

**METROPOLITAN DEVELOPMENT
AND HOUSING AGENCY**

NASHVILLE, TENNESSEE

**ANNUAL FINANCIAL REPORT
AND OTHER FINANCIAL INFORMATION**

SEPTEMBER 30, 2010

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 year ended September 30, 2010.

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. McCauley, Nicolas & Company, LLC, 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, 2010, 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, McCauley, Nicolas & Company, LLC, on the September 30, 2010 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 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, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Development and Housing Agency as of September 30, 2010, and the respective changes in financial position and cash flows thereof for the year 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 14, 2011 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 audit.

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MEMBER

PKF North American Network American Institute of CPAs AICPA PCPS Division Indiana CPA Society Kentucky Society of CPAs

Accounting principles generally accepted in the United States of American require that the management's discussion and analysis information on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with managements' responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was 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 32 - 35, and the schedule of actual costs for the specified project from inception through completion on page 36 are also not required parts of the financial statements. The schedule of expenditures of federal awards and the schedule of actual costs for the specified project from inception through completion are the responsibility of management and were derived form and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the Unites States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
February 14, 2011

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, 2010 and 2009. Please read this analysis in conjunction with the Agency's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Fiscal year 2010:

The Agency's total net assets increased \$17.9 million or 6%, in part as a result of the following:

- Cash and Investments increased \$2.1 million (6%)
- Bonds, Notes and Other Liabilities increased \$6.6 million (18%)
- Operating Revenues increased \$4.7 million (4%)
- Operating Expenses decreased \$6.1 million (-5%)
- Operating Loss decreased \$10.7 million (>100%)
- Governmental Capital Contributions increased \$6.6 million (91%)

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 2010 as compared to fiscal year 2009:

	2010	2009	% Increase (Decrease)
Current Assets	\$ 70,017,175	\$ 65,652,970	7 %
Noncurrent Assets			
Capital Assets	243,000,317	221,641,343	10 %
Other Assets	<u>35,057,765</u>	<u>36,300,086</u>	(3) %
Total Assets	<u>\$ 348,075,257</u>	<u>\$ 323,594,399</u>	8 %
Bonds and Notes Payable	\$ 18,430,792	\$ 16,665,224	11 %
Other Liabilities	<u>24,453,340</u>	<u>19,636,561</u>	25 %
Total Liabilities	<u>42,884,132</u>	<u>36,301,785</u>	18 %
Net Assets Invested in Capital Assets	214,636,180	205,045,816	5 %
Net Assets Restricted for Other Purposes	4,797,091	2,651,926	81 %
Unrestricted Net Assets	<u>85,757,854</u>	<u>79,594,872</u>	8 %
Total Net Assets	<u>305,191,125</u>	<u>287,292,614</u>	6 %
Total Liabilities and Net Assets	<u>\$ 348,075,257</u>	<u>\$ 323,594,399</u>	8 %

The Agency's total net assets increased \$17.9 million, or 6%, in part as a result of the following:

- Capital asset additions, consisting principally of the Capital Fund projects, Energy performance bond projects, and operating reserve projects totaling \$25 million during the year.
- Decrease in net assets of \$9.7 million resulting from depreciation expense for capital assets.
- Decrease of \$816,000 in net assets restricted for other purposes of the Housing Choice Voucher program due to the reduction of HUD revenue to facilitate the spending down of Agency reserves on hand for housing assistance payments.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF THE AGENCY (CONTINUED)

Revenues, Expenses and Changes in Net Assets

Fiscal year 2010 as compared to fiscal year 2009:

	2010	2009	% Increase (Decrease)
Operating Revenues			
Rentals	\$ 10,493,079	\$ 10,105,037	4 %
Governmental Operating Revenue	91,300,083	79,055,875	15 %
Local Government Development Activities	13,602,328	22,700,168	(40) %
Other	<u>5,406,827</u>	<u>4,276,924</u>	26 %
Total Operating Revenues	<u>120,802,317</u>	<u>116,138,004</u>	4 %
Operating Expenses:			
Administrative expenses	16,761,086	17,129,930	(2) %
Other	<u>99,609,787</u>	<u>105,318,351</u>	(5) %
Total Operating Expenses	<u>116,370,873</u>	<u>122,448,281</u>	(5) %
Operating Income (Loss)	<u>4,431,444</u>	<u>(6,310,277)</u>	(>100) %
Capital Contributions	13,835,311	7,248,296	91 %
Nonoperating Revenues (Expenses)	<u>(368,244)</u>	<u>283,676</u>	(>100) %
Total Nonoperating Revenues	<u>13,467,067</u>	<u>7,531,972</u>	79 %
Change in Net Assets	<u>\$ 17,898,511</u>	<u>\$ 1,221,695</u>	>100 %

The decrease in local government development activities revenue and administrative and other operating expenses is due to the completion of the pre-development activities for the convention center.

The increase in capital contributions is a result of the American Recovery and Reinvestment Act of 2009 funds for major renovations at Hadley Park Towers, Parthenon Towers and Edgefield Manor.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSETS

Fiscal year 2010 as compared to fiscal year 2009:

	<u>2010</u>	<u>2009</u>	% Increase (Decrease)
Land	\$ 58,655,913	\$ 49,816,237	18 %
Infrastructure	21,155,548	21,155,548	- %
Buildings	256,312,652	240,908,922	6 %
Equipment	4,316,703	4,382,471	(2) %
Construction in progress	<u>30,354,637</u>	<u>24,420,875</u>	24 %
Total	370,795,453	340,684,053	9 %
Less Accumulated Depreciation	<u>(127,795,136)</u>	<u>(119,042,710)</u>	7 %
Net Capital Assets	<u>\$ 243,000,317</u>	<u>\$ 221,641,343</u>	10 %

Capital assets increased \$21 million, or 10% during fiscal year 2010. During fiscal year 2010, the Agency expended \$74 million on capital activities. This included \$50 million for the Music City Center property acquisition. In addition, \$9.8 million for energy conservation with the HUD approved extension of the Energy Performance financing program, \$866,000 in Asset Management Property improvements using operating funds on hand, \$1.8 million for the Rolling Mill Hill project, and \$555,000 for rehabilitation work on 5 rental units at Georgia Court. Also included in additions to capital assets is modernization work performed for \$4.16 million at Edgefield Manor, \$3.52 million at Parthenon Towers, \$1.9 million at Hadley Park Towers, \$496,000 at Napier Place, \$473,000 at Madison Towers, and \$434,000 at Gernert Studio Apartments.

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 2010.

DEBT ADMINISTRATION

Fiscal year 2010 as compared to fiscal year 2009:

	<u>2010</u>	<u>2009</u>	% Increase (Decrease)
Total Notes Payable - other	<u>\$ 17,756,494</u>	<u>\$ 16,665,224</u>	7 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DEBT ADMINISTRATION (CONTINUED)

At September 30, 2010, the Agency's note principal and interest outstanding totaled \$17.7 million - an increase of 7% from the prior year. With HUD approval, the Agency extended the Energy Performance project during 2009. Proceeds totaling \$11.8 million from the tax-exempt municipal lease purchase financing contract entered into in July 2009 was used to purchase and install energy efficient equipment in subsidized units. The notes payable also includes a promissory note secured by 76 (3-bedroom) apartments; a promissory note secured by the Levy Place Apartments; and a promissory note secured by the J. Henry Hale Apartments.

NEW BUSINESS

The Convention Center Authority entered into a Development and Funding Agreement with Omni Nashville, LLC to provide an 800-room convention center hotel and the Country Music Hall of Fame expansion. MDHA is to provide more than \$70 million in tax increment financing for land acquisition and other TIF eligible expenses. MDHA has executed an Purchase Money Promissory Note to Omni for the cost of the property, which is non-interest bearing and payable solely from the proposed TIF financing and from the payment, if any, on a Use Value Promissory Note executed by Omni.

Per the Development and Funding Agreement for the Omni Hotel, MDHA will issue bonds with the debt service provided by tax increment revenues currently generated by properties within the Capital Mall Redevelopment Project. MDHA has entered into a contract with a financial advisory services firm to assist in the planning, structuring and marketing the anticipated bond issue.

In November 2010, HUD released a Notice of Funding Availability providing Nashville \$10.7 million of Community Development Block Grant funding for flood recovery. MDHA has entered into a loan agreement with Metropolitan Government of Nashville and Davidson County to provide advance funding for the flood recovery efforts on a nonrecourse basis. HUD approval of the disaster funds is pending.

MDHA Ryman Lofts, Inc. is a for-profit entity wholly owned by the MDHA Housing Trust Corporation and is the General Partner in Ryman Lofts at Rolling Mill Hill, LLP which will own a 60 unit artist residence at Rolling Mill Hill. Financing is being secured, construction is set to begin in July 2011, with occupancy planned for the Summer 2012.

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

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	44,633,146
Restricted cash and cash equivalents		8,999,674
Investments, at fair value		4,231,700
Receivables:		
Tenant, net of allowances		87,466
Amounts due from other governmental agencies		7,473,313
Current portion of notes receivable, net of allowances		314,702
Interest on investments		37,197
Other		674,602
Inventory		3,066,479
Prepaid expenses		498,896

TOTAL CURRENT ASSETS 70,017,175

CAPITAL ASSETS, NET 243,000,317

NONCURRENT ASSETS

Investments, equity method		509,806
Notes receivable, net of allowances		34,547,959

TOTAL NONCURRENT ASSETS 35,057,765

TOTAL ASSETS \$ 348,075,257

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Funds held for others	\$ 4,202,583
Accounts payable	5,132,249
Contract retention payable	115,262
Compensated absences payable	618,501
Accrued liabilities	703,335
Due to tenants	1,007,983
Deferred revenue	94,895
Due to other governments	10,815,859
Current portion of long-term debt	<u>1,762,673</u>
TOTAL CURRENT LIABILITIES	<u>24,453,340</u>
NONCURRENT LIABILITIES	
Deposits	478,390
Long-term debt, less current maturities	15,993,821
Long-term compensated absences payable	<u>1,958,581</u>
TOTAL NONCURRENT LIABILITIES	<u>18,430,792</u>
TOTAL LIABILITIES	<u>42,884,132</u>
NET ASSETS	
Invested in capital assets, net of related debt	214,636,180
Restricted for other purposes	4,797,091
Unrestricted	<u>85,757,854</u>
TOTAL NET ASSETS	<u>305,191,125</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 348,075,257</u>

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

OPERATING REVENUES	
Rentals	\$ 10,493,079
Governmental operating revenue	91,300,083
Program income	380,198
Local government development activities	13,602,328
Other income	<u>5,026,629</u>
 TOTAL OPERATING REVENUES	 <u>120,802,317</u>
OPERATING EXPENSES	
Cost of Services:	
Tenant services	1,080,411
Utilities	7,463,249
Ordinary maintenance and operations	14,091,932
Protective services	1,035,386
Other direct program costs	27,612,763
Housing assistance payments	38,602,735
Administration	16,761,086
Depreciation	<u>9,723,311</u>
 TOTAL OPERATING EXPENSES	 <u>116,370,873</u>
 OPERATING INCOME	 <u>4,431,444</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	593,886
Impairment allowance on notes receivable	(325,721)
Loss on disposition of assets	(230)
Interest expense	<u>(636,179)</u>
 TOTAL NONOPERATING REVENUES (EXPENSES)	 <u>(368,244)</u>
 INCREASE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	 4,063,200
 Capital Contributions	 <u>13,835,311</u>
 INCREASE IN NET ASSETS	 17,898,511
 NET ASSETS - BEGINNING OF YEAR	 <u>287,292,614</u>
 NET ASSETS - END OF YEAR	 <u>\$ 305,191,125</u>

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from rental operations	\$ 10,590,306
Receipts from program income	347,013
Receipts from government subsidy for operations	91,298,069
Receipts from local governmental development activities	14,650,683
Receipts from other	4,066,835
Receipts from inventory sales	14,641
Payments to and on behalf of employees	(20,588,043)
Payments for other administrative expenses	(3,315,420)
Payments for other direct program costs, including housing assistance payments	(72,543,417)
Program loan activities:	
Cash expended for program loans	(1,718,973)
Principal collections on notes receivable	423,891
Interest income collections	<u>103,828</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>23,329,413</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from governmental capital grants	11,698,346
Purchases of capital assets	(76,050,801)
Proceeds from capital debt	55,710,211
Principal paid on capital debt	(54,635,895)
Proceeds from sales of capital assets	45,295,030
Interest paid on capital debt	<u>(619,225)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(18,602,334)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(9,872,436)
Proceeds from the sales and maturities of investments	41,343,767
Interest received	<u>707,293</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>32,178,624</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	36,905,703
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>16,727,117</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 53,632,820</u>
Cash reconciliation as reported on the Statement of Net Assets	
Cash and cash equivalents	\$ 44,633,146
Restricted cash and cash equivalents	<u>8,999,674</u>
	<u>53,632,820</u>

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2010

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 4,431,444
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	9,723,312
Bad debt expense	2,079,941
Changes in assets and liabilities:	
Increase in accounts receivable	(335,078)
Decrease in inventory	1,495,746
Increase in prepaid expenses and other assets	(40,595)
Increase in due to tenants	31,166
Increase in accounts payable and amounts due to other governments	7,018,710
Increase in deferred revenue and other deposits	160,567
Increase in accrued liabilities and compensated absences	59,210
Program loan activities:	
Cash expended for program loans	(1,718,973)
Principal collections on notes receivable	423,963
TOTAL ADJUSTMENTS	<u>18,897,969</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 23,329,413</u>

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS

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 accrual basis of accounting with an economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. As permitted by accounting principles generally accepted in the United States of America (GAAP), the Agency has elected to apply all relevant Government Accounting Standards Board (GASB) pronouncements and only applicable Financial Accounting Standards Board (FASB) Accounting Standards Certification (AC) pronouncements issued on or after November 30, 1989 that do not contradict GASB pronouncements in the preparation of the financial statements.

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.

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”). All inter-program activities have been eliminated in these financial statements.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Types

CONVENTIONAL LOW RENT HOUSING PROGRAM

This fund is used to account for all Agency owned public housing properties, any mixed finance public housing properties (which are not owned by the Agency), and any Capital Funds costs. It is the largest and most active of the funds and is controlled through an annual operating budget, which is approved by the Board of Commissioners.

CENTRAL OFFICE COST CENTER

This program contains all the income and expenses associated with the Agency's centralized functions (e.g. executive, finance, human resources, information technology, purchasing, central maintenance, etc.) The establishment of the program was required by HUD regulations relating to asset management.

SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

This fund is used to account for the administration of the Agency's Section 8 vouchers program. It is funded by HUD and seeks to provide prospective residents with greater choice in selection of assisted housing.

CONSOLIDATED ANNUAL ACTION PLAN PROGRAMS

This fund has been created to account for the administration of programs funded by HUD. The goals of these programs are to address the problems of affordable housing, homelessness, community development needs, and economic opportunities for all citizens, particularly for very low-income and low-income persons.

LOCAL PROGRAMS

This fund accounts for the state funded programs and grants and programs administered on behalf of the local government by the Agency.

BUSINESS ACTIVITIES

This fund accounts for all programs that are neither federal, state nor local that are administered by the Agency.

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.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for doubtful accounts

The Agency uses the allowance for bad debts method of valuing doubtful accounts receivable which is based on historical experience, coupled with a review of the status of existing receivables. An allowance for doubtful accounts of \$1,667,851 for tenant accounts receivable has been provided by management at September 30, 2010.

Investments

Investments consist primarily of certificates of deposit and are stated at cost, which is fair value given the nature of the investments. The accrued interest on the investments is included in receivables in the statement of net assets.

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 and improvements	10 to 40 years
Infrastructure	10 to 40 years
Furniture and Equipment	3 to 15 years

Additionally, the Agency holds certain capital assets under agreements with the Metropolitan Government. Under the agreements, the proceeds from the sale of such assets revert to the Metropolitan Government. The assets are recorded in capital assets at fair value at the date of transfer with a corresponding liability recorded for the expected amount owed to the Metropolitan Government upon sale.

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.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision for uncollectible notes receivable

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. The provision for uncollectible notes receivable was \$2,479,191 at September 30, 2010.

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.

Restricted assets

Restricted assets consist of cash and certificate of deposits, which are legally restricted. The restricted assets are to be used for purposes specified under the Housing Choice Voucher or Family Self Sufficiency programs. 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. Restricted assets totaled \$8,999,674 at September 30, 2010.

Bank overdraft reporting

The Agency utilizes two bank accounts for disbursing funds and each program draws from these two accounts. Due to pending drawdowns and requests for reimbursements, a program might reflect negative cash, even though the Agency as a whole is reporting sufficient unrestricted cash. Our audited financial statements are reported at the entity level, therefore the net cash balance is reported. HUD reporting is done by program and does not allow negative amounts to be input into the cash field, consequently we "reclass" the negative cash for programs that have to be reported separately as bank overdraft. Unrestricted cash per financial statements as of September 30, 2010 is \$44,633,146. Unrestricted cash for REAC reporting is \$46,243,449 with federal grants reporting bank overdrafts of \$1,610,303.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tenant Revenue Net of Bad Debt Expense

The State of Tennessee Comptroller's Office review of our 2004 audited financial statements cited that in accordance with Governmental Accounting Standards Board Statement No. 34, revenues in proprietary funds should be reported as net of all related allowances, which include amounts pertaining to uncollectible accounts. Therefore, revenue should be reported net of the increase and decrease in the estimate of uncollectible accounts instead of being reported as bad debt expense. The Agency's bad debt expense charged against revenue was \$335,078 for the year ended September 30, 2010.

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

In March 2003, the GASB issued Statement No. 40 "Deposits and Investment Risk Disclosures," which is effective for periods beginning after June 15, 2004. Risk disclosures in previous financial statements (under the provisions of GASB Statement No.3) focused only on custodial credit risk. GASB Statement No. 40 not only addresses custodial credit risk but other common areas of investment risk as well, including interest rate risk, credit risk, and concentration of credit risk.

A. Custodial Credit Risk

Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the Agency may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. The policy of the Agency is to invest, on a daily basis, all idle funds in financial institutions that are secured by collateral of identifiable United States government securities. All cash and investments are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of depository financial institutions. The deposits exceeding the insured or registered limits are collateralized with securities held by the Agency's financial institution.

B. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The Agency's investment policy limits investments to provide the optimum return on the investment consistent with the cash management program of the Agency.

Investments are made based upon prevailing market conditions at the time of the transaction. The Agency reviews its cash and investment needs in order to maintain adequate liquidity to meet its cash flow needs. Investments will typically be limited to securities maturing in periods of up to one year, or such lesser period that coincides with expected disbursements by the Agency.

C. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments are made under the 'prudent investor' standard to ensure that (a) due diligence is exercised in accordance with State law, (b) any negative deviations are reported timely and (c) reasonable action is taken to control any adverse developments. The Agency's investment policy requires investments to be made in accordance with HUD Financial Handbook, 7475.1 Chapter 4.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

D. Concentration of Credit Risk

The Agency's investment policy does not limit the amount it may invest with one financial institution as long as all funds are secured by the FDIC or identifiable United States government securities.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect fair value of an investment or a deposit. All of the Agency's deposits and investments are dominated in United States currency.

The carrying amount of cash and cash equivalents (restricted and unrestricted) at September 30, 2010 totaled \$53,632,820, and the corresponding bank balance was \$54,217,745, respectively. The difference between the carrying amounts of these cash and cash equivalents and the corresponding bank balances is due primarily to checks outstanding at September 30, 2010. The entire balance of this 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 restricted cash and cash equivalents at September 30, 2010, was \$4,202,583, 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 statement of net assets as of September 30, 2010.

The Agency maintains certain deposits for participants of the HUD Family Self-Sufficiency program. These funds totaled \$478,390 at September 30, 2010 and were included in restricted cash in the accompanying statements of net assets. Also included in restricted cash at September 30, 2010 was \$1,938,762, representing excess Section 8 restricted housing assistance funds under the Housing Choice Voucher program, the Disaster Housing Assistance Program, and the Veterans Affairs Supportive Housing Program.

Included in restricted cash for the AMPS in the accompanying statements of net assets at September 30, 2010, were \$2,379,939, which is held for repayment of the energy performance debt.

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.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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.

As of September 30, 2010, 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*.

Investments

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.

The Agency has not established a limit on the amount it may invest in any one issuer. Citizens Bank has 100% of the Agency's investments as of September 30, 2010 consisting of certificates of deposit.

At September 30, 2010, the future maturities of MDHA's investments are as follows:

Type of Investment	Carrying Amount	Maturity Fiscal 2011	Not Subject to Maturity
Certificates of Deposit	\$ 4,231,700	\$ 4,231,700	\$ -
Investment in Park at Hillside, LLC	509,806	-	509,806
TOTAL	<u>\$ 4,741,506</u>	<u>\$ 4,231,700</u>	<u>\$ 509,806</u>

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - FAIR VALUE MEASUREMENT

The financial statements reflect the adoption of a new accounting standard related to fair value measurements, which provides a comprehensive framework for measuring fair value and expands required disclosures concerning fair value measurements. Specifically, the standard sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. The adoption of the standard did not have a material impact on the Agency's financial statements.

The standard defines levels within the hierarchy of inputs as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets

Level 2 – Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

Fair values of financial assets measured on a recurring basis at September 30, 2010 consisted of the following:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of Deposit	\$ 4,231,700	\$ 4,231,700	\$ -	\$ -
Investment in Park at Hillside, LLC	<u>509,806</u>	<u>-</u>	<u>-</u>	<u>509,806</u>
	<u>\$ 4,741,506</u>	<u>\$ 4,231,700</u>	<u>\$ -</u>	<u>\$ 509,806</u>

At September 30, 2010, included above under Level 3 is the investment in a partnership. Changes in the fair value of the Agency's level 3 Investment in Park at Hillside, LLC during the year were as follows:

	<u>Investment In Partnership</u>
Balance at September 30, 2009	\$ 510,036
Net Loss	(230)
Balance at September 30, 2010	<u>\$ 509,806</u>

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2010 follows:

	Balance September 30, 2009	Additions	Retirements	Transfers	Balance September 30, 2010
Capital assets, not being depreciated:					
Land	\$ 49,816,237	\$ 52,775,362	\$ (45,295,030)	\$ 1,359,344	\$ 58,655,913
Construction in progress	24,420,875	24,197,034	(1,400,031)	(16,863,241)	30,354,637
Total capital assets, not being depreciated	<u>74,237,112</u>	<u>76,972,396</u>	<u>(46,695,061)</u>	<u>(15,503,897)</u>	<u>89,010,550</u>
Capital assets, being depreciated:					
Buildings	240,908,922	676,572	(776,739)	15,503,897	256,312,652
Infrastructure	21,155,548	-	-	-	21,155,548
Furniture, equipment, & machinery - dwellings	2,691,849	128,379	(19,186)	-	2,801,042
Furniture, equipment, & machinery - administrative	1,690,622	-	(174,961)	-	1,515,661
Total capital assets, being depreciated	<u>266,446,941</u>	<u>804,951</u>	<u>(970,886)</u>	<u>15,503,897</u>	<u>281,784,903</u>
Less accumulated depreciation for:					
Buildings	(104,477,379)	(8,563,226)	776,739	-	(112,263,866)
Infrastructure	(10,748,974)	(890,775)	-	-	(11,639,749)
Furniture, equipment, & machinery - dwellings	(2,292,781)	(164,016)	19,186	-	(2,437,611)
Furniture, equipment, & machinery - administrative	(1,523,576)	(105,295)	174,961	-	(1,453,910)
Total accumulated depreciation	<u>(119,042,710)</u>	<u>(9,723,312)</u>	<u>970,886</u>	<u>-</u>	<u>(127,795,136)</u>
Total capital assets, being depreciated, net	<u>147,404,231</u>	<u>(8,918,361)</u>	<u>-</u>	<u>15,503,897</u>	<u>153,989,767</u>
Total capital assets, net	<u>\$ 221,641,343</u>	<u>\$ 68,054,035</u>	<u>\$ (46,695,061)</u>	<u>\$ -</u>	<u>\$ 243,000,317</u>

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - NOTES RECEIVABLE

Notes receivable, including related accrued interest, consisted of the following as of September 30, 2010:

	<u>2010</u>
Vine Hill Homes Loans	\$ 11,107,390
Preston Taylor Homes Loans - Phase I	12,981,580
Preston Taylor Homes Loans - Phase II	7,750,038
Rehabilitation Loans	3,509,174
Business District Loans	62,398
Façade Loans	216,951
Neighborhood Stabilization Promissory Notes	1,588,840
Other	125,481
Allowance for doubtful accounts	<u>(2,479,191)</u>
Net notes receivable and accrued interest receivable	<u>\$ 34,862,661</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 13.) 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 \$1,614,253 as of September 30, 2010. Impairment expense for fiscal year 2010 totaled \$325,720.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - 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 2010.

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 2010.

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)

NOTE 6 - 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.

Neighborhood Stabilization Promissory Notes were executed between MDHA and non-profit entities that received NSP funds for the acquisition, rehabilitation and redevelopment of foreclosed or vacant properties. The properties have an affordability period per the grant agreements of 25 years. If the borrower complies with all of the terms and requirements of the restrictions, the entire balance of the Note will be forgiven at the end of the affordability period. No interest shall be due or payable on this Note. The provision for uncollectible notes includes 100% of the NSP notes which total \$1,588,840 as of September 30, 2010.

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.

NOTE 7 - LONG-TERM DEBT

A summary of changes in MDHA's long-term debt for the year ended September 30, 2010 is presented below:

	Balance October 1, 2009	Additions	Retirements	Accrued Interest	Balance September 30, 2010	Due within one year
Notes Payable - other	\$ 16,665,224	\$55,710,211	\$(54,635,895)	\$ 16,954	\$ 17,756,494	\$ 1,762,673

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 funding the development of Rolling Mill Hill. Interest and outstanding principal was variable and was calculated at the same rate of interest earned by the Metropolitan Government's idle funds in the Metro Investment Pool ("MIP"). During fiscal 2010, the loan was paid off in the amount of \$8,216,544.

A \$62,000,000 line of credit with First Tennessee Bank, dated July 30, 2009 for land acquisition and related pre-development activities for the Music City Center was executed. The loan was secured by an assignment of the Convention Center tax revenues and a lien on the properties acquired. The Music Center Authority paid off the loan in April 2010 in the amount of \$46,061,272.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Notes Payable - Other

\$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 principal and interest installments of \$10,389 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% per annum. The note is collateralized by a 76-unit apartment complex and assignment of rents and leases. \$ 1,218,061

\$2,500,000 promissory note with Pinnacle National Bank, payable in monthly principal and interest installments of \$14,806 through July 16, 2014 (amortized over 30 years through July 2037). Interest accrues at a tax-free rate of 5.8%. The note is collateralized by Sam Levy Homes (a 226-unit apartment complex) and assignment of rents and leases. 2,398,702

\$2,500,000 construction loan agreement with Suntrust Bank, originally dated December 29, 2005 for funding construction of the forty John Henry Hale Homes market rate apartments. On April 23, 2009, the loan was amended and converted to a \$2,500,000 promissory note, payable in monthly principal and interest installments of \$14,500 through June 29, 2012 (amortized over 20 years through April 2006). Interest on the outstanding balance is variable based upon the 30-day LIBOR rate, plus 175 basis points. The note is collateralized by J. Henry Hale Apartments (a 228-unit apartment complex) and assignments of rents and leases. 2,325,634

\$12,100,000 Tax-Exempt Municipal Lease Purchase Financing Contract with Pinnacle National Bank, dated July 2, 2009 with a fixed rate of 3.98% for the acquisition and installation of equipment necessary to implement the energy savings program. Interest accrued with no payments due until August 2010 when \$362,750 of interest was capitalized and added to the \$12,100,000 lease. The loan is payable in 28 quarterly payments of \$500,404 through June 2017. The balance as of September 30, 2010 includes \$16,954 of accrued interest. 11,814,097

\$ 17,756,494

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM DEBT (CONTINUED)

A schedule of principal maturities of long-term debt at September 30, 2010 is as follows:

Year Ending September 30, 2010

2011	\$ 1,762,673
2012	5,056,397
2013	1,725,871
2014	4,022,035
2015	1,822,043
Thereafter	<u>3,367,475</u>
Total	<u>\$ 17,756,494</u>

NOTE 8 - 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 \$57.2 million at September 30, 2010.

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, 2010, the Section 108 loans outstanding aggregated to approximately \$3.3 million.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - 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 year ended September 30, 2010, settled claims have not exceeded this commercial insurance coverage.

NOTE 10 - 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, 2010 amounted to \$1,826,801, which equaled the amount of required employer contributions. Employee voluntary contributions were \$166,141 in 2010. MDHA's payroll for employees covered by the Plan for the fiscal years ended September 30, 2010 was \$14,412,898. Total payroll for MDHA during the fiscal years ended September 30, 2010 amounted to \$16,291,327.

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.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - 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, 2010 were \$120,475.

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:

Year ending September 30, 2010

2011	\$ 500,000
2012	500,000
2013	500,000
2014	500,000
2015	500,000
Thereafter	<u>125,000</u>
Total	<u>\$ 2,625,000</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 \$102,229 for the year ended September 30, 2010.

NOTE 12 - 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, 2010.

At September 30, 2010, the Agency had outstanding construction commitments of approximately \$16.2 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.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 13 - 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 6.)

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 6.)

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. (See Note 6.)

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 6.)

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)

NOTE 14 - 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 year ended September 30, 2010 is as follows:

	<u>Invested in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Totals</u>
Net Assets - September 30, 2009	\$ 205,045,816	\$ 2,651,926	\$ 79,594,872	\$ 287,292,614
Change in net assets - 2010	<u>9,590,364</u>	<u>2,145,165</u>	<u>6,162,982</u>	<u>17,898,511</u>
Net Assets - September 30, 2010	<u>\$ 214,636,180</u>	<u>\$ 4,797,091</u>	<u>\$ 85,757,854</u>	<u>\$ 305,191,125</u>

NOTE 15 - INCOME TAXES

The Agency has qualified with the Internal Revenue Service and the Tennessee Department of Revenue as a tax-exempt organization for income tax purposes and, accordingly, there is no provision in the financial statements for federal or state income taxes. Management has determined that the application FIN 48 has no effect on its financial statements.

NOTE 16 - MAJOR FUNDING SOURCE

The Agency is substantially funded by Federal awards. Management anticipates a reduction of funding though the amount cannot be determined at this time.

NOTE 17 - SUBSEQUENT EVENTS

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through February 14, 2011, the date the financial statements were available to be issued.

ADDITIONAL INFORMATION

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
<u>U.S. DEPARTMENT OF ENERGY</u>				
Passed through State Department of Human Services:				
ARRA Weatherization	81.042	Z-09-000428	07-01-09 TO 09-30-10	\$ 4,521,299
Weatherization Assistance for Low-Income Persons	81.042	Z-10-000409	07-01-09 TO 06-30-10	12,709
Weatherization Assistance for Low-Income Persons	81.042	Z-05-021676	07-01-04 to 06-30-09	<u>(2,133)</u>
TOTAL U.S. DEPARTMENT OF ENERGY				
<u>4,531,855</u>				
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Direct Programs:				
Public and Indian Housing	14.850	A-3777	10-01-09 to 09-30-10	25,140,213
Section 8 Housing Choice Vouchers	14.871	A-3152V	10-01-09 to 09-30-10	38,735,932
Lower-Income Housing Assistance Program - Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	A-3152M	10-01-09 to 09-30-10	474,879
Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	A-3152M	10-01-09 to 09-30-10	81,000
HUD-Veterans Affairs Supportive Housing	14.VSH	TN005YA0001	05-01-09 to 04-30-10	488,308
Section 8 5yr Mainstream Vouchers	14.879	TN605DY0001	10-01-09 to 09-30-10	500,145
Cluster:				
Public Housing Capital Fund	14.872	A-3777 (TN43P00550107)	N/A	173,600
Public Housing Capital Fund	14.872	A-3777 (TN43P00550108)	N/A	2,653,571
Public Housing Capital Fund	14.872	A-3777 (TN43P00550109)	N/A	2,747,354
American Recovery and Reinvestment Act Formula Capital Fund Stimulus Grant	14.885	A-3777 (TN43S00550109)	N/A	7,872,288
American Recovery and Reinvestment Act Formula Capital Fund Competitive Grant	14.884	A-3777 (TN0050000609R)	N/A	2,217,688

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2010

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)				
Direct Programs (Continued):				
Shelter Plus Care	14.238	TN37C50-4003	04-01-06 to 03-31-11	34,830
Shelter Plus Care	14.238	TN37C60-4001	04-27-07 to 04-26-12	38,704
Shelter Plus Care	14.238	TN37C60-4014	04-27-07 to 04-26-12	50,912
Shelter Plus Care	14.238	TN0070C4040801	03-01-09 TO 02-28-10	12,352
Shelter Plus Care	14.238	TN0070C4040802	03-01-10 TO 02-28-11	16,867
Shelter Plus Care	14.238	TN0068C4040801	03-01-09 to 02-28-10	649,104
Shelter Plus Care	14.238	TN0068C4040802	03-01-10 to 02-28-11	113,383
Shelter Plus Care	14.238	TN0068C4040802	03-01-10 to 02-28-11	927,953
HMIS	14.235	TN0060B4070801	07-01-09 TO 06-30-10	20,942
Resident Opportunity and Supportive Services	14.870	TN005RFS164A008	04-27-09 to 04-27-10	131,550
Resident Opportunity and Supportive Services	14.870	TN005RPS080A009	07-13-10 to 07-09-2013	18,619
Resident Opportunity and Supportive Services	14.870	TN005REF036A007	06-09-2008 to 06-09-2011	184,920

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2010

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)</u>				
Direct Programs (Continued): Passed Through Metropolitan Government of Nashville and Davidson County, Tennessee:				
Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B-XX-MC-47-0007	N/A	4,991,812
ARRA-Community Development Block Grants Recovery	14.253	B-09-MY-47-007	06-04-2009 to 9-30-2012	437,592
Neighborhood Stabilization Program	14.218	B-08-MN-47-0004	03-06-09 to 03-06-13	2,907,496
HOME Investment Partnerships Program	14.239	M-XX-MC-47-0203	N/A	4,177,822
Emergency Shelter Grants Program	14.231	S-10-MC-47-0004	04-01-09 to 03-31-10	238,592
HOPWA	14.241	TN-H10-F002	04-01-09 to 03-31-10	872,215
ARRA-Neighborhood Stabilization Program 2	14.256	B-09-CN-TN-0024	02-11-10 to 02-11-13	670,899
ARRA-Homelessness Prevention and Rapid Re-housing Program	14.257	S-09-MY-47-0004	07-10-09 to 07-10-12	1,962,336
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				<u>98,643,858</u>
Passed Through State Department of Energy:				
Brownfields Revolving Loan	66.818	BF-96415904-0	10-01-04 to 09-30-11	11,975
Passed Through Federal Highway Administration				
TDOT Dickerson Road	20.205	PIN 030604.01	PIN 030604.01 FED#STP-EN-9312(71) STATE # 19959-3589-94	106,066
TDOT RMH Greenway Ext	20.205	PIN 110937.00	06-11-08 to 06-15-13	1,841,640
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u>\$ 105,135,394</u>

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2010

PROGRAM NUMBER	DESCRIPTION	EXPENDITURES
14.871	* Section 8 Housing Choice Vouchers	\$ 38,735,932
14.850	Public and Indian Housing Cluster:	25,140,213
14.884	* ARRA- Competitive Capital Fund Stimulus	2,217,688
14.885	* ARRA- Formula Capital Fund Stimulus	7,872,288
14.872	* Public Housing Capital Fund Cluster:	5,574,525
14.218	* Community Development Block Grants/Entitlement Grants	4,991,812
14.218	* Neighborhood Stabilization Program	2,907,496
14.253	* ARRA-CDBG-R	437,592
14.239	Home Investment Partnerships Program	4,177,822
81.042	* ARRA-Weatherization Assistance for Low-Income Persons	4,521,299
81.042	* Weatherization Assistance for Low-Income Persons	10,556
20.205	Federal Highway Administration	1,947,706
14.238	Shelter Plus Care	1,844,085
14.257	* ARRA-HPRP	1,062,336
14.241	Housing Opportunities for Persons With AIDS	872,215
14.256	ARRA-NSP-2	670,899
14.249	Section 8 Moderate Rehabilitation - Single Room Occupancy	555,879
14.879	Section 8 Five Year Mainstream Vouchers	500,145
14.VSH	HUD-Veterans Affairs Supportive Housing	488,308
14.870	Resident Opportunity and Supportive Services	335,089
14.231	Emergency Shelter Grants Program	238,592
14.235	HMIS	20,942
66.818	Brownfields Pilots Cooperative Agreement	11,975
	TOTAL FEDERAL FINANCIAL ASSISTANCE	\$ 105,135,394

*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>TN43P005501-07</u>
Funds approved	\$ 7,284,610
Funds expended	<u>7,284,610</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 Department of HUD 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 financial statements of the Metropolitan Development and Housing Agency ("the Agency"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the year end September 30, 2010, and have issued our report thereon dated February 14, 2011. 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 deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
February 14, 2011



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON 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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended September 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal awards programs for the year ended September 30, 2010.

Internal Control Over Compliance

Management of the Agency 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance 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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-01. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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.

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.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
February 14, 2011

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

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? x yes 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, 2010

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>	
14.871	Section 8 Housing Choice Vouchers	\$38,735,932
	Cluster:	
14.884	ARRA-Competitive Capital Fund Stimulus	\$2,217,688
14.885	ARRA-Formula Capital Fund Stimulus	\$7,872,288
14.872	Public Housing Capital Fund	\$5,574,525
	Cluster:	
14.218	Community Development Block Grant	\$4,991,812
14.218	Neighborhood Stabilization Program	\$2,907,496
14.253	ARRA-CDBG-R	\$437,592
14.081	ARRA-Weatherization Assistance for Low-Income Persons	\$4,521,299
14.081	Weatherization Assistance for Low-Income Persons	\$10,566

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

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, 2010

Item 2010-01 CFDA No. 14.871 Section 8 Housing Choice Vouchers

Condition: During the year end September 30, 2010, we tested 60 tenant files for documentation in support of the requirements of the Section 8 Housing Choice Voucher program. Our testing included files of existing tenants, as well as files of participants that had moved out during the current year. Several documents from two of the current year move-out files had been purged, including the electronic file copy, and therefore, verification of specific documentation could not be obtained.

Questioned costs: There were no questioned costs.

Criteria: The Agency typically purges files annually, but maintains an electronic file for three years.

Effect: We were unable to obtain documentation for two participants of the program.

Recommendation: Procedures should be implemented to ensure documentation is retained in accordance with the Agency's policies.

Management's Response: The Agency concurs with the finding and has implemented procedures to ensure the proper documents are retained in the files.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Item 09-01 CFDA No. 14.850 Public and Indian Housing

Condition: During the year ended September 30, 2009, we reviewed the process for applicants to be placed on the waiting list, including the ranking of applicants by position as determined by the Agency's admission policy. Although applicants are placed on the waiting list based on specific criteria or preferences, we were unable to determine if applicants were being properly ranked.

Additionally, we found that applicants already determined to be ineligible, unresponsive or who had already been housed were often not removed from the waiting list.

Recommendation: The Agency should examine the process for admission of tenants and determine procedures to monitor the process of placing applicants on the waiting list and admitting them into public housing. We would further recommend the waiting list be reviewed to determine it contains only current applicants ranked in accordance with their policy.

Status: Based on the test performed, the Agency has implemented control procedures.

Item 09-02 CFDA No. 14.238 Shelter Plus Care

Condition and Cause: Thirty participant files were selected for compliance testing. Two files did not contain documentation in support of income verification for the most recent recertification period.

Recommendation: The Agency should review procedures to ensure all participant files contain adequate documentation of income verification.

Status: Based on the test performed, the Agency has implemented control procedures.

Metropolitan Development and Housing Agency

701 SOUTH SIXTH STREET * NASHVILLE, TENNESSEE * TELEPHONE (615) 252-8400

MAILING ADDRESS: P.O. BOX 846 NASHVILLE, TENNESSEE 37202

TELEPHONE DEVICE FOR THE DEAF (615) 252-8599

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Item 2010-01 CFDA No. 14.871 Section 8 Housing Choice Vouchers

Condition: During the year end September 30, 2010, we tested 60 tenant files for documentation in support of the requirements of the Section 8 Housing Choice Voucher program. Our testing included files of existing tenants, as well as files of participants that had moved out during the current year. Several documents from two of the current year move-out files had been purged, including the electronic file copy, and therefore, verification of specific documentation could not be obtained.

Questioned costs: There were no questioned costs.

Criteria: The Agency typically purges files annually, but maintains an electronic file for three years.

Effect: We were unable to obtain documentation for two participants of the program.

Recommendation: Procedures should be implemented to ensure documentation is retained in accordance with the Agency's policies.

Corrective Action:

The Agency concurs with the finding and has implemented procedures to ensure the proper documents are retained in the files.

Contact Person: Brenda Kennedy, Director of Finance
Telephone: 612-252-8441