METROPOLITAN DEVELOPMENT
AND HOUSING AGENCY

NASHVILLE, TENNESSEE

ANNUAL FINANCIAL REPORT
AND OTHER FINANCIAL INFORMATION

SEPTEMBER 30, 2013

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, 2013.

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. Mountjoy Chilton Medley LLP, 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.

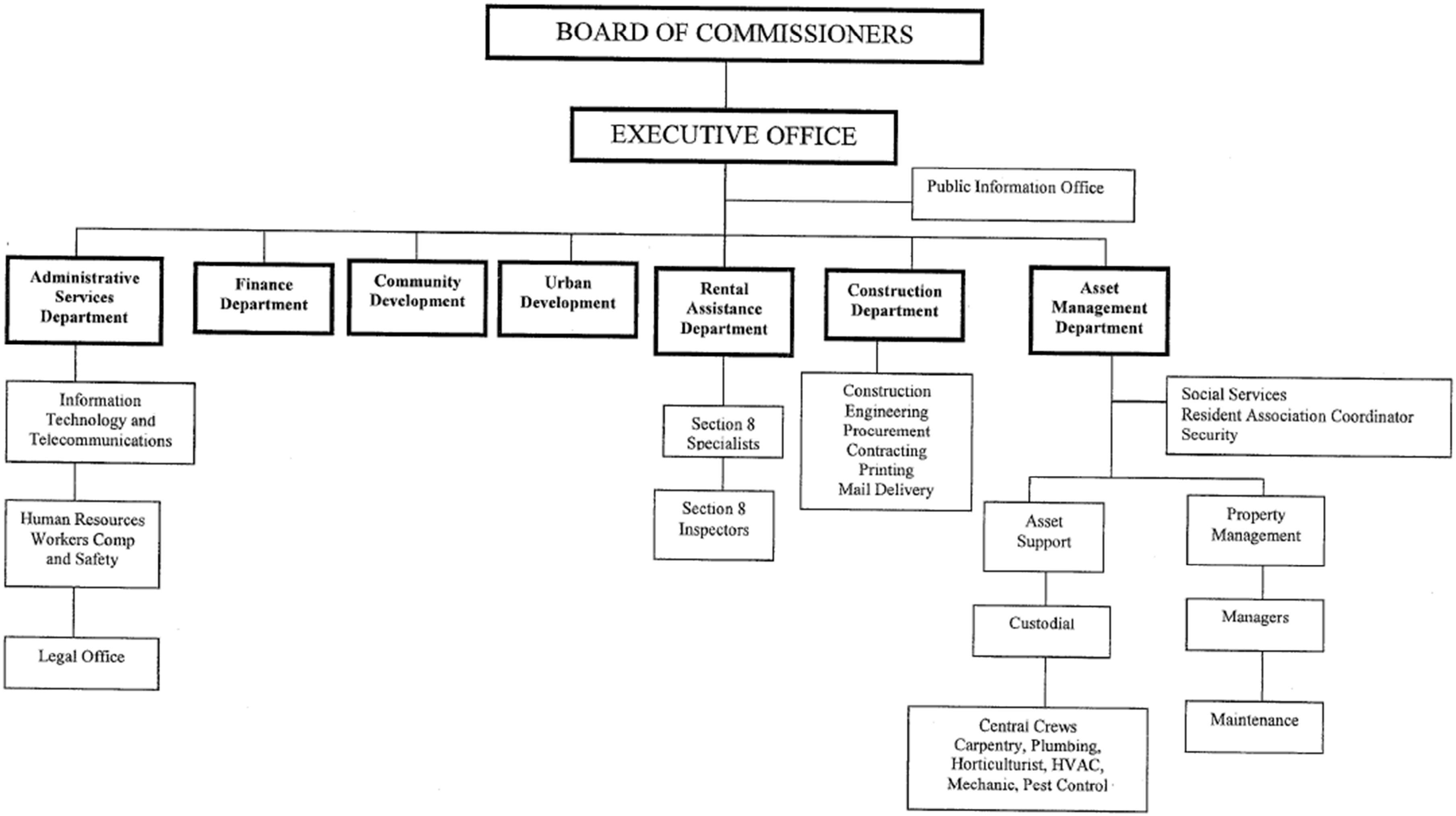
Management believes that its policies and procedures provide guidance and reasonable assurance that MDHA's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position of MDHA as of September 30, 2013, and the changes in its financial position and its cash flows for the year 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, Mountjoy Chilton Medley LLP, on the September 30, 2013, financial statements is included in this report.

ORGANIZATIONAL CHART

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY



METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

BOARD OF COMMISSIONERS

September 30, 2013

Ralph Mosley, Chair
Jimmy Granbery Vice Chair for Development
Melvin C. Black, Vice Chair for Housing
Miniimah Basheer, Commissioner
Antoinette Batts, Commissioner
Anna Page, Commissioner
Gif Thornton, Commissioner

CPAs & Advisors

Independent Auditor's Report

Board of Commissioners
Metropolitan Development and Housing Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Metropolitan Development and Housing Agency (the "Agency") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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An association of legally independent firms

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Kentucky
Indiana
Ohio

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of September 30, 2013, and its changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 11 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 management's 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis, and is not a required part of the basic financial statements. In addition, the accompanying schedule of actual costs for the specified project from inception of the project through completion is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

Independent Auditor's Report (Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2014, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Mountjoy Chilton Medley LLP

Jeffersonville, Indiana
January 10, 2014

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, 2013 and 2012. Please read this analysis in conjunction with the Agency's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Fiscal year 2013:

The Agency's total net position decreased $3 million or 1%, in part as a result of the following:

- Cash and Investments decreased $25.2 million (31%)
- Bonds, Notes and Other Liabilities decreased $8.2 million (9%)
- Operating Revenues decreased $10.7 million (10%)
- Operating Expenses decreased $6.4 million (6%)
- Operating Gain decreased $4.2 million (>100%)
- Governmental Capital Contributions increased $1.3 million (17%)

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 position, statement of revenues, expenses and changes in net position, statement of cash flows and notes to the financial statements. The statement of net position 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 position 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.

FINANCIAL ANALYSIS OF THE AGENCY

Net Position

Fiscal year 2013 as compared to fiscal year 2012:

	2013	2012	% Increase (Decrease)
Current Assets	$ 65,095,239	$ 93,709,553	(31) %
Noncurrent Assets			
Capital Assets	274,163,165	$ 270,758,230	1 %
Other Assets	86,315,785	$ 72,244,885	19 %
Total Assets	$ 425,574,189	$ 436,712,668	(3) %
Notes Payable	$ 71,319,686	$ 71,980,760	(1) %
Other Liabilities	14,494,305	22,014,356	(34) %
Total Liabilities	$ 85,813,991	$ 93,995,116	(9) %
Net investment in Capital Assets	$ 256,609,304	$ 252,328,209	2 %
Retsricted Net Position	-	3,445,586	(100) %
Unrestricted Net Position	83,150,894	86,943,757	(4) %
Total Net Position	$ 339,760,198	$ 342,717,552	(1) %

The Agency's total net position decreased $3 million, or 1%, in part as a result of the following:

- Restricted cash decreased and other assets increased $18.6 million due to the funding of a special project financed by tax increment financing.

- The decrease of $8 million in total liabilities is due to following: $1.3 million of payables for the fire damage at Parthenon Towers; $2 million of payables for construction of Uptown apartments; and $4 million for the property exchange with another agency of the local government.

- Restricted net position of $3.4 million decreased due to the housing assistance payments for the voucher program

FINANCIAL ANALYSIS OF THE AGENCY (CONTINUED)

Revenues, Expenses and Changes in Net Position

Fiscal year 2013 as compared to fiscal year 2012:

	2013	2012	% Increase (Decrease)
Operating Revenues			
Rentals	$ 11,782,093	$ 10,692,770	10 %
Other tenant revenue	679,481	-	100 %
Governmental Operating Revenue	76,628,172	82,336,430	(7) %
Local Government Development Activities	4,781,056	9,014,471	(47) %
Other	5,327,481	7,823,673	(32) %
Total Operating Revenues	99,198,283	109,867,344	(10) %
Operating Expenses:			
Administrative expenses	16,063,823	15,311,681	5 %
Other	89,361,472	96,545,511	(7) %
Total Operating Expenses	105,425,295	111,857,192	(6) %
Operating Gain (Loss)	(6,227,012)	(1,989,848)	213 %
Nonoperating Revenues (Expenses)	(3,138,214)	(3,694,111)	(15) %
Capital Contributions	8,966,107	7,655,032	17 %
Casualty loss and related expenses	(2,558,235)	-	(100) %
Change in Net Position	$ (2,957,354)	$ 1,971,073	(250) %

The decrease in local government development activities revenue and other operating expenses is due to the waterfront redevelopment project.

The decrease in governmental operating revenues and other operating expenses is a result of the completion of a grant funded by the American Reinvestment and Recovery Act.

The casualty loss was the costs for renting generators including fuel and cabling to provide utilities to the residents of a high-rise building while renovations were completed to repair damages resulting from water damage following a fire.

CAPITAL ASSETS

Fiscal year 2013 as compared to fiscal year 2012:

	2013	2012	% Increase (Decrease)
Land	$ 84,365,411	$ 82,353,826	2 %
Infrastructure	21,185,548	21,155,548	0 %
Buildings	301,338,706	284,480,557	6 %
Equipment	4,557,968	4,091,985	11 %
Construction in progress	12,425,967	18,636,029	(33) %
Total	423,873,600	410,717,945	3 %
Less Accumulated Depreciation	(149,710,435)	(139,959,715)	7 %
Net Capital Assets	$ 274,163,165	$ 270,758,230	1 %

Net capital assets increased $3.4 million, or 1% during fiscal year 2013. During fiscal year 2013, the Agency expended $20.5 million on capital activities. The capital expenditures included $1.8 million for construction of Uptown Apartments; $3 million in energy efficiency measures for the asset management properties including Safe-T-elements, hail protection, lighting and weather-stripping; $437,000 for central office improvements for the information technology office and the collaboration center; $4.8 million major improvements to Madison Towers; $2.9 million major improvements to Neighborhood Housing units; $3 million major renovations for Edgefield Cottages; and $3.6 million major renovations for 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 $10.8 million during fiscal year 2013.

DEBT ADMINISTRATION

Fiscal year 2013 as compared to fiscal year 2012:

	2013	2012	% Increase (Decrease)
Total Notes Payable - other	$ 71,319,686	$ 71,980,760	(1) %

DEBT ADMINISTRATION (CONTINUED)

At September 30, 2013, the Agency's note principal and interest outstanding totaled $72 million – an increase of 1% from the prior year. The notes payable 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. Also included in the notes payable is the tax exempt municipal lease purchase financing contract of $8 million and a $57.5 million loan for the construction of a convention center hotel and expansion of the Country Music Hall of Fame, secured by revenue generated by tax increment properties in the Capitol Mall Redevelopment district.

NEW BUSINESS

On October 4, 2013, the Agency entered into a Loan and Security Agreement with Regions Capital Advantage, Inc. to refinance the prior three-year loan with Regions Bank for the Omni Convention Center Hotel and the Country Music Hall of Fame Expansion. The tax increment revenues pledged to debt service remained the same except that some of the Excess Cash (tax increment revenues in excess of minimum scheduled debt service) was allocated to additional borrowing from the same lender. The new loan of $53,850,000 matures July 2, 2023 and has a fixed rate of interest equal to 3.40% per annum. On October 25, 2013, the Agency closed a tax increment loan with Regions Capital Advantage, Inc. for $6,775,000 at a fixed interest rate of $4.23%. The loan proceeds, together with the proceeds of a similar loan to be closed in January 2014 ($3,200,000) will be used for the redevelopment of the riverfront amphitheatre as approved at the September 2013 board meeting.

The Agency will be applying to the Department of Housing and Urban Development by December 31, 2013, to convert all public housing units to rental assistance units.

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 POSITION

SEPTEMBER 30, 2013

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	39,422,647
Restricted cash and cash equivalents		12,995,497
Investments, at fair value		4,404,704
Receivables:		
Tenant, net of allowances		72,798
Amounts due from other governmental agencies		2,057,984
Current portion of notes receivable, net of allowances		2,568,056
Interest on investments		22,186
Other		785,255
Inventory		2,206,156
Prepaid expenses		559,956
TOTAL CURRENT ASSETS		65,095,239
CAPITAL ASSETS, NET		274,163,165
NONCURRENT ASSETS		
Investments, equity method		508,490
Notes receivable, net of allowances		85,807,295
TOTAL NONCURRENT ASSETS		86,315,785
TOTAL ASSETS		425,574,189
DEFERRED OUTFLOWS OF RESOURCES		-

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF NET POSITION (CONTINUED)

SEPTEMBER 30, 2013

LIABILITIES

CURRENT LIABILITIES		
Funds held for others	$	4,753,202
Accounts payable		2,118,251
Contract retention payable		54,202
Compensated absences payable		831,015
Accrued liabilities		3,191,625
Due to tenants		1,126,612
Unearned revenue		94,541
Due to other governments		129,021
Current portion of long-term debt		10,037,585
TOTAL CURRENT LIABILITIES		22,336,054
NONCURRENT LIABILITIES		
Deposits		582,686
Long-term debt, less current maturities		61,282,101
Long-term compensated absences payable		1,613,150
TOTAL NONCURRENT LIABILITIES		63,477,937
TOTAL LIABILITIES		85,813,991
DEFERRED INFLOWS OF RESOURCES		-
NET POSITION		
Net investment in capital assets		256,609,304
Unrestricted net position		83,150,894
TOTAL NET POSITION	$	339,760,198

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2013

OPERATING REVENUES	
Rentals	$ 11,782,093
Other tenant revenue	679,481
Governmental operating revenue	76,628,172
Program income	104,591
Local government development activities	4,781,056
Other income	5,222,890
TOTAL OPERATING REVENUES	99,198,283
OPERATING EXPENSES	
Cost of Services:	
Tenant services	950,536
Utilities	7,349,109
Ordinary maintenance and operations	13,260,276
Protective services	1,210,816
Other direct program costs	15,988,495
Housing assistance payments	39,782,789
Administration	16,063,823
Depreciation	10,819,451
TOTAL OPERATING EXPENSES	105,425,295
OPERATING LOSS	(6,227,012)
NONOPERATING REVENUES (EXPENSES)	
Interest income	285,867
Impairment allowance on notes receivable	(146,627)
Loss on disposition of assets	(452,266)
Interest expense	(2,825,188)
TOTAL NONOPERATING EXPENSES - NET	(3,138,214)
DECREASE IN NET POSITION BEFORE CONTRIBUTIONS AND CASUALTY LOSS	(9,365,226)
Capital contributions	8,966,107
Casualty loss and related expenses	(2,558,235)
CHANGES IN NET POSITION	(2,957,354)
NET POSITION - BEGINNING OF YEAR	342,717,552
NET POSITION - END OF YEAR	$ 339,760,198

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from rental operations	$ 12,392,407
Receipts from program income	437
Receipts from government subsidy for operations	81,004,863
Receipts from local governmental development activities	4,252,235
Receipts from other	8,448,711
Receipts from inventory sales	287,000
Payments for inventory purchases	(2,160)
Payments to and on behalf of employees	(19,627,030)
Payments for other administrative expenses	(5,158,780)
Payments for other direct program costs, including housing assistance payments	(73,286,653)
Program loan activities:	
Cash expended for program loans	(16,546,597)
Principal collections on notes receivable	327,392
Interest income collections	104,529
NET CASH USED BY OPERATING ACTIVITIES	(7,803,646)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from governmental capital grants	8,966,107
Purchases of capital assets	(20,549,928)
Proceeds from capital debt	5,985,551
Principal paid on capital debt	(6,646,625)
Interest paid on capital debt	(2,868,588)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(15,113,483)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(4,404,704)
Proceeds from the sales and maturities of investments	4,358,823
Interest received	295,480
NET CASH PROVIDED BY INVESTING ACTIVITIES	249,599
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES	
Payments for casualty loss and other expenses	(2,558,235)
NET CASH USED BY NON-CAPITAL FINANCING ACTIVITIES	(2,558,235)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(25,225,765)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	77,643,909
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 52,418,144

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2013

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	$ (6,227,012)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	10,819,451
Bad debt expense	419,470
Changes in assets and liabilities:	
Increase in accounts receivable	4,554,200
Increase in inventories	226,676
Increase in prepaid expenses and other assets	162,899
Increase in due to tenants	59,618
Decrease in accounts payable and amounts due to other governments	(3,259,918)
Increase in deferred revenue and other deposits	27,695
Increase in accrued liabilities and compensated absences	1,632,480
Program loan activities:	
Cash expended for program loans	(16,546,597)
Principal collections on notes receivable	327,392
TOTAL ADJUSTMENTS	(1,576,634)
NET CASH USED BY OPERATING ACTIVITIES	$ (7,803,646)

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 (ASC) pronouncements that do not contradict GASB pronouncements in the preparation of the financial statements.

The Agency distinguishes operating revenues and expenses from non-operating 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 non-operating 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Types- the funds are consolidated into a single fund for reporting purposes

CONVENTIONAL LOW RENT HOUSING PROGRAM
This fund is used to account for all of 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 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.

Allowance for Doubtful Accounts
The Agency uses the allowance for bad debts method of valuing doubtful receivables which is based on historical experience, coupled with a review of the status of existing receivables. An allowance for doubtful tenant receivables of $3,077,472 has been provided by management at September 30, 2013.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Provision for uncollectible notes

A note receivable is considered impaired when, based on current information, it is probable that all amounts of principal and interest due will not be collected according to the terms of the note agreement. Uncollectible notes are charged to the allowance account in the period such determination is made. The provision for uncollectible notes receivable was $17,718,758 at September 30, 2013.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 primarily are to be used for purposes specified under the Housing Choice Voucher or Family Self Sufficiency programs. The restricted assets also include escrow accounts for the loan proceeds to be used for the construction of the convention center hotel. 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 $12,995,497.

Tenant Accounts Receivable Net of Bad Debt Expense
The State of Tennessee Comptroller's Office review of the 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, the increase and decrease in the estimate of uncollectible accounts should be reported net of revenue instead of bad debt expense. The Agency's bad debt expense charged against revenue was $419,470 for the year ended September 30, 2013.

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with GASB Statement No. 40 "Deposits and Investment Risk Disclosures," information related to cash, cash equivalents and investments is as follows:

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.

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

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.

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.

Schedule of restricted cash with offsetting liability as of September 30, 2013:

Funds held for others	$	4,753,202
Deposits		582,686
Due to resident councils		558,796
Current and long-term debt for energy performance note		4,264,463
Current and long-term debt for Omni Hotel		2,779,708
Property management company accounts		56,642
	$	12,995,497

Funds held for others $4,753,202 are cash and cash equivalents 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.

Deposits of $582,686 are held for participants in the HUD Family Self-Sufficiency program.

Amounts due to resident councils of $558,765 are tenant participation funds from HUD which are held for use by the duly elected resident councils.

Current and long-term debt for repayment of the energy performance note of $4,264,463 is included in restricted cash for the asset management properties.

Current and long-term debt for the Omni Hotel of $2,779,708 include debt proceeds being held in an escrow account for Omni Nashville, LLC, the developer and owner of the convention center hotel.

Tenant deposits of $56,642 for market rate units managed by a separate management company.

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

Deposit and Investment Policy

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

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

As of September 30, 2013, 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, 2013 consisting of certificates of deposit.

At September 30, 2013, the future maturities of MDHA's investments are as follows:

Type of Investment	Carrying Amount	Maturity Fiscal 2013	Not Subject to Maturity
Certificates of Deposit	$ 4,404,704	$ 4,404,704	$ -
Investment in Park at Hillside, LLC	508,490	-	508,490
TOTAL	$ 4,913,194	$ 4,404,704	$ 508,490

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 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

Following is a description of the valuation methodologies used for the assets measured at fair value. There have been no changes in the methodologies used to determine fair value at September 30, 2013.

Investment in partnership: Valued at the Agency's ownership interest in the net book value of the underlying assets, which management believes approximates fair value.

Fair values of financial assets measured on a recurring basis at September 30, 2013 consisted of the following:

	Fair Value	Level 1	Level 2	Level 3
Certificates of Deposit	$ 4,404,704	$ 4,358,823	$ -	$ -
Investment in Park at Hillside, LLC	508,490	-	-	508,490
	$ 4,913,194	$ 4,358,823	$ -	$ 508,490

At September 30, 2013, 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:

	Investment In Partnership
Balance at September 30, 2012	$ 508,782
Net Loss	(292)
Balance at September 30, 2013	$ 508,490

NOTE 5 - CAPITAL ASSETS

	Balance September 30, 2012	Additions	Retirements	Transfers	September 30, 2013
Capital assets, not being depreciated:					
Land	$ 82,353,826	$ 28,970	$ (4,054,200)	$ 6,036,815	$ 84,365,411
Construction in progress	18,636,029	17,481,844	(2,271,342)	(21,420,564)	12,425,967
Total capital assets, not being depreciated	100,989,855	17,510,814	(6,325,542)	(15,383,749)	96,791,378
Capital assets, being depreciated:					
Buildings	284,480,557	2,422,225	(917,825)	15,353,749	301,338,706
Infrastructure	21,155,548	-		30,000	21,185,548
Furniture, equipment, & machinery - dwellings	3,059,066	616,889	(29,022)	-	3,646,933
Furniture, equipment, & machinery - administrative	1,032,919	-	(121,884)	-	911,035
Total capital assets, being depreciated	309,728,090	3,039,114	(1,068,731)	15,383,749	327,082,222
Less accumulated depreciation for:					
Buildings	(128,256,431)	(9,747,913)	917,825		(137,086,519)
Infrastructure	(8,546,353)	(800,663)	-	-	(9,347,016)
Furniture, equipment, & machinery - dwellings	(2,436,470)	(189,171)	29,022	-	(2,596,619)
Furniture, equipment, & machinery - administrative	(720,461)	(81,704)	121,884	-	(680,281)
Total accumulated depreciation	(139,959,715)	(10,819,451)	1,068,731	-	(149,710,435)
Total capital assets, being depreciated, net	169,768,375	(7,780,337)	-	15,383,749	177,371,787
Total capital assets, net	$ 270,758,230	$ 9,730,477	$ (6,325,542)	$ -	$ 274,163,165

NOTE 6 - NOTES RECEIVABLE

Notes receivable, including related accrued interest, consisted of the following as of September 30, 2013:

Vine Hill Homes Loans	$	13,193,992
Preston Taylor Homes Loans - Phase I		13,020,219
Preston Taylor Homes Loans - Phase II		7,773,128
Rehabilitation Loans		3,327,986
Business District Loans		53,787
Façade Loans		169,346
Neighborhood Stabilization Promissory Notes		14,534,864
Tax Increment Financing Loan		53,525,095
Other		495,692
Allowance for doubtful accounts		(17,718,758)
Net notes receivable and accrued interest receivable		88,375,351
Less current portion		(2,568,056)
Net notes receivable and accrued interest receivable, less current portion	$	85,807,295

Vine Hill Homes Loans were made to Vine Hill Homes, LLC for the construction and development of the Vine Hill project. The loans were 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, November 2028. 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. Cumulative accrued, unpaid interest earned totaled $2,086,602 at September 30, 2013, and has been added to the note receivable balance. Based upon a review of the collectability of the accrued interest, an allowance for the full accrued interest balance has been established by management at that date. 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.

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. Cumulative accrued, unpaid interest earned totaled $140,602 at September 30, 2013, and has been added to the note receivable balance. 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.

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. Cumulative accrued, unpaid interest earned totaled $76,327 at September 30, 2013, and has been added to the note receivable balance. 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.

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. Approximately $48,000 was forgiven during the year ended September 30, 2013. Management has provided an allowance for doubtful accounts totaling $957,911 related to these loans.

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. Management has provided an allowance for doubtful accounts totaling $23,785 related to these loans.

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. Management has provided an allowance for doubtful accounts totaling $115,596 related to these loans.

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 $14,534,864 as of September 30, 2013.

Tax Increment Financing Note was made when The Convention Center Authority of Nashville and Davidson County entered into a development and funding agreement with Omni Nashville, LLC to provide for an 800-room convention center hotel with associated structured parking, meeting spaces, restaurants, and other amenities. As part of the incentives for this development, MDHA provided tax increment financing for land acquisition and other TIF-eligible expenses. The tax increment notes receivable balance as of September 30, 2013 was $53,525,095.

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. Of the $495,692 balance, $400,000 is due from Ryman Lofts at Rolling Mill Hill, L.P. The loan bears interest at 5% and matures on September 1, 2041. Principal and interest is payable from the cash flow of Ryman Lofts at Rolling Mill Hill, L.P on an annual basis, on or before the 90th day following the end of each calendar year.

NOTE 7 - LONG-TERM DEBT

A summary of changes in MDHA's long-term debt for the year ended September 30, 2013 is presented below:

	9/30/2012	Additions	Retirements	Balance 9/30/2013	Due within one year
Notes Payable	$ 71,980,760	$ 5,985,551	$ (6,646,625)	$ 71,319,686	$ 7,199,816

A complete detail of the long-term debt is provided on the following page.

NOTE 7 - LONG-TERM DEBT (CONTINUED)

$1,400,000 promissory note with Bank of Tennessee, dated May 24, 2012, payable in monthly installments of principal of $7,780 plus accrued interest through June 25, 2027. Interest accrues at the variable rate of the Prime Rate minus two percentage points, but not less than zero. The note is collaterialized by a 76-unit apartment complex and assignment of rents and leases.	$	1,275,520
$2,500,000 promissory note with Pinnacle National Bank, payable in monthly installments of principal and interest of $14,806 through July 16, 2014. Interest accrues at a tax-free rate of 5.8%. The note is collaterialized by Sam Levy Homes (a 226-unit apartment complex) and assignment of rents and leases.		2,271,230
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 installments of principal and interest through June 29, 2012. In October 2012, the loan was extended to October 10, 2017 and is payable in monthly installment of $11,142 plus accrued interset based upon a fixed rate equal to 4.5% per annum. The note is collateralized by J. Henry Hale Apartments (a 228-unit apartment complex) and assignments of rents		1,706,192
$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 for 13 months with no payment due. At the end of the 13 month period, August 2, 2010, the accrued interest was capitalized and added to the original $12,100,000 balance. Twenty-eight fixed quarterly payments of principal and interest totaling $500,404 are due through June 2017. Pinnacle Bank placed a first perfected security interest in the total project and associated equipment.		6,940,811
$2,415,036 Tax-Exempt Municipal Lease Purchase Financing Contract with Pinnacle National Bank, dated August 5, 2013 with a fixed rate of 2.990% for the third phase of the energy performance contact. Five annual payments of principal and interest totaling $650,197 are due through September 2017. Pinnacle Bank placed a first perfected security interest in the total project and associated equipment.		2,415,036
Balance forward		14,608,789

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Balance forward	14,608,789
$61,560,036 promissory note with Regions Bank, dated May 16, 2011 for the purchase of land and payment of certain redevelopment costs related to the construction of a new downtown convention center headquarters hotel facility in Nashville, Tennessee and the expansion of The Country Music Hall of Fame and Museum to connect to the new hotel. The loan bears interest at a per annum rate equal to 3.84%. Interest on the outstanding principal balance of the loan is payable semi-annually, in arrears, with the first payment being due and payable January 1, 2012, and subsequent installments being payable on the first Business Day of each July and January thereafter until the Maturity Date. Beginning on July 1, 2012 and each July 1 thereafter until the Maturity Date, principal shall also be due in the amount of $2,480,000. A debt coverage ratio of at least 125% will be maintained. The loan is securitized by revenues from tax increment revenue generated by certain properties in the Capitol Mall Redevelopment District. The loan matures July 1, 2014. Subsequent to year end, in October 2013, the Agency refinanced the promissory note in the amount of $53,850,000. The note matures July 1, 2023 is payable in an annual principal payment each July 1 and semi-annual interest payments on January 1 and July 1.	53,765,825
$3,237,540 non revolving line of credit promissory note with SunTrust Bank dated April 19, 2012, for the construction of a 72 unit apartment building. Interest accrrues at a variable rate equal to the index rate plus 3.25% per annum. The note is collaterizalized by the apartment complex and assignment of rents. This is an interest only loan until conversion to permanent financing by April 19, 2014. Subsequent to year end, the Agency refinanced the note in the amount of $2,945,072 at an interest rate of 5.510%. Monthly principal and interest payments under the new loan will be $24,202.	2,945,072
	$ 71,319,686

A schedule of principal maturities of long-term debt at September 30, 2013 is as follows:

Year Ending September 30	Principal	Interest	Total
2014	$ 10,037,585	$ 2,463,043	$ 12,500,628
2015	4,912,201	2,077,917	6,990,118
2016	5,006,631	1,906,275	6,912,906
2017	4,604,306	1,721,622	6,325,928
2018	2,504,481	1,588,147	4,092,628
Thereafter	44,254,482	7,958,855	52,213,337
Total	$ 71,319,686	$ 17,715,859	$ 89,035,545

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 $42 million at September 30, 2013.

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, 2013, the Section 108 loans outstanding aggregated to approximately $2.26 million.

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 years ended September 30, 2013, 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. Based on an actuarial study performed as of July 1, 2013, the Agency had no required contribution due related to the defined benefit portion of the Plan. 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.

NOTE 10 - EMPLOYEE BENEFIT PLANS

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, 2013 amounted to $1,603,879, which equaled the amount of required employer contributions. Employee voluntary contributions were $178,707 in 2013. MDHA's payroll for employees covered by the Plan for the fiscal year ended September 30, 2013 was $12,337,529. Total payroll for MDHA during the fiscal year ended September 30, 2013 amounted to $15,393,176.

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 MDHA.

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 year ended September 30, 2013 were $83,341.

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 $273,190 for the year ended September 30, 2013.

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, 2013.

At September 30, 2013, the Agency had outstanding construction commitments of approximately $12.8 million. These outstanding commitments will be paid by grants committed to the Agency by the U.S. Department of Housing and Urban Development and the Metropolitan Government of Nashville and Davidson County, Tennessee.

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

NOTE 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.

NOTE 14 - NET POSITION

The Agency's net position is categorized as follows:

- Net investment in capital assets - This component of net position 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 position - This component includes net position 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 position - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

The changes in net position for the year ended September 30, 2013 are as follows:

	Net Investment in Capital Assets	Restricted	Unrestricted	Totals
Net Position - September 30, 2012	$ 252,328,209	$ 3,445,586	$ 86,943,757	$ 342,717,552
Changes in net position - 2013	4,281,095	(3,445,586)	(3,792,863)	(2,957,354)
Net Position - September 30, 2013	$ 256,609,304	$ -	$ 83,150,894	$ 339,760,198

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.

NOTE 16 – CASUALTY LOSS AND RELATED EXPENSES

During the year ended September 30, 2012, a fire damaged one of the low rent housing program properties. During the year ended September 30, 2013, the Agency incurred related costs totaling $2,558,235 for renting generators including fuel and cabling to provide utilities to the residents of a high-rise building while renovations were completed to repair damages resulting from water damage following the fire.

NOTE 17 – MAJOR FUNDING SOURCE

The Agency is substantially funded by Federal awards. The amount of future funding cannot be determined at this time by management.

NOTE 18 – SUBSEQUENT EVENTS

The Agency has evaluated events and transactions for potential recognition or disclosure through the date of the Independent Auditor's Report, the date the accompanying financial statements were available to be issued.

<u>ADDITIONAL INFORMATION</u>

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD		EXPENDITURES
U.S. DEPARTMENT OF ENERGY					
Passed through State Department of Human Services:					
Weatherization Assistance for Low-Income Persons	81.042	WAP-12-07	12-01-12 to 06-30-14		$ 298,936
TOTAL U.S. DEPARTMENT OF ENERGY					298,936
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Direct Programs:					
Public and Indian Housing	14.850	A-3777	10-01-12 to 09-30-13		20,871,477
Cluster:					
Section 8 Housing Choice Vouchers	14.871	A-3152V	10-01-12 to 09-30-13	37,608,774	
Section 8 5yr Mainstream Vouchers	14.879	TN005DV0001	10-01-12 to 09-30-13	373,579	
					37,982,353
Lower-Income Housing Assistance Program:					
Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	TN005SR0007	10-01-12 to 09-30-13	479,032	
Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	TN005SC0001	10-01-12 to 09-30-13	86,559	
					565,591

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2013

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD		EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)					
Direct Programs (Continued):					
Public Housing - Capital Fund Program:					
Public Housing Capital Fund	14.872	A-3777 (TN43P00550110)	07-15-10 to 07-14-14	2,984,201	
Public Housing Capital Fund	14.872	A-3777 (TN43P00550111)	08-03-11 TO 08-02-15	5,043,824	
Public Housing Capital Fund	14.872	A-3777 (TN43P00550112)	03-12-12 TO 03-11-16	1,701,043	
				9,729,068	
					9,729,068
Shelter Plus Care Program:					
Shelter Plus Care	14.238	TN0070C4J041104	03-01-12 TO 02-28-13	16,893	
Shelter Plus Care	14.238	TN0070L4J041205	03-01-13 TO 02-28-14	8,132	
Shelter Plus Care	14.238	TN0162C4J041000	12-01-11 TO 11-30-16	8,696	
Shelter Plus Care	14.238	TN0068L4J041205	06-28-13 TO 05-31-14	417,641	
Shelter Plus Care	14.238	TN0068C4J041104	04-01-12 TO 03-31-13	921,533	
					1,372,895
Supportive Housing Program:					
Supportive Housing Program (HMIS)	14.235	TN0060B4J041003	07-01-12 TO 06-30-13	41,618	
Supportive Housing Program (HMIS)	14.235	TN006L4J041205	07-01-13 TO 06-30-14	14,675	
					56,293

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2013

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD		EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)					
Direct Programs (Continued):					
Resident Opportunity and Supportive Services Program:					
Resident Opportunity and Supportive Services	14.870	TN005RPS080A009	07-13-10 to 07-09-2013	246,456	
Resident Opportunity and Supportive Services	14.870	TN005RFS008A011	09-20-11 TO 08-31-13	76,732	
					323,188
Passed Through Metropolitan Government of Nashville and Davidson County, Tennessee:					
Cluster:					
Community Development Block Grants Program:					
Community Development Block Grants/Entitlement Grants	14.218	B-XX-MC-47-0007	N/A	4,027,149	
Community Development Block Grants/Entitlement Grants	14.218	B-10-MF-47-0002	04-30-2010 to	4,115,439	
Community Development Block Grants/Entitlement Grants	14.218	B-08-MN-47-0004	03-06-09 to 03-06-13	(5,068)	
				8,137,520	
Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded)	14.253	B-09-MY-47-007	06-04-2009 to 9-30-2012	16	
					8,137,536
HOME Investment Partnerships Program	14.239	M-XX-MC-47-0203	N/A		1,296,509
Emergency Shelter Grants Program	14.231	E-XX-MC-47-0004	N/A		470,388
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	TN-HXX-F002	N/A		893,970
Neighborhood Stabilization Program (Recovery Act Funded)	14.256	B-09-CN-TN-0024	02-11-10 to 02-11-13		3,596,075

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2013

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)				
Direct Programs (Continued):				
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				85,295,343
TOTAL FEDERAL FINANCIAL ASSISTANCE				$ 85,594,279

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2013

CFDA NUMBER		DESCRIPTION		EXPENDITURES
14.871		Section 8 Housing Choice Vouchers (HCV cluster)	$	37,608,774
14.879		Section 8 Five Year Mainstream Vouchers (HCV cluster)		373,579
14.850	*	Public and Indian Housing		20,871,477
14.256	*	Neighborhood Stabilization Program (Recovery Act Funded)		3,596,075
14.872		Public Housing Capital Fund		9,729,068
14.218	*	Community Development Block Grants/Entitlement Grants (CDBG cluster)		8,137,520
14.253	*	Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded) (CDBG cluster)		16
14.238		Shelter Plus Care		1,372,895
14.239		HOME Investment Partnerships Program		1,296,509
14.241		Housing Opportunities for Persons With AIDS		893,970
81.042		Weatherization Assistance for Low-Income Persons		298,936
14.249		Section 8 Moderate Rehabilitation - Single Room Occupancy		565,591
14.870		Resident Opportunity and Supportive Services		323,188
14.231		Emergency Shelter Grants Program		470,388
14.235		Supportive Housing Program		56,293
		TOTAL FEDERAL FINANCIAL ASSISTANCE	$	85,594,279

*Tested as major programs in the current year.

NOTE A - 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.*

NOTE B - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the Agency provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants (CDBG cluster)	$ 896,511

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF ACTUAL COSTS FOR THE SPECIFIED PROJECT

FROM INCEPTION OF THE PROJECT THROUGH COMPLETION

	TN43P005501-10
Funds approved	$ 8,546,060
Funds expended	8,546,060
Excess (deficiency) of funds approved	$ -

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 Auditor's 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*

To the Board of Commissioners
Metropolitan Development and Housing Agency

We have audited, in accordance with the 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, the financial statements of the Metropolitan Development and Housing Agency (the "Agency"), which comprise the statement of net position as of September 30, 2013, and the statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Independent Auditor's 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*(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mountjoy Chilton Medley LLP

Jeffersonville, Indiana
January 10, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance

To the Board of Commissioners
Metropolitan Development and Housing Agency

Report on Compliance for Each Major Federal Program

We have audited the Metropolitan Development and Housing Agency's (the "Agency's") compliance 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, 2013. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance (Continued)

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-01. Our opinion on each major federal program is not modified with respect to these matters.

The Agency's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 over compliance* exists when the design or operation of a control over compliance 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. A *significant deficiency in internal control over compliance* is a deficiency, or a 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.

Our consideration of 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-01, that we consider to be significant deficiencies.

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance (Continued)

The Agency's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Monroe Shine Chilton Mudd, LLP

Jeffersonville, Indiana
January 10, 2014

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	
14.850	Public and Indian Housing	$20,871,477
14.218	Community Development Block Grants/Entitlement Grants (CDBG cluster)	$8,137,520
14.253	Community Development Block Grant ARRA Entitlement Grants (CDBG cluster)	$ 16
14.256	NSP-2 (ARRA)	$3,596,075

Dollar threshold used to distinguish between Type A and Type B programs: $2,567,828

Auditee qualified as low-risk auditee? _X_ yes ____ no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Condition:
Six Public Housing Program applicants out of forty applicants tested were ranked on the wait list in an incorrect order. This was due to the fact that those applicants were not properly awarded preferences in accordance with MDHA's Admissions and Continued Occupancy Policy.

Criteria:
All Public Housing Program applicants must be consistently added to the wait list and offered housing based upon the preferences and policies detailed in MDHA's Admissions and Continued Occupancy Policy.

Effect:
Six Public Housing Program applicants were not added to the wait list in the proper order based upon MDHA's Admissions and Continued Occupancy Policy. Thus, those individuals were not selected for housing in the correct order.

Cause:
Two of the six improperly ranked applicants in our sample were ranked too low on the waitlist due to the fact that they didn't receive the one point that all applicant's without a specific preference are supposed to receive based upon MDHA's waitlist system. Four of the six improperly ranked applicants in our sample were ranked too high on the waitlist due to the fact that they received credit for a preference which they qualified for and also received the one point designated for all applicants without a preference.

Questioned Costs:
The exact total of questioned costs, if any, could not be determined.

Recommendation:
MDHA should improve controls around the wait list process to ensure all applicants are added to the wait list and offered housing in accordance with their Admissions and Continued Occupancy Policy. We recommend that the Director of Asset Management or another supervisory individual review a sample of applicants added to the wait list each month to help ensure that all properties have proper controls in place to ensure applicants are being added to the wait list based upon their actual preferences.

Response:
The Agency concurs with the finding. Effective August 1, 2013, the Agency implemented a lottery application system and established Agency-wide application pools. The Agency has determined that continued use of preferences is cumbersome and that utilizing a lottery number is the most equitable method of determining position on the pool.

Contact Person:
Brenda Kennedy

Anticipated Date of Completion:
June 2014

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Item 2012-01 – Public Housing Waitlist – Significant Deficiency

Public and Indian Housing Program (CFDA #14.850)

Condition:
Five Public Housing Program applicants out of twenty-five applicants tested were ranked on the wait list in an incorrect order. This was due to the fact that those applicants were not properly awarded preferences in accordance with MDHA's Admissions and Continued Occupancy Policy. Further, documentation could not be provided to show that three applicants who should have been offered housing in April 2012 actually received offers.

Recommendation:
MDHA should improve controls around the wait list process to ensure all applicants are added to the wait list and offered housing in accordance with their Admissions and Continued Occupancy Policy. We recommend that the Director of Asset Management or another supervisory individual review a sample of applicants added to the wait list each month to help ensure that all properties have proper controls in place to ensure applicants are being added to the wait list based upon their actual preferences. Further, we recommend that all unit offers be documented either within the Yardi system or within the applicant's pre-application file.

Status:
Based on the tests performed, controls were implemented to ensure that all offers of housing units were properly documented. However, all applicants were not properly awarded preferences in accordance with MDHA's Admissions and Continued Occupancy Policy. As such, this item is included in Finding 2013-01 for the current year.