Bank. These investments consist of certificates of deposit and are 37%, 34%, 16%, and 10%, respectively, of the Agency's total investments at September 30, 2008.

Included in restricted investments at September 30, 2007 was \$114,767, which was held in the Agency's name and managed by the Agency under a 'Memorandum of Understanding' for a certain not-for-profit organization. Also included in restricted investments at September 30, 2008 and 2007 were \$906,389 and \$902,947, respectively, representing debt service funds required by the Agency's Series 2003 Low-Rent Housing Refunding Revenue Bonds.

The Agency maintains certain deposits for participants of the HUD Family Self-Sufficiency program. These funds totaled \$166,457 and \$212,704 at September 30, 2008 and 2007, respectively, and were included in restricted investments in the accompanying statements of net assets. Also included in restricted investments at September 30, 2008 and 2007 were \$6,243,567 and \$7,338,477, respectively, representing excess Section 8 restricted housing assistance funds under the Housing Choice Voucher program.

At September 30, 2008, the future maturities of MDHA's investments are as follows:

Type of Investment	Carrying Amount	Maturity Fiscal 2009	Not Subject to Maturity
Certificates of Deposit	\$ 46,698,520	\$ 46,698,520	\$ -
Federal Obligations	906,389	906,389	-
Investment in Park at Hillside, LLC	510,219	-	510,219
TOTAL	<u>\$ 48,115,128</u>	<u>\$ 47,604,909</u>	<u>\$ 510,219</u>

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2008 follows:

	<u>Balance</u> <u>October 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>September 30, 2008</u>
Capital assets, not being depreciated:					
Land	\$ 44,177,752	\$ -	\$ -	\$ 4,654,241	\$ 48,831,993
Construction in progress	<u>42,192,424</u>	<u>21,410,643</u>	<u>-</u>	<u>(38,165,575)</u>	<u>25,437,492</u>
Total capital assets, not being depreciated	<u>86,370,176</u>	<u>21,410,643</u>	<u>-</u>	<u>(33,511,334)</u>	<u>74,269,485</u>
Capital assets, being depreciated:					
Buildings	215,646,704	287,799	(3,714,424)	27,875,494	240,095,573
Infrastructure	15,030,788	-	-	5,626,500	20,657,288
Furniture, equipment, & machinery - dwellings	3,694,405	154,278	(1,191,534)	-	2,657,149
Furniture, equipment, & machinery - administrative	<u>1,733,502</u>	<u>67,003</u>	<u>(37,474)</u>	<u>9,340</u>	<u>1,772,371</u>
Total capital assets, being depreciated	<u>236,105,399</u>	<u>509,080</u>	<u>(4,943,432)</u>	<u>33,511,334</u>	<u>265,182,381</u>
Less accumulated depreciation for:					
Buildings	(101,533,100)	(8,926,202)	2,501,580	-	(107,957,722)
Infrastructure	(9,331,129)	(518,051)	-	-	(9,849,180)
Furniture, equipment, & machinery - dwellings	(3,226,940)	(146,247)	1,191,534	-	(2,181,653)
Furniture, equipment, & machinery - administrative	<u>(1,463,246)</u>	<u>(112,759)</u>	<u>37,474</u>	<u>-</u>	<u>(1,538,531)</u>
Total accumulated depreciation	<u>(115,554,415)</u>	<u>(9,703,259)</u>	<u>3,730,588</u>	<u>-</u>	<u>(121,527,086)</u>
Total capital assets, being depreciated, net	<u>120,550,984</u>	<u>(9,194,179)</u>	<u>(1,212,844)</u>	<u>33,511,334</u>	<u>143,655,295</u>
Total capital assets, net	<u>\$ 206,921,160</u>	<u>\$ 12,216,464</u>	<u>\$ (1,212,844)</u>	<u>\$ -</u>	<u>\$ 217,924,780</u>

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 4 - CAPITAL ASSETS (CONTINUED)

A summary of changes in property, plant and equipment for the year ended September 30, 2007 follows:

	<u>Balance</u> <u>October 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>September 30, 2007</u>
Capital assets, not being depreciated:					
Land	\$ 40,353,714	\$ -	\$ -	\$ 3,824,038	\$ 44,177,752
Construction in progress	<u>52,652,906</u>	<u>32,836,585</u>	<u>(1,375,000)</u>	<u>(41,922,067)</u>	<u>42,192,424</u>
Total capital assets, not being depreciated	<u>93,006,620</u>	<u>32,836,585</u>	<u>(1,375,000)</u>	<u>(38,098,029)</u>	<u>86,370,176</u>
Capital assets, being depreciated:					
Buildings	183,337,956	88,822	(2,114,462)	34,334,388	215,646,704
Infrastructure	11,238,363	28,784	-	3,763,641	15,030,788
Furniture, equipment, & machinery - dwellings	4,168,637	220,780	(695,012)	-	3,694,405
Furniture, equipment, & machinery - administrative	<u>1,763,808</u>	<u>108,902</u>	<u>(139,208)</u>	<u>-</u>	<u>1,733,502</u>
Total capital assets, being depreciated	<u>200,508,764</u>	<u>447,288</u>	<u>(2,948,682)</u>	<u>38,098,029</u>	<u>236,105,399</u>
Less accumulated depreciation for:					
Buildings	(95,913,601)	(7,725,170)	2,105,671	-	(101,533,100)
Infrastructure	(8,931,429)	(399,700)	-	-	(9,331,129)
Furniture, equipment, & machinery - dwellings	(3,692,834)	(179,014)	644,908	-	(3,226,940)
Furniture, equipment, & machinery - administrative	<u>(1,514,989)</u>	<u>(84,184)</u>	<u>135,927</u>	<u>-</u>	<u>(1,463,246)</u>
Total accumulated depreciation	<u>(110,052,853)</u>	<u>(8,388,068)</u>	<u>2,886,506</u>	<u>-</u>	<u>(115,554,415)</u>
Total capital assets, being depreciated, net	<u>90,455,911</u>	<u>(7,940,780)</u>	<u>(62,176)</u>	<u>38,098,029</u>	<u>120,550,984</u>
Total capital assets, net	<u>\$ 183,462,531</u>	<u>\$ 24,895,805</u>	<u>\$ (1,437,176)</u>	<u>\$ -</u>	<u>\$ 206,921,160</u>

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 5 - NOTES RECEIVABLE

Notes receivable, including related accrued interest, consisted of the following as of September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Vine Hill Homes Loans	\$ 11,250,000	\$ 11,250,000
Preston Taylor Homes Loans - Phase I	12,955,821	12,942,941
Preston Taylor Homes Loans - Phase II	7,734,644	7,726,948
Rehabilitation Loans	4,099,422	4,563,156
Business District Loans	68,509	72,489
Façade Loans	258,433	276,410
Other	146,000	156,000
Allowance for doubtful accounts	<u>(622,107)</u>	<u>(544,722)</u>
Net notes receivable and related interest receivable	<u>\$ 35,890,722</u>	<u>\$ 36,443,222</u>

Vine Hill Homes Loans were made to Vine Hill Homes, LLC for the construction and development of the Vine Hill project. The loans are funded by various federal and state grant programs, including HOPE VI, Comprehensive Grant, UDAG repayment funds, Refunding Agreement and the State of Tennessee House grant funds. The nonrecourse loans are secured by a leasehold deed of trust. Loans made from the UDAG repayment funds and the Refunding Agreement, totaling \$942,000, accrued interest at the rate of 10.8% per annum. These loans were repaid from the sale of federal low-income housing tax credits in November 2005. (See Note 12.) The loan funded from the State of Tennessee House grant funds, in the amount of \$250,000, is non-interest bearing and payable in thirty years. The remaining loans accrue interest at the rate of 1.5% per annum. Accrued but unpaid interest shall be due and payable within sixty days after the end of each calendar quarter to the extent of cash flow as defined in the Amended and Restated Operating Agreement. The notes mature in November 2028. Under a certain Purchase Option Agreement entered into by MDHA and Vine Hill Homes, LLC, subsequent to the Tax Credit Compliance Period, on the maturity date, MDHA has the right of first refusal to acquire the Vine Hill project at the greater of the total outstanding debt on the property or the fair market value of the property. An appraisal of the property was conducted during fiscal year 2007, and based upon the market value assessed by the report, an impairment allowance was recorded totaling \$983,061 as of September 30, 2007. No additional impairment allowance was necessary in fiscal year 2008.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 5 - NOTES RECEIVABLE (CONTINUED)

Preston Taylor Homes Loans - Phase I were made to Preston Taylor Homes, LLC for the construction and development of the Preston Taylor project. The loans were funded by various federal grant programs, including HOPE VI, and UDAG repayment funds. The nonrecourse loans are secured by a leasehold deed of trust. The outstanding loan balance accrues interest at the rate of .1% per annum. Accrued but unpaid interest shall be due and payable within sixty days after the end of each calendar quarter to the extent of cash flow, as defined in the Amended and Restated Operating Agreement. The notes mature on December 29, 2040. Under a certain Purchase Option Agreement entered into by MDHA and Preston Taylor Homes, LLC, subsequent to the Tax Credit Compliance Period, MDHA has the right of first refusal to acquire the Preston Taylor Phase I project at the greater of the total outstanding debt on the property or the fair market value of the property. An appraisal of the property was conducted during fiscal year 2007, and based upon the market value assessed by the report, an impairment allowance was not necessary. No impairment allowance was deemed necessary for fiscal year 2008.

Preston Taylor Homes Loans - Phase II were made to Preston Taylor Homes, LLC for the construction and development of the Preston Taylor project. The loans were funded by various federal grant programs, including HOPE VI, Capital Fund Grant, and UDAG repayment funds. The nonrecourse loans are secured by a leasehold deed of trust. The outstanding loan balance accrues interest at the rate of .1% per annum. Accrued but unpaid interest shall be due and payable within sixty days after the end of each calendar quarter to the extent of cash flow, as defined in the Amended and Restated Operating Agreement. The notes mature on January 4, 2042. Under a certain Purchase Option Agreement entered into by MDHA and Preston Taylor Homes, LLC, subsequent to the Tax Credit Compliance Period, MDHA has the right of first refusal to acquire the Preston Taylor Phase II project at the greater of the total outstanding debt on the property or the fair market value of the property. A restricted appraisal of the property was conducted during fiscal year 2007, and based upon the market value assessed by the report, an impairment allowance was not necessary. No impairment allowance was deemed necessary for fiscal year 2008.

Rehabilitation Loans are made from the Community Development Block Grant and Home Investment Trust programs to aid homeowners in rehabilitating substandard housing or historic homes. Loan repayments on rental properties are made monthly, for a maximum of 10 years, together with interest at 3% per annum, with a maximum loan amount set at \$35,000 for projects rehabbing one to two units, \$50,000 for three to four units, and \$75,000 for five or more units. Effective March 2003, the Board of Commissioners approved 3% loans for new construction of rental properties; forgivable loans for rehabilitation of rental projects with five or more units; and forgivable loans for rehabilitation of rental projects with one-half or more of the total number of units containing four or more bedrooms. The four bedroom units must be rented for a low rental rate over the 10 year loan period. The loans are forgiven at the rate of 10% on each anniversary date.

Business District Loans are made from the Community Development Block Grant program to promote small business and provide incentive for reinvestment in areas of general commercial deterioration. The loans are for a maximum of \$20,000 at the prime interest rate for a term of five to ten years.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 5 - NOTES RECEIVABLE (CONTINUED)

Facade Loans are made from the Community Development Block Grant program to aid businesses in repairing and renovating the exterior of buildings in the commercial neighborhood strategy areas. The non-interest bearing loans are for a maximum of \$35,000 per building with a five year repayment term.

Other notes receivable consist of business loans to local development agencies for affordable housing development and loans made from the Technical Assistance Program Fund to promote privately-owned small businesses in low income areas and loans related to the sale of properties. During fiscal year 2007, the Agency recorded an impairment allowance of \$250,000 based on management's assessment of the circumstances surrounding certain of the loans.

NOTE 6 - LONG-TERM DEBT

A summary of changes in MDHA's long-term debt for the year ended September 30, 2008 and 2007 are presented below:

	Balance October 1, 2007	Additions	Retirements	Amortization of Deferred Loss on Refunding	Balance September 30, 2008	Due within one year
Revenue Bonds	\$ 4,155,000	\$ -	\$ (1,415,000)	\$ -	\$ 2,740,000	\$ 2,740,000
Deferred Loss on Refunding	(136,242)	-	-	81,732	(54,510)	(54,510)
Revenue Bonds, net	4,018,758	-	(1,415,000)	81,732	2,685,490	2,685,490
Notes Payable - other	13,199,662	3,285,726	(2,397,230)	-	14,088,158	10,375,604
TOTAL	\$ 17,218,420	\$ 3,285,726	\$ (3,812,230)	\$ 81,732	\$ 16,773,648	\$ 13,061,094

	Balance October 1, 2006	Additions	Retirements	Amortization of Deferred Loss on Refunding	Balance September 30, 2007	Due within one year
Revenue Bonds	\$ 5,515,000	\$ -	\$ (1,360,000)	\$ -	\$ 4,155,000	\$ 1,415,000
Deferred Loss on Refunding	(217,974)	-	-	81,732	(136,242)	-
Revenue Bonds, net	5,297,026	-	(1,360,000)	81,732	4,018,758	1,415,000
Notes Payable - other	9,397,755	3,881,717	(79,810)	-	13,199,662	9,406,573
TOTAL	\$ 14,694,781	\$ 3,881,717	\$ (1,439,810)	\$ 81,732	\$ 17,218,420	\$ 10,821,573

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 6 - LONG-TERM DEBT (CONTINUED)

During December 2003, MDHA issued Series 2003 Low-Rent Housing Refunding Revenue Bonds for the purpose of providing the funds needed to refund the outstanding Series 1998 Low-Rent Housing Refunding Revenue Bonds and pay certain expenses in connection with the issuance of the 2003 Bonds. During January 2004, the proceeds from the issuance of the 2003 Bonds were used to redeem the 1998 Bonds in their entirety. In order to redeem the Series 1998 Bonds, the Agency was required to pay a 5% call premium resulting in a loss on the refunding. The loss on refunding is deferred and netted with the outstanding principal of the Series 2003 Bonds. The deferred loss will be amortized through the final payment date of the bonds – June 11, 2009. The unamortized portion of the deferred loss on refunding totaled \$54,510 and \$136,242 at September 30, 2008 and 2007, respectively.

During July 2004, MDHA entered into a maximum \$8,000,000 revolving line of credit agreement, which was increased to \$8,500,000 in June 2006, with the Metropolitan Government for the purpose of funding the development of Rolling Mill Hill. Interest on the outstanding principal is variable and is calculated at the same rate of interest earned by the Metropolitan Government's idle funds in the Metro Investment Pool ("MIP"). During fiscal 2008, the Agency drew \$1,107,296 on the line of credit and repaid \$1,375,000 from the sale of a parcel of the Rolling Mill Hill development. A total of \$8,108,626 was outstanding on the line of credit at September 30, 2008. The line of credit expires in June 2009 and can be extended upon mutual agreement of MDHA and the Metropolitan Government.

During 2007, MDHA entered into a \$2,500,000 promissory note agreement with Pinnacle Bank. The note proceeds were utilized to finance the construction of certain market rate units at Sam Levy Homes. The note bears interest at 5.8% per annum and principal and interest payments are due monthly through July 2014. A total of \$2,469,752 was outstanding on the promissory note at September 30, 2008.

During 2008, MDHA entered into a maximum \$2,500,000 construction loan agreement with SunTrust Bank for the purpose of funding construction of forty John Henry Hale market rate apartments. Interest on the outstanding balance is variable based upon the 30-day LIBOR rate, plus 175 basis points. Interest is paid monthly during the construction period. When construction is complete (Conversion Date), the construction loan will be converted to a term loan. The principal amount, interest rate and other terms shall be determined at the Conversion Date. If parties are unable to agree on new terms, then the outstanding principal and accrued interest will be due and payable at that time. A total of \$2,178,430 was outstanding on the construction loan at September 30, 2008.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 6 - LONG-TERM DEBT (CONTINUED)

	<u>2008</u>	<u>2007</u>
Revenue Bonds		
<p>\$8,670,000 Low-Rent Housing Refunding Revenue Bonds, Series 2003; payable in semi-annual payments of principal and interest due the 11th of each June and December, with final payment of principal and interest due June 11, 2009. Interest accrues at a variable rate of 1.610% to 2.800% based upon maturity dates of individual bonds. Payments are made from the savings generated by the reduction in utilities expense through improvements made with the bond proceeds. The bonds are presented net of deferred loss on refunding of \$54,510 and \$136,242 at September 30, 2008 and 2007, respectively.</p>	\$ 2,685,490	\$ 4,018,758
Notes Payable - Other		
<p>\$8,500,000 maximum revolving line of credit agreement with the Metropolitan Government for the purpose of funding the Rolling Mill Hill development. Interest on the outstanding principal is variable and is calculated at the same rate of interest earned by the Metropolitan Government on its idle funds in the Metro Investment Pool ("MIP"). The line of credit expires June 30, 2009 and can be extended upon mutual agreement of MDHA and the Metropolitan Government.</p>	8,108,626	8,376,330
<p>\$2,100,000 line of credit with Bank of America, with original maturity date of February 1, 2000, extended through February 1, 2002. On May 28, 2002, the loan was extended and converted to a \$1,700,000 promissory note, payable in monthly installments of principal and interest through May 28, 2007. On May 28, 2007, the loan was extended and converted to a \$1,400,000 promissory note, payable in monthly installments of principal and interest through May 28, 2012. Interest accrues at a rate of 5.25%. The note is collateralized by a 76-unit apartment complex and assignment of rents and leases.</p>	1,331,350	1,383,446
<p>\$2,500,000 promissory note with Pinnacle National Bank, payable in monthly installments of principal and interest through July 16, 2014. Interest accrues at a tax-free rate of 5.80%. The note is collateralized by Sam Levy Homes (a 226-unit apartment complex) and assignment of rents and leases.</p>	2,469,752	2,500,958
<p>\$2,500,000 maximum construction loan agreement with SunTrust Bank for funding construction of forty John Henry Hale Homes market rate apartments. Interest on the outstanding balance is variable based upon the 30-day LIBOR rate, plus 175 basis points (4.24% at September 30, 2008). Interest is paid monthly during the construction period. When construction is complete (Conversion Date), the construction loan will be converted to a term loan. The principal amount, interest rate and the other terms shall be determined at the Conversion Date.</p>	2,178,430	-
<p>\$1,900,000 promissory note with Pinnacle National Bank, which was repaid as of March 18, 2008. Interest accrued at a floating prime rate of 5.25% as of March 18, 2008. The note was collateralized by a deed of trust on certain real estate property.</p>	-	938,928
	<u>\$ 16,773,648</u>	<u>\$ 17,218,420</u>

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 6 - LONG-TERM DEBT (CONTINUED)

A schedule of principal maturities of long-term debt at September 30, 2008 is as follows:

Year Ending September 30

2009	\$ 13,061,094
2010	94,404
2011	99,586
2012	101,042
2013	110,803
Thereafter	<u>3,361,229</u>
Total principal maturities	16,828,158
Less unamortized portion of deferred loss on refunding	<u>(54,510)</u>
Total	<u>\$ 16,773,648</u>

NOTE 7 - CONDUIT DEBT OBLIGATIONS

Tax increment financing ("TIF") is a method of funding certain public investments for redevelopment by recapturing, for a time, all or a portion of the increased tax revenue that may result if private investment can be stimulated to occur. Tax increment can only be generated by the increased taxes resulting from private development on land in a redevelopment district that has been acquired and re-sold or leased by MDHA. The tax increment due to the difference in the tax basis is then diverted to the redevelopment agency which may use those funds to finance public purpose expenditures or to repay bonds or notes that were issued to finance those expenditures. These loans are special limited obligations of MDHA, payable solely from and secured by a pledge of the tax increment revenues designated for the payment of the loan. The loans do not constitute debt or a pledge of credit of MDHA or the Metropolitan Government and, accordingly, are not reported in the accompanying financial statements.

The Tax Increment Financing Loans, including related accrued interest payable, aggregated approximately \$66.5 million and \$64.2 million at September 30, 2008 and 2007, respectively.

Section 108 is the loan guarantee provision of the Community Development Block Grant Program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities and large scale physical development projects. The Metropolitan Government has borrowed funds under this program and guaranteed repayment of the loan by pledging present and future Community Development Block Grants. MDHA is the agent designated by the Metropolitan Government to administer the CDBG program; therefore, the outstanding loan does not constitute a debt of MDHA, and it is not reported in the accompanying financial statements. At September 30, 2008 and 2007, the Section 108 loans outstanding aggregated to approximately \$3.92 million and \$4.19 million, respectively.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 8 - RISK MANAGEMENT

MDHA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MDHA maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to MDHA. During the years ended September 30, 2008 and 2007, settled claims have not exceeded this commercial insurance coverage.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The MDHA retirement plan is a 401A Plan administered by the Vanguard Group. The Plan, which is principally a defined contribution plan, also provides certain minimum defined benefits for employees who were participants in the MDHA Retirement Plan as of September 30, 2000. Employees are eligible to participate beginning the first day of the month following the date of hire. There are no required contributions by the participants; however, participants may make voluntary contributions from 0.5% to 10% of their basic compensation and MDHA contributes 13% of participants' basic compensation. Contributions are invested in any of twenty-two funds as elected by the participant. Investment options and voluntary contributions may be changed daily.

Participants are immediately vested in their voluntary contributions plus actual earnings. Participants are also immediately vested in 5.5% of the 13% of MDHA's contributions. Each year of participation in the Plan, participants vest at the rate of 20% of the remaining balance and become fully vested after 5 years.

Benefits are paid in the form of a cash distribution or various other annuity options at normal retirement date, age 65, death or disability. Participants may also elect to roll the vested portion of their retirement savings into another qualifying plan or an IRA or leave the amount in the Plan. Early retirement may be elected by employees at age 55 who have at least ten years of service.

MDHA contributions to the Plan for the years ended September 30, 2008 and 2007 amounted to \$1,766,265 and \$1,719,194, respectively, which equaled the amount of required employer contributions. Employee voluntary contributions were \$160,715 in 2008 and \$152,014 in 2007. MDHA's payroll for employees covered by the Plan for the fiscal years ended September 30, 2008 and 2007 was \$13,711,653 and \$13,883,803, respectively. Total payroll for MDHA during the fiscal years ended September 30, 2008 and 2007 amounted to \$14,537,789 and \$14,764,932 respectively.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

The Plan issues a publicly available report that includes financial statements and required supplementary information. That report may be obtained by writing to the Metropolitan Development and Housing Agency at P. O. Box 846, Nashville, TN 37202.

MDHA sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits all employees to defer a portion of their salary until future years. Such amounts are not available to them until termination, retirement, death or unforeseeable emergency. No contributions are made to this plan by the Employer.

NOTE 10 - LEASES

MDHA leases certain office space and equipment under leases accounted for as operating leases. The minimum future rental commitments under these leases are not significant. Total lease expenditures made for the years ended September 30, 2008 and 2007 were \$48,307 and \$50,321, respectively.

MDHA also receives rental income under a certain ground lease accounted for as an operating lease. The lease has an initial term of thirty years and provides for an option to renew for seven successive ten-year periods. The lessee has a commitment to pay base rents totaling \$500,000 annually through 2016.

Future minimum lease payments to be received by MDHA under this lease are as follows:

<u>Year ending September 30,</u>	
2009	\$ 500,000
2010	500,000
2011	500,000
2012	500,000
2013	500,000
Thereafter	<u>1,625,000</u>
Total	<u>\$ 4,125,000</u>

In addition, rental income, other than rent directly related to low-income housing units, is received under various other short-term land and building leases accounted for as operating leases. These leases are either cancelable leases or the future minimum rentals under these leases are insignificant. Rental income from these sources totaled \$104,870 and \$113,022 for the years ended September 30, 2008 and 2007, respectively.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 11 - COMMITMENTS AND CONTINGENCIES

MDHA receives significant financial assistance from numerous federal, state and local governmental agencies in the form of grants and operating subsidies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of MDHA. In the opinion of management, any such disallowed claims would not have a material effect on the financial position of MDHA at September 30, 2008 or 2007.

At September 30, 2008, the Agency had outstanding construction commitments of approximately \$8.1 million. These outstanding commitments will be paid by grants committed to the Agency by the U.S. Department of Housing and Urban Development and the Metropolitan Government of Nashville and Davidson County, Tennessee.

MDHA is a defendant in various lawsuits arising in the ordinary course of operations. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and MDHA's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of MDHA. Accordingly, no provision for loss, if any, related to these matters has been made in the financial statements.

NOTE 12 - AFFILIATE AGREEMENTS

MDHA has assisted in the financing of a new 152-unit multifamily residential development known as Vine Hill Homes (the "Project") in the form of loans to Vine Hill Homes, LLC. These loans were made in consideration of Vine Hill's construction of the Project, including 136 units to be used as public housing. The 136 units are eligible to receive the benefit of operating subsidies provided to MDHA by HUD. Additional funding for the development of Vine Hill came from the sale of federal low-income housing tax credits in the amount of approximately \$1,500,000. Proceeds from the sale of the tax credits were used to repay certain loans made by MDHA to Vine Hill. (See Note 5.)

The apartment project is managed by MDHA which is to receive a fee of 5% of the annual gross revenues of the Project with respect to the nonpublic housing units. Vine Hill has executed a ground lease agreement with MDHA, with various use restrictions and operating requirements, for a term of ninety-nine years. Upon expiration of the agreement, Vine Hill shall have an option to purchase the land for \$100, provided the development notes have been paid in full. (See Note 5.)

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 12 - AFFILIATE AGREEMENTS (CONTINUED)

MDHA has also assisted in the financing of mixed income affordable and market rate residential housing in the form of loans to Preston Taylor Homes, LLC. Preston Taylor Homes Phase I consists of the demolition of 300 units of housing on the north side of the Preston Taylor site and new construction of 51 rental duplex and townhouse buildings comprising 182 units of rental housing. Of the 182 units, 170 shall be public housing units eligible to receive the benefits of operating subsidies provided to MDHA by HUD. The remaining 12 units shall be market units. Phase I of the project was completed in November 2002. Preston Taylor Homes Phase II consists of the demolition of 250 units of housing and new construction of 116 units, of which 104 shall be public housing units and 12 are market rate units. Phase II of the project was completed in October 2003.

The apartment project is managed by MDHA which is to receive a fee of 6% of the gross revenues of the Project with respect to the nonpublic housing units. A ninety-nine year ground lease has been executed with MDHA. Upon expiration of the agreement, Preston Taylor shall have an option to purchase the land for \$100, provided the development notes have been paid in full. (See Note 5.)

MDHA guarantees certain financial obligations of Vine Hill Homes, LLC and Preston Taylor Homes, LLC that include advances of funds, capital contributions, loans, and any and all other payments and options per the Operating Agreements. Tax credit availability and compliance guarantees are also being provided by MDHA.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

NOTE 13 - NET ASSETS

The Agency's net assets are categorized as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, capital lease obligations or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets - This component includes net assets that have been restricted in accordance with the terms of the Agency's revenue bond agreement as well as certain deposits and investments under grant programs.
- Unrestricted net assets - This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The changes in net assets for the years ended September 30, 2008 and 2007 are as follows:

	<u>Invested in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Totals</u>
Net Assets - October 1, 2006	\$ 168,767,750	\$ 6,081,503	\$ 74,207,677	\$ 249,056,930
Change in net assets - 2007	<u>20,934,990</u>	<u>2,372,625</u>	<u>5,323,424</u>	<u>28,631,039</u>
Net Assets - September 30, 2007	189,702,740	8,454,128	79,531,101	277,687,969
Change in net assets - 2008	<u>11,448,392</u>	<u>(1,137,715)</u>	<u>(1,927,727)</u>	<u>8,382,950</u>
Net Assets - September 30, 2008	<u>\$ 201,151,132</u>	<u>\$ 7,316,413</u>	<u>\$ 77,603,374</u>	<u>\$ 286,070,919</u>

ADDITIONAL INFORMATION

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

<u>GRANT</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANTOR'S NUMBER</u>	<u>GRANT PERIOD</u>	<u>EXPENDITURES</u>
<u>U.S. DEPARTMENT OF ENERGY</u>				
Passed through State Department of Human Services:				
Weatherization Assistance for Low-Income Persons	81.042	Z-05-021676	07-01-04 to 06-30-09	\$ 552,398
TOTAL U.S. DEPARTMENT OF ENERGY				552,398
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Direct Programs:				
Public and Indian Housing	14.850	A-3777	10-01-07 to 09-30-08	21,535,631
Section 8 Housing Choice Vouchers	14.871	A-3152V	10-01-07 to 09-30-08	32,057,781
Lower-Income Housing Assistance Program - Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	A-3152M	10-01-07 to 01-31-08	425,146
Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	A-3152M	10-01-07 to 09-30-08	75,197
DHAP	97.109	A-3152M	10-01-07 to 03-01-09	1,104,712
Disaster Voucher Program	14.DVP	TN005DH0001	10-01-07 to 09-30-08	74,912
HUD-Veterans Affairs Supportive Housing	14.VSH	TN005VA0001	05-01-08 to 04-30-09	5,296
Section 8 5yr Mainstream Vouchers	14.879	TN005DV0001	10-01-07 to 09-30-08	372,287

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2008

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)</u>				
Direct Programs (Continued):				
Public Housing - Capital Fund Program: Public Housing Capital Fund	14.872	A-3777 (TN43R00550107)	N/A	\$ 1,511,187
Public Housing Capital Fund	14.872	A-3777 (TN43R00550108)	N/A	876,813
Public Housing Capital Fund	14.872	A-3777 (TN43P00550105)	N/A	1,013,550
Public Housing Capital Fund	14.872	A-3777 (TN43P00550106)	N/A	4,445,602
Public Housing Capital Fund	14.872	A-3777 (TN43P00550107)	N/A	3,308,280
Public Housing Capital Fund	14.872	A-3777 (TN43P00550108)	N/A	9,200
Shelter Plus Care	14.238	TN37C30-4001	04-01-04 to 03-31-09	200,270
Shelter Plus Care	14.238	TN37C50-4003	04-01-06 to 03-31-11	35,681
Shelter Plus Care	14.238	TN37C60-4020	03-01-07 to 02-28-08	519,754
Shelter Plus Care	14.238	TN37C60-4021	03-01-07 to 02-28-08	9,508
Shelter Plus Care	14.238	TN37C60-4001	04-27-07 to 04-26-12	35,616
Shelter Plus Care	14.238	TN37C60-4014	04-27-07 to 04-26-12	49,146
Shelter Plus Care	14.238	TN37C70-4016	03-01-08 to 02-28-09	19,250
Shelter Plus Care	14.238	TN37C70-4015	03-01-08 to 02-28-09	783,474
HMIS	14.235	TN37B604002	05-15-08 to 06-30-08	505
HMIS	14.235	TN37B704010	07-01-08 to 06-30-09	18,135

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2008

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)</u>				
Direct Programs (Continued):				
Resident Opportunity and Supportive Services	14.870	TN005RFS142A006	02-20-07 to 02-20-08	\$ 31,574
Resident Opportunity and Supportive Services	14.870	TN005RFS167A007	03-12-08 to 03-12-09	86,412
Resident Opportunity and Supportive Services	14.870	TN005REF036A007	06-09-08 to 06-09-11	28,785
Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)	14.866	TN43URD005I102	07-03-03 to 09-30-08	141,530
Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)	14.866	TN43URD005N102	09-26-04 to 09-30-08	66,563
Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)	14.866	TN43URD005I103	09-01-04 to 09-30-08	4,585,666
Passed Through Metropolitan Government of Nashville and Davidson County, Tennessee:				
Community Development Block Grants/Entitlement Grants	14.218	B-XX-MC-47-0007	N/A	5,282,356
HOME Investment Partnerships Program	14.239	M-XX-MC-47-0203	N/A	4,630,990
Emergency Shelter Grants Program	14.231	S-06-MC-47-0004	04-01-06 to 03-31-08	215,079
HOPWA	14.241	TN-H06-F002	04-01-06 to 03-31-09	681,343

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2008

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)</u>				
Passed Through State Department of Energy:				
Brownfields Revolving Loan	66.818	BF-96415904-0	10-01-04 to 09-30-09	\$ 12,446
Brownfields Assessment	66.818	BF-96415804-0	10-01-04 to 03-31-08	<u>60,295</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				<u>84,309,972</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u>\$ 84,862,370</u>

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2008

<u>PROGRAM NUMBER</u>	<u>DESCRIPTION</u>	<u>EXPENDITURES</u>
14.871	Section 8 Housing Choice Vouchers	\$ 32,057,781
14.850	* Public and Indian Housing	21,535,631
14.872	Public Housing Capital Fund	11,164,632
14.218	* Community Development Block Grants/Entitlement Grants	5,282,356
14.866	Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)	4,793,759
14.239	* Home Investment Partnerships Program	4,630,990
14.238	Shelter Plus Care	1,652,699
97.109	Disaster Housing Assistance Program	1,104,712
14.241	Housing Opportunities for Persons With AIDS	681,343
81.042	Weatherization Assistance for Low-Income Persons	552,398
14.249	Section 8 Moderate Rehabilitation - Single Room Occupancy	500,343
14.879	Section 8 Five Year Mainstream Vouchers	372,287
14.231	Emergency Shelter Grants Program	215,079
14.870	Resident Opportunity and Supportive Services	146,771
14.DVP	Disaster Voucher Program	74,912
66.818	Brownfields Pilots Cooperative Agreement	72,741
14.235	HMIS	18,640
14.VSH	HUD-Veterans Affairs Supportive Housing	5,296
	TOTAL FEDERAL FINANCIAL ASSISTANCE	\$ 84,862,370

*Tested as major programs in the current year.

BASIS OF PRESENTATION -

This schedule of expenditures of federal awards includes the federal grant activity of the Metropolitan Development and Housing Agency, and is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY
SCHEDULE OF ACTUAL COSTS FOR THE SPECIFIED PROJECT
FROM INCEPTION OF THE PROJECT THROUGH COMPLETION

	<u>TN43R005501-07</u>
Funds approved	\$ 1,511,187
Funds expended	<u>1,511,187</u>
Excess (deficiency) of funds approved	<u>\$ -</u>

The distribution of costs by project as shown on the Performance and Evaluation Report submitted to the U.S. Department of Housing and Urban Development for approval is in agreement with the Agency's records.

All costs and related liabilities have been disbursed.

	<u>TN43URD0051102</u>
Funds approved	\$ 20,000,000
Funds expended	<u>20,000,000</u>
Excess (deficiency) of funds approved	<u>\$ -</u>

The distribution of costs by project as shown on the Performance and Evaluation Report submitted to the U.S. Department of Housing and Urban Development for approval is in agreement with the Agency's records.

All costs and related liabilities have been disbursed.

OTHER REPORTS



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

Board of Commissioners
Metropolitan Development and Housing Agency
Nashville, Tennessee

We have audited the statement of net assets of the Metropolitan Development and Housing Agency ("the Agency"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of September 30, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated February 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was limited for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners and management, federal awarding agencies, the Metropolitan Government of Nashville and Davidson County, Tennessee, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin + Associates, P.C.

Nashville, Tennessee
February 2, 2009



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Metropolitan Development and Housing Agency
Nashville, Tennessee

Compliance

We have audited the compliance of the Metropolitan Development and Housing Agency (the "Agency"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Item 08-1.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Agency's response and, accordingly, we express no opinion on it.

Internal Control Over Compliance

The Agency's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was limited for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Commissioners and management, federal awarding agencies, the Metropolitan Government of Nashville and Davidson County, Tennessee, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin + Associates, P.C.

Nashville, Tennessee
February 2, 2009

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified not considered to
be material weaknesses? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified not considered to
be material weaknesses? yes x none reported

Type of auditors' report issued on compliance for
major programs Unqualified

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of Circular A-133? x yes no

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2008

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS (CONTINUED)

Federal Awards - Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	
14.850	Public and Indian Housing	\$21,535,631
14.218	Community Development Block Grants/Entitlement Grants	\$5,282,356
14.239	Home Investment Partnership Program	\$4,630,990
Dollar threshold used to distinguish between Type A and Type B programs:		\$2,545,871

Auditee qualified as low-risk auditee? X yes ___ no

SECTION II - FINANCIAL STATEMENT FINDINGS

A. Significant Deficiencies in Internal Control

None

B. Compliance Findings

None

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Public and Indian Housing
CFDA No. 14.850
U.S. Department of Housing and Urban Development

Item 08-1

Criteria or Specific Requirements

The Agency must establish and adopt written policies for admission of tenants. The Agency tenant selection policies must include requirements for applications and waiting lists, description of the policies for selection of applicants from the waiting lists, and policies for verification and documentation of information relevant to acceptance or rejections of an applicant (24 CFR sections 960.202 through 960.206).

Condition

The Agency was not in compliance with internal tenant selection procedures for 2 out of 10 applicants selected for testing. The results of testing showed that applicants were added to the Agency's waiting list at an incorrect preference. The applicants were given higher priority than they should have received based on facts contained within the applicants' files.

Questioned Cost

None.

Effect

Applicants were added on the waiting list at incorrect preferences which may lead to admission to public housing based on incorrect priority or need.

Recommendation and Benefit

We recommend that the Agency examine the process for admission of tenants considering the Agency's new Yardi system capabilities and determine procedures to monitor the process of placing applicants on the waiting list and admitting them into public housing.

Management's Response

MDHA concurs with the recommendation. The Regional Property Manager and Management Analyst are reviewing the process for admission of tenants. Clarification of the process will be incorporated into the procedure manual. The setup of the preferences in the Yardi system will also be reviewed and appropriate staff will be re-trained on the proper procedures for assigning preferences and the documentation needed to support the preferences. Periodic reviews of the waiting list and tenant files will also be conducted to insure accuracy of the selection process.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

MDHA had no prior year audit findings related to the testing of its federal award programs.