METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NASHVILLE, TENNESSEE

ANNUAL FINANCIAL REPORT AND OTHER FINANCIAL INFORMATION

SEPTEMBER 30, 2011

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, 2011.

Responsibility and Controls

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

MDHA's system of internal accounting control is evaluated on an ongoing basis by MDHA's internal financial staff. McCauley, Nicolas & Company, LLC, our external auditors, also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

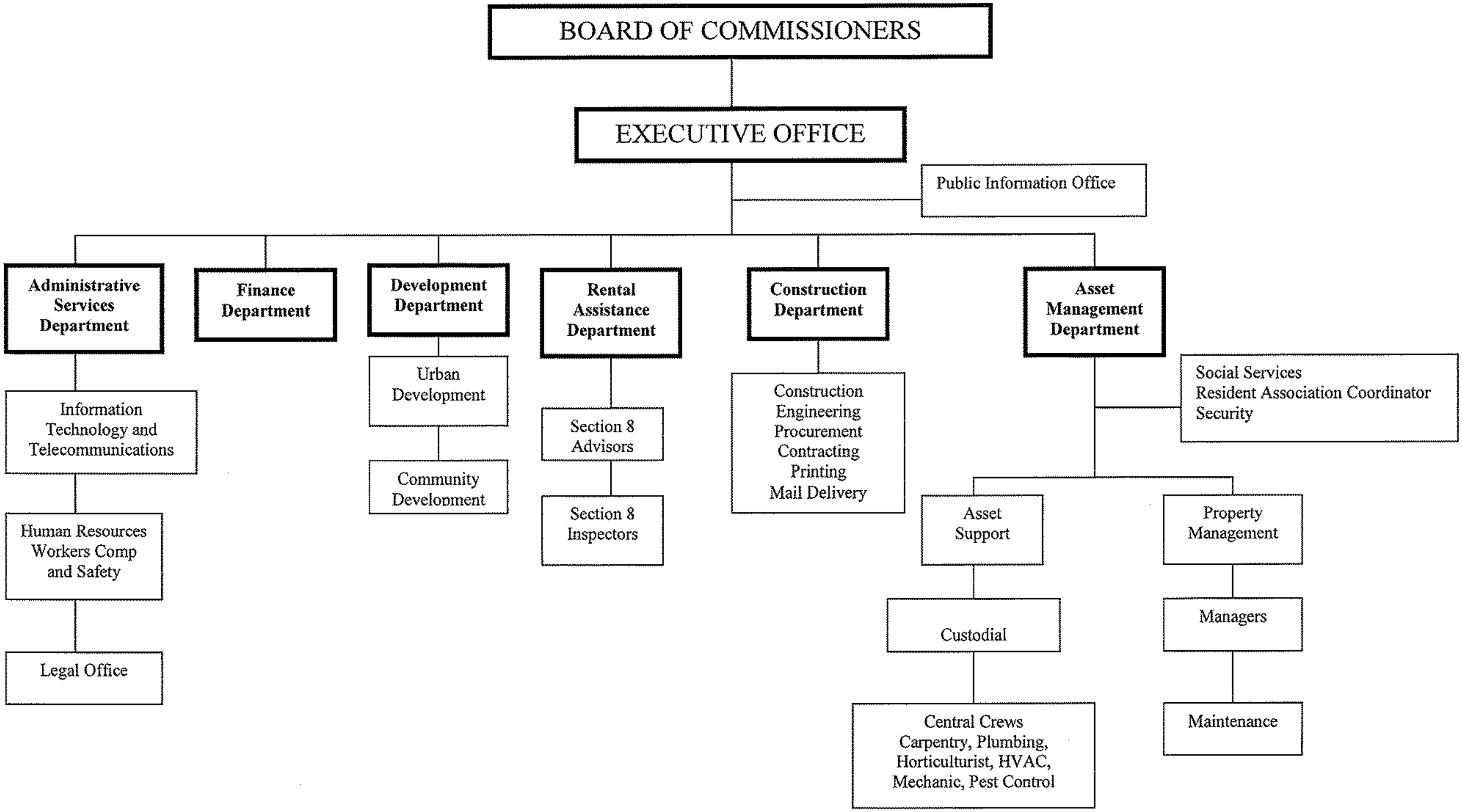
Management believes that its policies and procedures provide guidance and reasonable assurance that MDHA's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position of MDHA as of September 30, 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unqualified opinion of our independent external auditors, McCauley, Nicolas & Company, LLC, on the September 30, 2011 financial statements is included in this report.

ORGANIZATIONAL CHART

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY



METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

BOARD OF COMMISSIONERS

September 30, 2011

J. Chase Cole, Chair
Ralph Mosley, Vice Chair for Development
Melvin C. Black, Vice Chair for Housing
Mary J. Southall, Commissioner
Gayle Fleming, Commissioner
Arnett Bodenhamer, Commissioner
Jimmy Granbery, Commissioner

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Indiana CPA Society | Kentucky Society of CPAs

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Metropolitan Development and Housing Agency
Nashville, Tennessee

We have audited the accompanying financial statements of the Metropolitan Development and Housing Agency (the "Agency"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the year ended September 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Development and Housing Agency as of September 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2012 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Agency as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the financial statements. Additionally, the accompanying Schedule of Actual Costs for the Specified Project from Inception of the Project through Completion is presented for purposes of additional analysis and is also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards and the Schedule of Actual Costs for the Specified Project from Inception of the Project through Completion are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
January 5, 2012

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, 2011 and 2010. Please read this analysis in conjunction with the Agency's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Fiscal year 2011:

The Agency's total net assets increased $35.6 million or 12%, in part as a result of the following:

- Cash and Investments increased $44.5 million (79%)
- Bonds, Notes and Other Liabilities increased $57.4 million (>100%)
- Operating Revenues increased $27.4 million (23%)
- Operating Expenses increased $18.2 million (16%)
- Operating Gain increased $8.3 million (>100%)
- Governmental Capital Contributions increased $3.7 million (27%)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets

Fiscal year 2011 as compared to fiscal year 2010:

	2011	2010	% Increase (Decrease)
Current Assets	$ 112,149,695	$ 70,017,175	60 %
Noncurrent Assets			
Capital Assets	263,218,528	$ 243,000,317	8 %
Other Assets	65,677,813	$ 35,057,765	87 %
Total Assets	$ 441,046,036	$ 348,075,257	27 %
Bonds and Notes Payable	$ 78,082,816	$ 17,756,494	>100 %
Other Liabilities	22,216,741	25,127,638	(15) %
Total Liabilities	$ 100,299,557	$ 42,884,132	>100 %
Net Assets Invested in Capital Assets	$ 241,657,382	$ 214,636,180	13 %
Net Assets Restricted for Other Purposes	1,673,618	4,797,091	(66) %
Unrestricted Net Assets	97,415,479	85,757,854	14 %
Total Net Assets	$ 340,746,479	$ 305,191,125	12 %

The Agency's total net assets increased $35.6 million, or 12%, in part as a result of the following:

- Restricted cash and notes receivable increased $30 million due to the funding of a special project financed by tax increment financing
- Capital asset additions increased $20 million, consisting principally of the Capital Fund projects and the American Recovery and Reinvestment Act funded programs.
- Notes payable increased $60 million due to the financing of a convention center hotel
- Decrease of $3.2 in net assets restricted for other purposes of the Housing Choice Voucher program due to the reduction of HUD revenue to facilitate the spending down of Agency reserves on hand for housing assistance payments.

FINANCIAL ANALYSIS OF THE AGENCY (CONTINUED)

Revenues, Expenses and Changes in Net Assets

Fiscal year 2011 as compared to fiscal year 2010:

		2011		2010	% Increase (Decrease)
Operating Revenues					
Rentals	$	10,438,631	$	10,493,079	(1) %
Governmental Operating Revenue		107,473,782		91,300,083	18 %
Local Government Development Activities		23,577,921		13,602,328	73 %
Other		6,663,814		5,406,827	24 %
Total Operating Revenues		148,154,148		120,802,317	23 %
Operating Expenses:					
Administrative expenses		16,818,840		16,761,086	0 %
Other		117,707,106		99,609,787	19 %
Total Operating Expenses		134,525,946		116,370,873	16 %
Operating Gain (Loss)		13,628,202		4,431,444	>100 %
Capital Contributions		17,532,230		13,835,311	27 %
Nonoperating Revenues		4,394,922		(368,244)	>100 %
Total Nonoperating Revenues		21,927,152		13,467,067	63 %
Change in Net Assets	$	35,555,354	$	17,898,511	99 %

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

The increase in capital contributions is a result of the capital fund grants for major renovations at Napier Homes, Edgefield Manor, Parthenon Towers, and Vine Hill Towers.

CAPITAL ASSETS

Fiscal year 2011 as compared to fiscal year 2010:

	2011	2010	% Increase (Decrease)
Land	$ 77,928,605	$ 58,655,913	33 %
Infrastructure	21,155,548	21,155,548	- %
Buildings	271,318,540	256,312,652	6 %
Equipment	4,580,095	4,316,703	6 %
Construction in progress	21,035,348	30,354,637	(31) %
Total	396,018,136	370,795,453	7 %
Less Accumulated Depreciation	(132,799,608)	(127,795,136)	4 %
Net Capital Assets	$ 263,218,528	$ 243,000,317	8 %

Capital assets increased $20 million, or 8% during fiscal year 2011. During fiscal year 2011, the Agency expended $30 million on capital activities. This included $3 million on erosion control and site improvements at our low rent housing properties; $3 million on greenway improvements; $1.8 million of stimulus funds for renovation of homes; $6 million on riverfront improvements and $15 million in improvements at Edgefield Manor, Napier Homes, Hadley Park Towers, Gernert Studio Apartments, Madison Towers, Parthenon Towers, and Vine Hill Towers.

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

Depreciation expense on capital assets totaled $10.5 million during fiscal year 2011.

DEBT ADMINISTRATION

Fiscal year 2011 as compared to fiscal year 2010:

	2011	2010	% Increase (Decrease)
Total Notes Payable - other	$ 78,082,816	$ 17,756,494	>100 %

At September 30, 2011, the Agency's note principal outstanding totaled $78 million - an increase of 345% from the prior year. With HUD approval, the Agency extended the Energy Performance project during 2009. Proceeds totaling $11.8 million from the tax-exempt municipal lease purchase financing contract entered into in July 2009 was used to purchase and install energy efficient equipment in subsidized units. The notes payable also includes a promissory note secured by 76 (3-bedroom) apartments; a promissory note secured by the Levy Place Apartments; and a promissory note secured by the J. Henry Hale Apartments. A $62.5 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 was executed in May 2011.

NEW BUSINESS

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

MDHA is constructing the Gatewood Flats, a three story, seventy two (72) residential unit apartment complex at 1503 Dickerson Road. Funding for this project includes $5,000,000 from the Neighborhood Stabilization Program 2 (NSP) and a loan of $3.2 million from Suntrust Bank. Completion is scheduled for 2012.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	52,843,421
Restricted cash and cash equivalents		43,180,136
Investments, at fair value		4,307,011
Receivables:		
Tenant, net of allowances		110,173
Amounts due from other governmental agencies		7,313,883
Current portion of notes receivable, net of allowances		261,037
Interest on investments		35,386
Other		165,720
Inventory		3,410,472
Prepaid expenses		522,456
TOTAL CURRENT ASSETS		112,149,695
CAPITAL ASSETS, NET		263,218,528
NONCURRENT ASSETS		
Investments, equity method		509,586
Notes receivable, net of allowances		65,168,227
TOTAL NONCURRENT ASSETS		65,677,813
TOTAL ASSETS	$	441,046,036

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF NET ASSETS (CONTINUED)

SEPTEMBER 30, 2011

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Funds held for others	$	3,824,411
Accounts payable		6,400,338
Contract retention payable		87,012
Compensated absences payable		740,597
Accrued liabilities		1,660,084
Due to tenants		1,007,740
Deferred revenue		137,661
Due to other governments		5,864,495
Current portion of long-term debt		7,502,719
TOTAL CURRENT LIABILITIES		27,225,057
NONCURRENT LIABILITIES		
Deposits		590,011
Long-term debt, less current maturities		70,580,097
Long-term compensated absences payable		1,904,392
TOTAL NONCURRENT LIABILITIES		73,074,500
TOTAL LIABILITIES		100,299,557
NET ASSETS		
Invested in capital assets, net of related debt		241,657,382
Restricted for other purposes		1,673,618
Unrestricted		97,415,479
TOTAL NET ASSETS		340,746,479
TOTAL LIABILITIES AND NET ASSETS	$	441,046,036

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

OPERATING REVENUES	
Rentals	$ 10,438,631
Governmental operating revenue	107,473,782
Program income	1,388,203
Local government development activities	23,577,921
Other income	5,275,611
TOTAL OPERATING REVENUES	148,154,148
OPERATING EXPENSES	
Cost of Services:	
Tenant services	1,337,359
Utilities	7,574,831
Ordinary maintenance and operations	12,587,447
Protective services	1,174,182
Other direct program costs	42,261,202
Housing assistance payments	42,328,407
Administration	16,818,840
Depreciation	10,443,678
TOTAL OPERATING EXPENSES	134,525,946
OPERATING INCOME	13,628,202
NONOPERATING REVENUES (EXPENSES)	
Interest income	618,013
Impairment allowance on notes receivable	(162,861)
Impairment allowance on inventory	(180,000)
Extraordinary item	5,857,497
Loss on disposition of assets	(145,963)
Interest expense	(1,591,764)
TOTAL NONOPERATING REVENUES	4,394,922
INCREASE IN NET ASSETS BEFORE CAPITAL GRANTS	18,023,124
Capital Grants	17,532,230
INCREASE IN NET ASSETS	35,555,354
NET ASSETS - BEGINNING OF YEAR	305,191,125
NET ASSETS - END OF YEAR	$ 340,746,479

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from rental operations	$ 10,490,409
Receipts from program income	1,326,920
Receipts from government subsidy for operations	114,843,183
Receipts from local governmental development activities	14,221,386
Receipts from other	7,951,837
Receipts from inventory sales	135,000
Payments for inventory purchases	(701,265)
Payments to and on behalf of employees	(20,768,701)
Payments for other administrative expenses	(5,163,760)
Payments for other direct program costs, including housing assistance payments	(87,530,276)
Program loan activities:	
Cash expended for program loans	(42,478,018)
Principal collections on notes receivable	349,050
Interest income collections	124,078
NET CASH USED BY OPERATING ACTIVITIES	(7,200,157)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from governmental capital grants	19,523,968
Purchases of capital assets	(30,111,742)
Proceeds from capital debt	64,832,247
Principal paid on capital debt	(4,505,925)
Interest paid on capital debt	(692,167)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	$ 49,046,381
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	$ (4,307,011)
Proceeds from the sales and maturities of investments	4,231,700
Interest received	619,824
NET CASH PROVIDED BY INVESTING ACTIVITIES	544,513
NET INCREASE IN CASH AND CASH EQUIVALENTS	42,390,737
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	53,632,820
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 96,023,557 *

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 13,628,202
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation expense	10,443,678
Bad debt expense	12,018,997
Changes in assets and liabilities:	
Increase in accounts receivable	(1,965,626)
Increase in inventories	(596,580)
Increase in prepaid expenses and other assets	(23,560)
Decrease in due to tenants	(243)
Decrease in accounts payable and amounts due to other governments	1,144,497
Increase in deferred revenue and other deposits	154,387
Increase in accrued liabilities and compensated absences	125,059
Program loan activities:	
Cash expended for program loans	(42,478,018)
Principal collections on notes receivable	349,050
TOTAL ADJUSTMENTS	(20,828,359)
NET CASH USED FOR OPERATING ACTIVITIES	$ (7,200,157)

* Cash reconciliation as reported on the Statement of Net Assets:	
Cash and cash equivalents	$ 52,843,421
Restricted cash and cash equivalents	43,180,136
	$ 96,023,557

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

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

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 the 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Doubtful Accounts

The Agency uses the allowance for bad debts method of valuing doubtful accounts receivable which is based on historical experience, coupled with a review of the status of existing receivables. An allowance for doubtful accounts of $2,148,826 for tenant accounts receivable has been provided by management at September 30, 2011.

Investments

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

Capital assets

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

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

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

Inventory

MDHA's inventory consists of vacant properties that have been purchased or received as contributions from the Metropolitan Government. Inventory also includes single-family homes that were constructed with federal or state funds and are available for sale to qualified agencies or individuals. Properties purchased or constructed are reported at historical cost. Properties contributed by the Metropolitan Government are recorded at fair value at the date of gift. These costs are reported as inventory until such time as the property is sold or used.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision for uncollectible notes

A note receivable is considered impaired when, based on current information, it is probable that all amounts of principal and interest due will not be collected according to the terms of the note agreement. The allowance for uncollectible notes is established by charges to program services expense and is maintained at an amount which management believes adequate to absorb losses on existing notes. Uncollectible notes are charged to the allowance account in the period such determination is made. The provision for uncollectible notes receivable was $14,042,692 at September 30, 2011.

Compensated absences

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

Use of estimates in preparation of financial statements

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

Restricted Assets

Restricted assets consist of cash which is legally restricted. A portion of the restricted assets 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 $43,180,136 at September 30, 2011.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bank Overdraft Reporting

The Agency utilizes two bank accounts for disbursing funds and each program draws from these two accounts. Due to pending drawdowns and requests for reimbursements, a program might reflect negative cash, even though the Agency as a whole is reporting sufficient unrestricted cash. Our audited financial statements are reported at entity level, therefore the net cash balance is reported. HUD reporting is done by program and does not allow negative amounts to be input into the cash field, consequently we "reclass" the negative cash for programs that have to be reported separately as bank overdraft. Unrestricted cash per financial statements as of September 30, 2011 is $52,843,421. Unrestricted cash for REAC reporting is $51,036,271 with federal grants reporting bank overdrafts of $1,807,150.

Tenant Accounts Receivable Net of Bad Debt Expense

The State of Tennessee Comptroller's Office review of our 2004 audited financial statements cited that in accordance with Governmental Accounting Standards Board Statement No. 34, revenues in proprietary funds should be reported as net of all related allowances, which include amounts pertaining to uncollectible accounts. Therefore, 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 related to tenant accounts receivable charged against revenue was $475,046 as of September 30, 2011

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

A. Custodial Credit Risk

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

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

B. Interest Rate Risk

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

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

C. Credit Risk

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

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 or restricted net asset as of September 30, 2011:

	2011
Funds held for others	$ 3,824,411
Deposits	590,011
Net Asset: restricted for other purposes	1,673,471
Current and long-term debt for energy performance note	3,971,216
Current and long-term debt for Omni Hotel	33,121,027
Total restricted cash and cash equivalents	$ 43,180,136

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

Funds held for others of $3,824,411 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 $590,011 are held for participants in the HUD Family Self-Sufficiency program.

Net asset restricted for other purposes of $1,673,471 are excess Section 8 housing assistance funds under the Housing Choice Voucher program.

Current and long term debt for repayment of the energy performance note of $3,971,216 is included in restricted cash for the asset management properties.

Current and long term debt for the Omni Hotel of $33,121,027 include debt proceeds being held in an escrow account for Omni Nashville LLC, the developer and owner of the convention center hotel.

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, 2011, 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.*

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

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, 2011 consisting of certificates of deposit.

At September 30, 2011, the future maturities of MDHA's investments are as follows:

Type of Investment	Carrying Amount	Maturity Fiscal 2011	Not Subject to Maturity
Certificates of Deposit	$ 4,307,011	$ 4,307,011	$ -
Investment in Park at Hillside, LLC	509,806	-	509,806
TOTAL	$ 4,816,817	$ 4,307,011	$ 509,806

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

Fair values of financial assets measured on a recurring basis at September 30, 2011 consisted of the following:

	Fair Value	Level 1	Level 2	Level 3
Investment in Park at Hillside, LLC	$ 509,586	$ -	$ -	$ 509,586

NOTE 4 - FAIR VALUE MEASUREMENT (CONTINUED)

At September 30, 2011, 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, 2010	$ 509,806
Net Loss	(220)
Balance at September 30, 2011	$ 509,586

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2011 follows:

	Balance September 30, 2010	Additions	Retirements	Transfers	Balance September 30, 2011
Capital assets, not being depreciated:					
Land	$ 58,655,913	$ 1,253,000	$ -	$ 18,019,692	$ 77,928,605
Construction in progress	30,354,637	28,423,390	-	(37,742,679)	21,035,348
Total capital assets, not being depreciated	89,010,550	29,676,390	-	(19,722,987)	98,963,953
Capital assets, being depreciated:					
Buildings	256,312,652	1,013,328	(4,909,754)	18,902,314	271,318,540
Infrastructure	21,155,548	-		-	21,155,548
Furniture, equipment, & machinery - dwellings	2,801,042	117,916	(281,909)	435,201	3,072,250
Furniture, equipment, & machinery - administrative	1,515,661	-	(393,288)	385,472	1,507,845
Total capital assets, being depreciated	281,784,903	1,131,244	(5,584,951)	19,722,987	297,054,183
Less accumulated depreciation for:					
Buildings	(112,263,866)	(9,394,925)	-		(121,658,791)
Infrastructure	(11,639,749)	(856,569)	4,780,926	-	(7,715,392)
Furniture, equipment, & machinery - dwellings	(2,437,611)	(156,093)	276,539	-	(2,317,165)
Furniture, equipment, & machinery - administrative	(1,453,910)	(36,091)	381,741	-	(1,108,260)
Total accumulated depreciation	(127,795,136)	(10,443,678)	5,439,206	-	(132,799,608)
Total capital assets, being depreciated, net	153,989,767	(9,312,434)	(145,745)	19,722,987	164,254,575
Total capital assets, net	$ 243,000,317	$ 20,363,956	$ (145,745)	$ -	$ 263,218,528

NOTE 6 - NOTES RECEIVABLE

Notes receivable, including related accrued interest, consisted of the following as of September 30, 2011:

Notes receivable consist of the following as of September 30, 2011:

		2011
Vine Hill Homes Loans	$	12,884,504
Preston Taylor Homes Loans - Phase I		12,994,460
Preston Taylor Homes Loans - Phase II		7,757,735
Rehabilitation Loans		3,208,263
Business District Loans		59,217
Façade Loans		197,552
Neighborhood Stabilization Promissory Notes		13,132,791
Tax Increment Financing Loan		30,899,067
Other		115,481
Allowance for doubtful accounts		(15,819,806)
Net notes receivable and accrued interest receivable		65,429,264
Less current portion		(261,037)
Net notes receivable and accrued interest receivable, less current portion	$	65,168,227

Vine Hill Homes Loans were made to Vine Hill Homes, LLC for the construction and development of the Vine Hill project. The loans are funded by various federal and state grant programs, including HOPE VI, Comprehensive Grant, UDAG repayment funds, Refunding Agreement and the State of Tennessee House grant funds. The nonrecourse loans are secured by a leasehold deed of trust. Loans made from the UDAG repayment funds and the Refunding Agreement, totaling $942,000, accrued interest at the rate of 10.8% per annum. These loans were repaid from the sale of federal low-income housing tax credits in November 2005. (See Note 13.) The loan funded from the State of Tennessee House grant funds, in the amount of $250,000, is non-interest bearing and payable in thirty years. The remaining loans accrue interest at the rate of 1.5% per annum. Accrued but unpaid interest shall be due and payable within sixty days after the end of each calendar quarter to the extent of cash flow as defined in the Amended and Restated Operating Agreement. Cumulative accrued, unpaid interest earned totaled $1,777,114 at September 30, 2011. 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 $114,843 at September 30, 2011, and has been added to the notes 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 $60,933 at September 30, 2011, and has been added to the notes 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.

NOTE 6 - NOTES RECEIVABLE (CONTINUED)

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.

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

Neighborhood Stabilization Promissory Notes were executed between MDHA and non-profit entities that received NSP funds for the acquisition, rehabilitation and redevelopment of foreclosed or vacant properties. The properties have an affordability period per the grant agreements of 25 years. If the borrower complies with all of the terms and requirements of the restrictions, the entire balance of the Note will be forgiven at the end of the affordability period. No interest shall be due or payable on this note. The provision for uncollectible notes includes 100% of the NSP notes, which total $13,132,791 as of September 30, 2011.

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, 2011 was $30,899,067.

Other notes receivable consist of business loans to local development agencies for affordable housing development and loans made from the Technical Assistance Program Fund to promote privately owned small businesses in low-income areas and loans related to the sale of properties.

NOTE 7 - LONG-TERM DEBT

A summary of changes in MDHA's long-term debt for the year ended September 30, 2011 is presented below:

	Balance October 1, 2010	Additions	Retirements	Balance September 30, 2011	Due within one year
Notes Payable - other	$ 17,756,494	$64,832,247	$ (4,505,925)	$ 78,082,816	$ 7,502,719

During May 2011, MDHA executed a promissory note with Regions Bank in the amount of $61,560,036 for the costs related to the construction of a new downtown convention center hotel by Omni Nashville LLC, who is the designated developer and owner of the new hotel. The loan was secured by revenues generated by certain tax increment properties in the Capitol Mall Redevelopment district. The balance as of September 30, 2011 was $61,560,036.

In February 2011, MDHA entered into a deed of trust note with The Housing Fund to acquire and rehabilitate 10 single family homes owned by the Department of Housing and Urban Development. The homes were temporary housing for tenants in the Disaster Housing Assistance Program. As of September 30, 2011, the balance of the note is $561,634.

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Notes Payable - Other	2011
$2,100,000 line of credit with Bank of America, with original maturity date of February 1, 2000, extended through February 1, 2002. On May 28, 2002, the loan was extended and converted to a $1,700,000 promissory note, payable in monthly installments of principal and interest through May 28, 2007. On May 28, 2007, the loan was extended and converted to a $1,400,000 promissory note, payable in monthly installments of principal and interest through May 28, 2012, with a balloon payment of the remaining principal balance at that date. Interest accrues at a rate of 5.25% per annum. The note is collaterialized by a 76-unit apartment complex and assignment of rents and leases.	$ 1,156,740
$2,500,000 promissory note with Pinnacle National Bank, payable in monthly installments of principal and interest through July 16, 2014. Interest accrues at a tax-free rate of 5.8%. The note is collaterialized by Sam Levy Homes (a 226-unit apartment complex) and assignment of rents and leases.	2,361,697
$2,500,000 construction loan agreement with Suntrust Bank, originally dated December 29, 2005 for funding construction of the forty John Henry Hale Homes market rate apartments. On April 23, 2009, the loan was amended and converted to a $2,500,000 promissory note, payable in monthly installments of principal and interest through June 29, 2012, with a balloon payment of the remaining principal balance at that date. Interest on the outstanding balance is variable based upon the 30-day LIBOR rate, plus 175 basis points (1.97% at September 30, 2011). The note is collateralized by J. Henry Hale Apartments (a 228-unit apartment complex) and assignments of rents and leases.	2,200,675
$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. The 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 lease amount with 28 quarterly payments to follow.	10,242,034
$61,560,036 promissory note with Regions Bank, dated May 16, 2011 for the purchase of land and pay 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. Interest accrues at a rate of 3.84% per annum. Interest on the outstanding principal balance of the Loan will be 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.	61,560,036
$285,750 deed of trust note dated February 4, 2011 and $588,500 deed of trust note dated February 10, 2011 with the Housing Fund for the acquisiton and rehabilitation of 10 single family homes owned by the Department of Housing and Urban Development and used by Disaster Housing Assistance Program tenants as temporary housing. The interest rate is fixed at 3.25% and the maturity date is the earlier of February 4, 2013 or the date of any sale or other transfer of the real property subject to the deed of trust securing this note.	561,634
	$ 78,082,816

NOTE 7 - LONG-TERM DEBT (CONTINUED)

A schedule of principal maturities of long-term debt at September 30, 2011 is as follows:

Year Ending September 30, 2011	
2012	7,502,719
2013	4,767,505
2014	60,623,076
2015	1,822,043
2016	1,895,649
Thereafter	1,471,824
Total	$ 78,082,816

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 $55.8 million at September 30, 2011.

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, 2011, the Section 108 loans outstanding aggregated to approximately $3 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, 2011, settled claims have not exceeded this commercial insurance coverage.

NOTE 10 - EMPLOYEE BENEFIT PLANS

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

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

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

MDHA contributions to the Plan for the year ended September 30, 2011 amounted to $1,840,848, which equaled the amount of required employer contributions. Employee voluntary contributions were $170,950 for the year ended September 30, 2011. MDHA's payroll for employees covered by the Plan for the fiscal year ended September 30, 2011 was $13,948,905. Total payroll for MDHA during the fiscal year ended September 30, 2011 amounted to $16,360,400.

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

NOTE 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, 2011 was $86,382.

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

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

Year ending September 30, 2011		
2012	$	500,000
2013		500,000
2014		500,000
2015		500,000
2016		125,000
Total	$	2,125,000

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 $114,773 for the year ended September 30, 2011.

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, 2011.

At September 30, 2011, the Agency had outstanding construction commitments of approximately $16.6 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.

NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

MDHA is a defendant in various lawsuits arising in the ordinary course of operations. To help mitigate any losses arising from such lawsuits, MDHA is a participant in the Tennessee Housing Authority Risk Management Trust, which pays for losses on the behalf of MDHA up to specified dollar limits. Although the outcome of such 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.

During the year ended September 30, 2011, a judgment was rendered against MDHA totaling $15,600,000 related to the value of land obtained for the convention center development. MDHA originally paid $14,800,000 for the land. However, a jury determined the value of the land to be $30,400,000. In accordance with an agreement between MDHA, Metropolitan Government of Nashville and Davidson County and The Convention Center Authority of The Metropolitan Government of Nashville and Davidson County (the Authority), the Authority will transfer to MDHA the amount necessary to repay all costs and expenses for land acquisition. Therefore, no provision for loss has been made in the financial statements. MDHA intends to appeal the jury verdict.

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 ("Vine Hill"). 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.)

NOTE 13 - AFFILIATE AGREEMENTS (CONTINUED)

MDHA has also assisted in the financing of mixed income affordable and market rate residential housing in the form of loans to Preston Taylor Homes, LLC. Preston Taylor Homes Phase I consisted 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 are public housing units eligible to receive the benefits of operating subsidies provided to MDHA by HUD. The remaining 12 units are 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 are 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 ASSETS

The Agency's net assets are categorized as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, capital lease obligations or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted net assets - This component includes net assets that have been restricted in accordance with the terms of the Agency's revenue bond agreement as well as certain deposits and investments under grant programs.

- Unrestricted net assets - This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt.

NOTE 14 - NET ASSETS (CONTINUED)

The changes in net assets for the year ended September 30, 2011 is as follows:

	Invested in Capital Assets	Restricted	Unrestricted	Totals
Net Assets - September 30, 2010	$ 214,636,180	$ 4,797,091	$ 85,757,854	$ 305,191,125
Change in net assets - 2011	27,021,202	(3,123,473)	11,657,625	35,555,354
Net Assets - September 30, 2011	$ 241,657,382	$ 1,673,618	$ 97,415,479	$ 340,746,479

NOTE 15 - INCOME TAXES

The Agency has qualified with the Internal Revenue Service and the Tennessee Department of Revenue as a tax-exempt organization for income tax purposes and, accordingly, there is no provision in the financial statements for federal or state income taxes. Management has determined that the application FIN48 has no effect on its financial statements.

NOTE 16 – MAJOR FUNDING SOURCE

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

NOTE 17 – SUBSEQUENT EVENTS

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through January 5, 2012, the date the financial statements were available to be issued.

ADDITIONAL INFORMATION

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
U.S. DEPARTMENT OF ENERGY				
Passed through State Department of Human Services:				
ARRA Weatherization	81.042	Z-09-000428	07-01-10 TO 09-30-11	4,264,844
TOTAL U.S. DEPARTMENT OF ENERGY				4,264,844
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Public and Indian Housing	14.850	A-3777	10-01-10 to 09-30-11	24,528,457
Section 8 Housing Choice Vouchers	14.871	A-3152V	10-01-10 to 09-30-11	41,996,450
Lower-Income Housing Assistance Program - Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	A-3152M	10-01-10 to 09-30-11	547,414
Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	A-3152M	10-01-10 to 09-30-11	91,049
HUD-Veterans Affairs Supportive Housing	14.VSH	TN005VA0001	10-01-10 to 09-30-11	763,827
Section 8 5yr Mainstream Vouchers	14.879	TN005DV0001	10-01-10 to 09-30-11	495,540

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 (TN43P00550108)	06-13-08 to 06-12-12	2,667,524
Public Housing Capital Fund	14.872	A-3777 (TN43P00550109)	09-15-09 to 09-14-13	5,204,844
American Recovery and Reinvestment Act Formula Capital Fund Stimulus Grant	14.885	A-3777 (TN43S00550109)	03-18-09 to 03-17-12	3,942,830
American Recovery and Reinvestment Act Formula Capital Fund Competitive Grant	14.884	A-3777 (TN00500000609R)	09-24-09 to 09-23-12	419,126
American Recovery and Reinvestment Act Formula Capital Fund Competitive Grant	14.884	A-3777 (TN00500001109R)	09-28-09 to 09-23-12	2,590,143
Public Housing Capital Fund	14.872	A-3777 (TN43P00550110)	07-15-10 to 07-17-14	1,204,995
Shelter Plus Care	14.238	TN37C50-4003	04-01-06 to 03-31-11	20,535
Shelter Plus Care	14.238	TN0149C4J041001	03-15-11 TO 03-14-11	18,997
Shelter Plus Care	14.238	TN37C60-4001	04-27-07 to 04-26-12	36,129
Shelter Plus Care	14.238	TN37C60-4014	04-27-07 to 04-26-12	124,395
Shelter Plus Care	14.238	TN0070C4J040802	03-01-10 TO 02-28-11	19,394
Shelter Plus Care	14.238	TN0070C4J041003	03-01-11 TO 02-28-12	14,434
Shelter Plus Care	14.238	TN0068C4J040802	03-01-10 TO 02-28-11	690,874
Shelter Plus Care	14.238	TN0068C4J041003	03-01-11 TO 02-28-12	953,009

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)				
Direct Programs (Continued):				
HMIS	14.235	TN0060B4J070801	07-01-09 TO 06-30-10	29,781
Resident Opportunity and Supportive Services	14.870	TN005RPS080A009	07-13-10 to 07-09-2013	221,969
Resident Opportunity and Supportive Services	14.870	TN005REF036A007	06-09-2008 to 06-09-2011	84,109
Resident Opportunity and Supportive Services	14.870	TN005RFS200A010	06-20-2011 TO 06-20-2012	108,256
Passed Through Metropolitan Government of Nashville and Davidson County, Tennessee:				
Community Development Block Grants/Entitlement Grants	14.218	B-XX-MC-47-0007	N/A	5,032,745
Community Development Block Grants Recovery	14.253	B-09-MY-47-007	06-04-2009 to 9-30-2012	292,954
CDBG Disaster Recovery Assistance	14.253	B-10-MF-47-0002	04-30-2010 to	5,751,897
HOME Investment Partnerships Program	14.239	M-XX-MC-47-0203	N/A	2,247,913
Emergency Shelter Grants Program	14.231	E-XX-MC-47-0004	N/A	185,872
HOPWA	14.241	TN-HXX-F002	N/A	1,026,416

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)				
Passed Through Metropolitan Government of Nashville and Davidson County, Tennessee (Continued):				
Neighborhood Stabiliazation Program	14.218	B-08-MN-47-0004	03-06-09 to 03-06-13	632,454
Neighborhood Stabiliazation Program 2	14.256	B-09-CN-TN-0024	02-11-10 to 02-11-13	14,724,017
Homelessness Prevention and Rapid Re-housing Program	14.257	S-09-MY-47-0004	07-10-09 to 07-10-12	831,120
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				117,499,469
Passed Through State Department of Energy:				
Brownfields Revolving Loan	66.818	BF-96415904-0	10-01-04 to 09-30-11	9,996
Passed Through Federal Highway Administration				
TDOT RMH Greenway Ext	20.205	PIN 110937.00	06-11-08 to 06-15-13	3,231,704
TOTAL FEDERAL FINANCIAL ASSISTANCE				$ 125,006,013

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

PROGRAM NUMBER		DESCRIPTION		EXPENDITURES
14.871	*	Section 8 Housing Choice Vouchers	$	41,996,450
14.850		Public and Indian Housing		24,528,457
14.256	*	NSP-2		14,724,017
14.218		Community Development Block Grants/Entitlement Grants		11,417,096
14.872	*	Public Housing Capital Fund		9,077,363
14.884	*	ARRA Competitive Capital Fund Stimulus		3,009,269
14.885	*	ARRA Formula Capital Fund Stimulus		3,942,830
81.042	*	Weatherization Assistance for Low-Income Persons		4,264,844
20.205		Federal Highway Administration		3,241,700
14.239		Home Investment Partnerships Program		2,247,913
14.238		Shelter Plus Care		1,877,767
14.241		Housing Opportunities for Persons With AIDS		1,026,416
14.257	*	HPRP		831,120
14.VSH		HUD-Veterans Affairs Supportive Housing		763,827
14.249		Section 8 Moderate Rehabilitation - Single Room Occupancy		638,463
14.879		Section 8 Five Year Mainstream Vouchers		495,540
14.870		Resident Opportunity and Supportive Services		414,334
14.253		CDBG-R		292,954
14.231		Emergency Shelter Grants Program		185,872
14.235		HMIS		29,781
		TOTAL FEDERAL FINANCIAL ASSISTANCE	$	125,006,013

*Tested as major programs in the current year.

BASIS OF PRESENTATION -

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF ACTUAL COSTS FOR THE SPECIFIED PROJECT

FROM INCEPTION OF THE PROJECT THROUGH COMPLETION

	TN43S005501-09
Funds approved	$ 12,271,958
Funds expended	12,271,958
Excess (deficiency) of funds approved	$ -

	TN00500000609R
Funds approved	$ 2,636,815
Funds expended	2,636,815
Excess (deficiency) of funds approved	$ -

	TN43P005501-08
Funds approved	$ 8,028,186
Funds expended	8,028,186
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

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

Board of Commissioners
Metropolitan Development and Housing Agency
Nashville, Tennessee

We have audited the financial statements of the Metropolitan Development and Housing Agency ("the Agency"), a non-profit organization, as of and for the year ended September 30, 2011, and have issued our report thereon dated January 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
January 5, 2012

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Metropolitan Development and Housing Agency
Nashville, Tennessee

Compliance

We have audited the compliance of the Metropolitan Development and Housing Agency (the "Agency"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2011. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

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

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. However, the results of our auditing procedures disclosed four instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are disclosed in the accompanying schedule of findings and questioned costs as Items 2011-01, 2011-02, and 2011-03.

Internal Control Over Compliance

Management of the Agency's is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A *deficiency in internal control 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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-02, and 2011-03. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
January 5, 2012

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

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

Federal Awards - Continued

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	
14.871	Section 8 Housing Choice Vouchers	$41,996,450
	Cluster	
14.884	ARRA-Competitive Capital Fund Stimulus	$ 3,009,269
14.885	ARRA-Formula Capital Fund Stimulus	$ 3,942,830
14.872	Public Housing Capital Fund	$ 9,077,363
14.256	Neighborhood Stabilization Program 2	$14,724,017
14.257	ARRA-Homelessness Prevention and Rapid Re-housing Program	$ 831,120
81.042	ARRA-Weatherization Assistance for Low-Income Persons	$ 4,264,844

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

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

SECTION II - FINANCIAL STATEMENT FINDINGS

A. Significant Deficiencies in Internal Control

None

B. Compliance Findings

None

SECTION III – MAJOR FEDERAL AWARD PROGRAMS FINDINGS AND QUESTIONED COSTS

Item 2011-01 CFDA No. 14.871 Section 8 Housing Choice Vouchers

Condition:
Nine participants out of a sample of sixty participants tested were not given at least thirty days notice prior to increases in their tenant rent responsibility based upon their annual reexaminations. In addition, for one participant tested, an annual reexamination was not performed.

Criteria:
Internal controls should be in place to ensure annual reexaminations are performed for all program participants, and participants are given at least thirty days' notice prior to increases in their tenant rent responsibility.

Effect:
Annual reexaminations were not completed on a timely basis in accordance with HUD requirements.

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

Recommendation:
Internal controls should be implemented to ensure timely annual reexaminations are performed for all program participants, and that participants are given at least thirty days' notice prior to increases in their tenant rent responsibility.

Response:
Steps have been taken to ensure annual re-examinations are completed in accordance with written policy and participants are notified at least thirty days in advance prior to any increase in their portion of rent. Specialists have been counseled and again reminded of the requirement. Supervisors will monitor outstanding annual re-exam reports on a weekly basis to ensure annual re-exams remain on track to be completed and notices are mailed no less than thirty days in advance of the re-exam due date.

An annual re-exam has been completed on the one record in which the audit reflected an annual re-exam had not been completed.

SECTION III – MAJOR FEDERAL AWARD PROGRAMS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Item 2011-02 CFDA No. 14.871 Section 8 Housing Choice Vouchers

Condition:
Files were reviewed for fifteen Housing Choice Vouchers (HCV) program participants who participated in the Family Self-Sufficiency Program (FSS) through the HCV program to ensure various requirements of the FSS program were being met, and that the participants' monthly escrow deposits were being calculated properly. For five of the fifteen participants tested, monthly deposits to their FSS escrow accounts were inaccurate.

Criteria:
Internal controls should be in place to ensure monthly escrow deposits are properly calculated and credited to participants' accounts based upon the participants' income information and area income limits.

Effect:
For five out of fifteen FSS participants tested monthly deposits to their escrow accounts were inaccurate.

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

Recommendation:
Internal controls should be implemented to ensure monthly escrow deposits are properly calculated and credited to participants' accounts based upon the participants' income information and area income limits.

Response:
On or before January 31, 2011, staff will correct any files with inaccurate monthly escrow deposits and make any necessary adjustments to the escrow accounts.

Currently, a sample of FSS files are reviewed on a monthly basis and prior to the distribution of any escrow monies to FSS participants completing their FSS Contract, a full audit of the escrow account is completed. Effective immediately, all updates on FSS escrow accounts will be reviewed by the Quality Control and Training Analyst for accuracy. They will also verify the TTP on the effective date of the FSS Contract entered on the escrow calculation matches the actual TTP based on the tenant file documentation.

SECTION III – MAJOR FEDERAL AWARD PROGRAMS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Item 2011-03 CFDA No. 14.871 Section 8 Housing Choice Vouchers

Condition:
Two applicants out of a sample of twenty applicants tested were added to the wait list, and housed, based upon having a homeless preference. However, no documentation could be provided to support that the applicants were homeless at the time of voucher issuance.

Criteria:
Internal controls should be in place to ensure proper documentation is maintained to support all preferences awarded to applicants and used to rank those applicants on the wait list and select them for voucher issuance.

Effect:
Two applicants were improperly ranked on the wait list and improperly selected for voucher issuance due to the fact that they were awarded a preference which could not be supported.

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

Recommendation:
Internal controls should be implemented to ensure proper documentation is maintained to support all preferences awarded to applicants and used to rank those applicants on the wait list and select them for voucher issuance.

Response:
The department will increase efforts to monitor data entered related to new applications and persons added to the waiting list by reviewing a larger sample of the applications entered. Applicants will have the option to complete future applications on-line, which should help reduce data entry errors. Intake staff have been reminded of policies in place that require the preference to be verified upon selection from the waiting list, and what steps to take if the applicant does not meet the preference(s) claimed.

The Quality Control and Training Analyst will make proper waiting list management a point of emphasis on file reviews and future training sessions.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

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

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

Status:
Based upon tests performed, the Agency has implemented control procedures to ensure participant files are not purged until the statute of limitations has expired after a participant's move-out.