METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NASHVILLE, TENNESSEE

ANNUAL FINANCIAL REPORT AND OTHER FINANCIAL INFORMATION

SEPTEMBER 30, 2009

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

Table of Contents

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

INTRODUCTION

The Metropolitan Development and Housing Agency ("MDHA" or the "Agency") is pleased to present its Annual Financial Report and Other Financial Information for the year ended September 30, 2009.

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, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unqualified opinion of our independent external auditors, McCauley, Nicolas & Company, LLC, on the September 30, 2009 financial statements is included in this report.

McCauley Nicolas & Company, LLC The Solution Is One Good Move Away
Certified Public Accountants & Advisors

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Metropolitan Development and Housing Agency
Nashville, Tennessee

We have audited the accompanying statement of net assets of the Metropolitan Development and Housing Agency (the "Agency"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of September 30, 2009, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Development and Housing Agency as of September 30, 2009, and the changes in its net assets and its 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 February 1, 2010 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards,* and should be considered in assessing the results of our audits.

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Kenneth N. Nicolas, CPA Ronald F. Barnes, CPA, PFS Lee E. Pieper, CPA J. Patrick Byrne, CPA
John C. Pieper, CPA Daniel K. McCauley, CPA, ABV J. Michael Grinnan, CPA Kenneth W. Coyle, CPA R. Kenneth Adams, CPA

Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Metropolitan Development and Housing Agency taken as a whole. The accompanying schedule of expenditures of federal awards, pages 32-36, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedule of actual costs for the specified project from inception through completion on page 37, as required by the U.S. Department of Housing and Urban Development are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
February 1, 2010

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 year ended September 30, 2009. Please read this analysis in conjunction with the Agency's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

The Agency's total net assets increased $1.2 million or less than 1%, in part as a result of the following:

- Cash and Investments decreased $3.4 million (-6%)
- Bonds, Notes and Other Liabilities decreased $600,000 (-2%)
- Operating Revenues increased $16.9 million (17%)
- Operating Expenses increased $19.6 million (19%)
- Operating Loss increased $2.6 million (71%)
- Governmental Capital Contributions decreased $4.5 million (-38%)

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. 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 2009 as compared to fiscal year 2008:

	2009	2008	% Increase (Decrease)
Current Assets	$ 65,652,970	$ 68,206,792	(4) %
Noncurrent Assets			
Capital Assets	221,641,343	217,924,780	2 %
Other Assets	36,300,086	36,881,575	(2) %
Total Assets	$ 323,594,399	$ 323,013,147	- %
Bonds and Notes Payable	$ 16,665,224	$ 16,773,648	(1) %
Other Liabilities	19,636,561	20,168,580	(3) %
Total Liabilities	$ 36,301,785	$ 36,942,228	(2) %
Net Assets Invested in Capital Assets	$ 205,045,816	$ 201,151,132	2 %
Net Assets Restricted for Other Purposes	2,651,926	7,316,413	(64) %
Unrestricted Net Assets	79,594,872	77,603,374	3 %
Total Net Assets	$ 287,292,614	$ 286,070,919	- %

The Agency's total net assets increased $1.2 million, or less than 1%, in part as a result of the following:

- Capital asset additions, consisting principally of the Capital Fund projects, Energy performance bond projects, and operating reserve projects totaling $15 million during the year.
- Decrease in net assets of $11.1 million resulting from depreciation expense for capital assets.
- Decrease of $4.3 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 2009 as compared to fiscal year 2008:

	2009	2008	% Increase (Decrease)
Operating Revenues			
Rentals	$ 10,105,037	$ 9,819,650	3 %
Governmental Operating Revenue	79,055,875	73,130,530	8 %
Local Government Development Activities	22,700,168	12,784,715	78 %
Other	4,276,924	3,456,341	24 %
Total Operating Revenues	116,138,004	99,191,236	17 %
Operating Expenses:			
Administrative expenses	17,129,930	14,926,897	15 %
Other	105,318,351	87,944,935	20 %
Total Operating Expenses	122,448,281	102,871,832	19 %
Operating Loss	(6,310,277)	(3,680,596)	71 %
Capital Contributions	7,248,296	11,731,840	(38) %
Nonoperating Revenues	283,676	331,706	(14) %
Total Nonoperating Revenues	7,531,972	12,063,546	(38) %
Change in Net Assets	$ 1,221,695	$ 8,382,950	(85) %

The increase in local government development activities revenue and administrative and other operating expenses is due to memorandums of understanding with Metropolitan Government of Nashville and Davidson County for predevelopment of the Music City Center, Riverfront Development Project and Homelessness Commission. The increase in rental revenue is due to new units leased at J. Henry Hale Apartments and Parkway Terrace during the year. Other operating revenue increased due to the recognition of working capital held on behalf of an MDHA affiliate. The funds allocated to Preston Taylor Homes LLC, at the onset of asset management, were reallocated to other Agency Asset Management Properties (AMP) during the year.

The decrease in capital contributions is a result of the J. Henry Hale HOPE VI substantial completion in 2008. The HOPE VI grant close out date was March 31, 2009.

CAPITAL ASSETS

Fiscal year 2009 as compared to fiscal year 2008:

	2009	2008	% Increase (Decrease)
Land	$ 49,816,237	$ 48,831,993	2 %
Infrastructure	21,155,548	20,657,288	2 %
Buildings	240,908,922	240,101,749	0 %
Equipment	4,382,471	4,429,520	(1) %
Construction in progress	24,420,875	25,437,492	(4) %
Total	340,684,053	339,458,042	0 %
Less Accumulated Depreciation	(119,042,710)	(121,533,262)	(2) %
Net Capital Assets	$ 221,641,343	$ 217,924,780	2 %

Capital assets increased $3.7 million, or 2% during fiscal year 2009. During fiscal year 2009, the Agency expended $15 million on capital activities. This included $3.9 million for energy conservation with the HUD approved extension of the Energy Performance financing program, $1.3 million in Asset Management Property improvements using operating funds on hand, $775,000 for the Rolling Mill Hill project, and $440,000 for site work at the Woods of Monticello subdivision. Also included in additions to capital assets is modernization work performed for $2.6 million at Parkway Terrace, $1.9 million at Napier Place, $1.5 at Gernert Studio Apartments, $850,000 at Parthenon Towers, and $195,000 at Edgefield Manor.

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

Depreciation expense on capital assets totaled $11.1 million during fiscal year 2009.

DEBT ADMINISTRATION

Fiscal year 2009 as compared to fiscal year 2008:

	2009	2008	% Increase (Decrease)
Bonds Payable	$ -	$ 2,685,490	(100) %
Notes Payable - other	16,665,224	14,088,158	18 %
Total Bonds and Notes Payable	$ 16,665,224	$ 16,773,648	(1) %

At September 30, 2009, the Agency's note principal and interest outstanding totaled $16.7 million - a decrease of 1% from the prior year. The Series 2003 Refunding Revenue Bonds were repaid in 2009. With HUD approval, the Agency extended the Energy Performance project during 2009. Proceeds totaling $2.1 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. A line of credit with a financial institution was established in July, 2009 for the land acquisition and related predevelopment activities for the Music City Center with a balance of $205,500 as of September 30, 2009. The notes payable also includes a promissory note secured by 76 (3-bedroom) apartments; a promissory note secured by the Levy Place Apartments; a promissory note secured by the J. Henry Hale Apartments; and a line of credit with the Metropolitan Government of Nashville and Davidson County for the Rolling Mill Hill project secured by the property sales proceeds and an assignment of rents and leases from the property. The Agency's promissory note secured by property for the downtown energy system was repaid during the 2008 fiscal year.

NEW BUSINESS

The Agency entered into an Intergovernmental Project Agreement between Metropolitan Government of Nashville and Davidson County and the Convention Center Authority (CCA); which provides for the reimbursement of the debt incurred by the Agency to acquire properties for the Music City Center project and in turn convey them to the CCA. The Agency will transfer and assign all the rights and contracts entered into in the predevelopment of the Music City Center to the CCA.

Financial commitments have been obtained from the Tennessee Housing Development Agency and the Bank of Tennessee to proceed with the development of Nance Place Apartments, L.P. The closing is anticipated by the end of December 2009. The MDHA Housing Trust Corporation is the sole shareholder in MDHA Nance Place Incorporated, MDHA Nance Place Incorporated is the general partner of Nance Place Apartments, L.P. The board authorized the execution of a Development Agreement, Reimbursement and Assignment Agreement, as well as a long-term lease between the Agency and Nance Place Apartments, L.P.

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, 2009

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	12,702,230
Restricted cash and cash equivalents		4,024,887
Investments		33,286,289
Restricted investments		2,416,742
Receivables:		
Tenant, net of allowances		89,337
Amounts due from other governmental agencies		6,283,430
Current portion of notes receivable, net of allowances		566,478
Interest on investments		150,606
Other		158,489
Inventory		5,516,182
Prepaid expenses		458,300
TOTAL CURRENT ASSETS		65,652,970
CAPITAL ASSETS, NET		221,641,343
NONCURRENT ASSETS		
Investments, equity method		510,036
Notes receivable, net of allowances		34,638,916
Other assets		1,151,134
TOTAL NONCURRENT ASSETS		36,300,086
TOTAL ASSETS	$	323,594,399

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF NET ASSETS (CONTINUED)

SEPTEMBER 30, 2009

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Funds held for others	$	3,624,020
Accounts payable		5,552,912
Contract retention payable		83,344
Compensated absences payable		574,550
Accrued liabilities		609,620
Due to tenants		976,817
Deferred revenue		98,899
Due to other governments		5,765,543
Current portion of long-term debt		10,720,555
TOTAL CURRENT LIABILITIES		28,006,260
NONCURRENT LIABILITIES		
Deposits		313,819
Long-term debt, less current maturities		5,944,669
Long-term compensated absences payable		2,037,037
TOTAL NONCURRENT LIABILITIES		8,295,525
TOTAL LIABILITIES		36,301,785
NET ASSETS		
Invested in capital assets, net of related debt		205,045,816
Restricted for other purposes		2,651,926
Unrestricted		79,594,872
TOTAL NET ASSETS		287,292,614
TOTAL LIABILITIES AND NET ASSETS	$	323,594,399

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, 2009

OPERATING REVENUES		
Rentals	$	10,105,037
Governmental operating revenue		79,055,875
Program income		336,106
Local government development activities		22,700,168
Other income		3,927,651
Contributions		13,167
TOTAL OPERATING REVENUES		116,138,004
OPERATING EXPENSES		
Cost of Services:		
Tenant services		1,074,330
Utilities		7,862,929
Ordinary maintenance and operations		14,091,142
Protective services		961,348
Insurance premiums		741,388
Other general expenses		33,437,244
Housing assistance payments		36,161,700
Administration		16,967,837
Depreciation		11,150,363
TOTAL OPERATING EXPENSES		122,448,281
OPERATING LOSS		(6,310,277)
NONOPERATING REVENUES (EXPENSES)		
Interest income		1,150,700
Impairment allowance on notes receivable		(264,756)
Loss on disposition of assets		(183,616)
Interest expense		(418,652)
TOTAL NONOPERATING REVENUES - NET		283,676
DECREASE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS		(6,026,601)
Capital Contributions		7,248,296
INCREASE IN NET ASSETS		1,221,695
NET ASSETS - BEGINNING OF YEAR		286,070,919
NET ASSETS - END OF YEAR	$	287,292,614

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

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from rental operations	$ 10,184,363
Receipts from program income	413,696
Receipts from government subsidy for operations	76,158,312
Receipts from local governmental development activities	24,319,420
Receipts from other	3,986,475
Receipts from contributions	13,167
Payments for inventory purchases	(14,764)
Payments to and on behalf of employees	(19,850,948)
Payments for other administrative expenses	(4,260,181)
Payments for other direct program costs, including housing assistance payments	(88,303,793)
Program loan activities:	
Cash expended for program loans	(359,240)
Principal collections on notes receivable	716,033
Interest income collections	123,750
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,126,290
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from governmental capital grants	7,544,783
Purchases of capital assets	(15,050,543)
Proceeds from capital debt	2,715,344
Principal paid on capital debt	(2,878,279)
Interest paid on capital debt	(314,824)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	$ (7,983,519)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	$ (73,045,135)
Proceeds from the sales and maturities of investments	84,947,195
Interest received	1,474,015
NET CASH PROVIDED BY INVESTING ACTIVITIES	13,376,075
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,518,846
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	8,208,271
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 16,727,117

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

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2009

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$	(6,310,277)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense		11,150,363
Bad debt expense		693,633
Changes in assets and liabilities:		
Increase in accounts receivable		(1,765,234)
Increase in inventories		(374,764)
Increase in prepaid expenses and other assets		(92,206)
Increase in due to tenants		57,755
Decrease in accounts payable and amounts due to other governments		(766,827)
Increase in deferred revenue and other deposits		86,754
Increase in accrued liabilities and compensated absences		90,301
Program loan activities:		
Cash expended for program loans		(359,240)
Principal collections on notes receivable		716,032
TOTAL ADJUSTMENTS		9,436,567
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	3,126,290

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

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 Codification (ASC) pronouncements issued on or after November 30, 1989 that do not contradict GASB pronouncements in the preparation of the financial statements.

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

Reporting entity

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

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 state funded programs and grants and programs administered on behalf of the local government by the Agency.

BUSINESS ACTIVITIES

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

Cash and cash equivalents

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

Allowance for Doubtful Accounts

The Agency uses the allowance for bad debts method of valuing doubtful accounts receivable which is based on historical experience, coupled with a review of the status of existing receivables. An allowance for doubtful accounts of $1,614,912 for tenant accounts receivable has been provided by management at September 30, 2009.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Inventory

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

Provision for uncollectible notes

A note receivable is considered impaired when, based on current information, it is probable that all amounts of principal and interest due will not be collected according to the terms of the note agreement. The allowance for uncollectible notes is established by charges to program services expense and is maintained at an amount which management believes adequate to absorb losses on existing notes. Uncollectible notes are charged to the allowance account in the period such determination is made. The provision for uncollectible notes receivable was $823,449 at September 30, 2009.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Restricted Assets

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

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 denominated in United States currency.

The carrying amount of cash and cash equivalents at September 30, 2009 totaled $16,727,117 and the corresponding bank balance was $16,818,460, respectively. The difference between the carrying amounts of cash and cash equivalents and the corresponding bank balances is due primarily to checks outstanding at September 30, 2009. The entire balance of cash and cash equivalents was covered by the State bank collateral pool, federal depository insurance or collateralized with securities held by the government's agent in the government's name.

Included in cash and cash equivalents at September 30, 2009, were $3,519,375, which is held in MDHA's name and managed by the Agency under a 'Memorandum of Understanding' (MOU) for the benefit of certain not-for-profit organizations and affiliate entities. The amounts managed under the MOU are presented as restricted cash and cash equivalents in the accompanying statements of net assets as of September 30, 2009.

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

Deposit and Investment Policy

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

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

As of September 30, 2009, the majority of MDHA's deposits were held by financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregated balance of their public fund accounts for MDHA.

The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures.*

Investments

Certificates of deposit were covered by the State bank collateral pool, federal depository insurance or collateralized with securities held by the government's agent in the government's name.

The Agency has not established a limit on the amount it may invest in any one issuer. More than 5% of the Agency's investments are held by Pinnacle Bank, Fifth-Third Bank, and Citizens Bank. These investments consist of certificates of deposit and are 28%, 60%, and 12% respectively, of the Agency's total investments at September 30, 2009.

The Agency maintains certain deposits for participants of the HUD Family Self-Sufficiency program. These funds totaled $295,500 at September 30, 2009 and were included in restricted investments in the accompanying statements of net assets. Also included in restricted investments at September 30, 2009 is $2,121,242, representing excess Section 8 restricted housing assistance funds under the Housing Choice Voucher program.

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

At September 30, 2009, the future maturities of MDHA's investments are as follows:

Type of Investment	Carrying Amount	Maturity Fiscal 2010	Not Subject to Maturity
Certificates of Deposit	$ 35,703,031	$ 16,394,881	$ -
Investment in Park at Hillside, LLC	510,036	-	510,036
TOTAL	$ 36,213,067	$ 16,394,881	$ 510,036

NOTE 4 – FAIR VALUE MEASUREMENT

The financial statements reflect the adoption of Statement on Financial Accounting Standards No. 157 (SFAS No. 157), Fair Value Measurements. SFAS No. 157 established a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurement.

In accordance with SFAS 157, fair value is defined as the price that the Agency would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. SFAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments as well as debt securities and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

NOTE 4 – FAIR VALUE MEASUREMENT (CONTINUED)

Level 3 – Unobservable inputs that are supported by little or no market activity and are significant to the fair value of assets or liabilities. Level 3 includes assets and liabilities whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Agency's assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

Fair values of financial assets measured on a recurring basis at September 30, 2009 consisted of the following:

	Fair Value	Level 1	Level 2	Level 3
Certificates of Deposit	$ 35,703,031	$ 35,703,031	$ -	$ -
Investment in Park at Hillside, LLC	510,036	-	-	510,036
	$ 36,213,067	$ 35,703,031	$ -	$ 510,036

At September 30, 2009, 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, 2008	$ 510,219
Net Loss	(183)
Balance at September 30, 2009	$ 510,036

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2009 follows:

	Balance September 30, 2008	Additions	Retirements	Transfers	Balance September 30, 2009
Capital assets, not being depreciated:					
Land	$ 48,831,993	$ 538,332	$ (21,400)	$ 467,312	$ 49,816,237
Construction in progress	25,437,492	14,288,652	-	(15,305,269)	24,420,875
Total capital assets, not being depreciated	74,269,485	14,826,984	(21,400)	(14,837,957)	74,237,112
Capital assets, being depreciated:					
Buildings	240,101,749	116,806	(13,637,837)	14,328,204	240,908,922
Infrastructure	20,657,288	-		498,260	21,155,548
Furniture, equipment, & machinery - dwellings	2,657,149	81,232	(46,532)	-	2,691,849
Furniture, equipment, & machinery - administrative	1,772,371	25,520	(118,762)	11,493	1,690,622
Total capital assets, being depreciated	265,188,557	223,558	(13,803,131)	14,837,957	266,446,941
Less accumulated depreciation for:					
Buildings	(107,963,898)	(9,989,102)	13,475,621	-	(104,477,379)
Infrastructure	(9,849,180)	(899,794)	-	-	(10,748,974)
Furniture, equipment, & machinery - dwellings	(2,181,653)	(157,660)	46,532	-	(2,292,781)
Furniture, equipment, & machinery - administrative	(1,538,531)	(103,807)	118,762	-	(1,523,576)
Total accumulated depreciation	(121,533,262)	(11,150,363)	13,640,915	-	(119,042,710)
Total capital assets, being depreciated, net	143,655,295	(10,926,805)	(162,216)	14,837,957	147,404,231
Total capital assets, net	$ 217,924,780	$ 3,900,179	$ (183,616)	$ -	$ 221,641,343

NOTE 6 - NOTES RECEIVABLE

Notes receivable, including related accrued interest, consisted of the following as of September 30, 2009:

Vine Hill Homes Loans	$ 11,107,390
Preston Taylor Homes Loans - Phase I	12,968,700
Preston Taylor Homes Loans - Phase II	7,742,341
Rehabilitation Loans	3,792,410
Business District Loans	65,080
Façade Loans	214,861
Other	138,061
Allowance for doubtful accounts	(823,449)
Net notes receivable and accrued interest receivable	$ 35,205,394

Vine Hill Homes Loans were made to Vine Hill Homes, LLC for the construction and development of the Vine Hill project. The loans are funded by various federal and state grant programs, including HOPE VI, Comprehensive Grant, UDAG repayment funds, Refunding Agreement and the State of Tennessee House grant funds. The nonrecourse loans are secured by a leasehold deed of trust. Loans made from the UDAG repayment funds and the Refunding Agreement, totaling $942,000, accrued interest at the rate of 10.8% per annum. These loans were repaid from the sale of federal low-income housing tax credits in November 2005. (See Note 13.) The loan funded from the State of Tennessee House grant funds, in the amount of $250,000, is non-interest bearing and payable in thirty years. The remaining loans accrue interest at the rate of 1.5% per annum. Accrued but unpaid interest shall be due and payable within sixty days after the end of each calendar quarter to the extent of cash flow as defined in the Amended and Restated Operating Agreement. The notes mature in November 2028. Under a certain Purchase Option Agreement entered into by MDHA and Vine Hill Homes, LLC, subsequent to the Tax Credit Compliance Period, on the maturity date, MDHA has the right of first refusal to acquire the Vine Hill project at the greater of the total outstanding debt on the property or the fair market value of the property. An appraisal of the property was conducted during fiscal year 2007, and based upon the market value assessed by the report; an impairment allowance was recorded totaling $1,288,533 as of September 30, 2009. Impairment expense for fiscal year 2009 totaled $264,756.

NOTE 6 - NOTES RECEIVABLE (CONTINUED)

Preston Taylor Homes Loans - Phase I were made to Preston Taylor Homes, LLC for the construction and development of the Preston Taylor project. The loans were funded by various federal grant programs, including HOPE VI, and UDAG repayment funds. The nonrecourse loans are secured by a leasehold deed of trust. The outstanding loan balance accrues interest at the rate of .1% per annum. Accrued but unpaid interest shall be due and payable within sixty days after the end of each calendar quarter to the extent of cash flow, as defined in the Amended and Restated Operating Agreement. The notes mature on December 29, 2040. Under a certain Purchase Option Agreement entered into by MDHA and Preston Taylor Homes, LLC, subsequent to the Tax Credit Compliance Period, MDHA has the right of first refusal to acquire the Preston Taylor Phase I project at the greater of the total outstanding debt on the property or the fair market value of the property. An appraisal of the property was conducted during fiscal year 2007, and based upon the market value assessed by the report, an impairment allowance was not necessary. No impairment allowance was deemed necessary for fiscal year 2009.

Preston Taylor Homes Loans - Phase II were made to Preston Taylor Homes, LLC for the construction and development of the Preston Taylor project. The loans were funded by various federal grant programs, including HOPE VI, Capital Fund Grant, and UDAG repayment funds. The nonrecourse loans are secured by a leasehold deed of trust. The outstanding loan balance accrues interest at the rate of .1% per annum. Accrued but unpaid interest shall be due and payable within sixty days after the end of each calendar quarter to the extent of cash flow, as defined in the Amended and Restated Operating Agreement. The notes mature on January 4, 2042. Under a certain Purchase Option Agreement entered into by MDHA and Preston Taylor Homes, LLC, subsequent to the Tax Credit Compliance Period, MDHA has the right of first refusal to acquire the Preston Taylor Phase II project at the greater of the total outstanding debt on the property or the fair market value of the property. An appraisal of the property was conducted during fiscal year 2007, and based upon the market value assessed by the report, an impairment allowance was not necessary. No impairment allowance was deemed necessary for fiscal year 2009.

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

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

NOTE 6 - NOTES RECEIVABLE (CONTINUED)

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

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, 2009 is presented below:

	Balance October 1, 2008	Additions	Retirements	Amortization of Deferred Loss on Refunding	Balance September 30, 2009	Due within one year
Revenue Bonds	$ 2,740,000	$ -	$ (2,740,000)	$ -	$ -	$ -
Deferred Loss on Refunding	(54,510)	-	-	54,510	-	-
Revenue Bonds, net	2,685,490	-	(2,740,000)	54,510	-	-
Notes Payable - other	14,088,158	2,715,345	(138,279)	-	16,665,224	10,720,555
TOTAL	$ 16,773,648	$ 2,715,345	$ (2,878,279)	$ 54,510	$ 16,665,224	$ 10,720,555

During December 2003, MDHA issued Series 2003 Low-Rent Housing Refunding Revenue Bonds for providing the funds needed to refund the outstanding Series 1998 Low-Rent Housing Refunding Revenue Bonds and pay certain expenses in connection with the issuance of the 2003 Bonds. During January 2004, the proceeds from the issuance of the 2003 Bonds were used to redeem the 1998 Bonds in their entirety. In order to redeem the Series 1998 Bonds, the Agency was required to pay a 5% call premium resulting in a loss on the refunding. The loss on refunding is deferred and netted with the outstanding principal of the Series 2003 Bonds. The deferred loss was amortized through the final payment date of the bonds on June 11, 2009.

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Notes payable – other at September 30, 2009, consists of the following:

$8,500,000 maximum revolving line of credit agreement with Metropolitan Government for the purpose of funding the Rolling Mill development. Interest on the outstanding principal is variable and is calculated at the same rate of interest earned by the Metropolitan Government on its idle funds (approximately .5% at September 30, 2009) in the Metro Investment Pool ("MIP"). The line of credit is collateralized by the development and funds committed or appropriated to MDHA by Metropolitan Government. The line of credit expires June 30, 2010 and can be extended upon mutual agreement of MDHA and the Metropolitan Government.	$ 8,204,551
$2,100,000 line of credit with Bank of America, with original maturity date of February 1, 2000, extended through February 1, 2002. On May 28, 2002, the loan was extended and converted to a $1,700,000 promissory note, payable in monthly installments of principal and interest through May 28, 2007. On May 28, 2007, the loan was extended and converted to a $1,400,000 promissory note, payable in monthly installments of principal and interest through May 28, 2012. Interest accrues at a rate of 5.25% per annum. The note is collaterialized by a 76-unit apartment complex and assignment of rents and leases.	1,276,209
$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. The balance as of September 30, 2009 includes $7,824 of accrued interest.	2,435,827
$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. Interest on the outstanding balance is variable based upon the 30-day LIBOR rate, plus 175 basis points (2.01% at September 30, 2009). The note is collateralized by J. Henry Hale Apartments (a 228-unit apartment complex) and assignments of rents and leases. The balance as of September 30, 2009 includes $2,872 of accrued interest.	2,450,787
$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 will accrue for 13 months with no payment due. At the end of the 13 month period, August 2, 2010, the accrued interest will be capitalized and added to the original $12,100,000 lease amount with 28 quarterly payments to follow. The contract is collateralized by equipment.	2,092,350
$62,000,000 line of credit with First Tennessee Bank, dated July 30, 2009 for land acquisition and related pre-development activities for the Music City Center. The line of credit is interest only for 12 months. Interest is based on the 30-day LIBOR rate plus 150 basis points, but with a 3% minimum. Interest (3.00% at September 30, 2009) on this loan is paid by Metropolitan Government. The loan is secured by an assignment of the Convention Center tax revenues and a lien on the properties acquired. If the Convention Center bonds have not been issued by the end of the loan term, July 29, 2010, the loan would convert to a two-year mini-permanent loan with scheduled payments provided by the Convention Center tax revenues. All interest is being paid directly to First Tennessee Bank by Metropolitan Government of Nashville and Davidson County on behalf of the agency.	205,500
	$ 16,665,224

NOTE 7 - LONG-TERM DEBT (CONTINUED)

A schedule of principal maturities of long-term debt at September 30, 2009 is as follows:

Year Ending September 30, 2009		
2010	$	10,720,555
2011		230,341
2012		3,390,174
2013		42,579
2014		2,281,575
Thereafter		-
Total	$	16,665,224

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 $60.5 million at September 30, 2009.

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, 2009, the Section 108 loans outstanding aggregated to approximately $3.63 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 year ended September 30, 2009, 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, 2009 amounted to $1,822,971, which equaled the amount of required employer contributions. Employee voluntary contributions were $156,312 in 2009. MDHA's payroll for employees covered by the Plan for the fiscal year ended September 30, 2009 was $14,459,512. Total payroll for MDHA during the fiscal year ended September 30, 2009 amounted to $15,627,527.

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, 2009 were $111,193.

MDHA administers rental income under a certain ground lease for Metro Government 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, 2009		
2010	$	500,000
2011		500,000
2012		500,000
2013		500,000
Thereafter		1,125,000
Total	$	3,125,000

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 $108,841 for the year ended September 30, 2009.

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, 2009.

At September 30, 2009, the Agency had outstanding construction commitments of approximately $16.5 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. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and MDHA's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of MDHA. Accordingly, no provision for loss, if any, related to these matters has been made in the financial statements.

NOTE 13 - AFFILIATE AGREEMENTS

MDHA has assisted in the financing of a new 152-unit multifamily residential development known as Vine Hill Homes (the "Project") in the form of loans to Vine Hill Homes, LLC. These loans were made in consideration of Vine Hill's construction of the Project, including 136 units to be used as public housing. The 136 units are eligible to receive the benefit of operating subsidies provided to MDHA by HUD. Additional funding for the development of Vine Hill came from the sale of federal low-income housing tax credits in the amount of approximately $1,500,000. Proceeds from the sale of the tax credits were used to repay certain loans made by MDHA to Vine Hill. (See Note 6.)

The apartment project is managed by MDHA which is to receive a fee of 5% of the annual gross revenues of the Project with respect to the nonpublic housing units. Vine Hill has executed a ground lease agreement with MDHA, with various use restrictions and operating requirements, for a term of ninety-nine years. Upon expiration of the agreement, Vine Hill shall have an option to purchase the land for $100, provided the development notes have been paid in full. (See Note 6.)

MDHA has also assisted in the financing of mixed income affordable and market rate residential housing in the form of loans to Preston Taylor Homes, LLC. Preston Taylor Homes Phase I consists of the demolition of 300 units of housing on the north side of the Preston Taylor site and new construction of 51 rental duplex and townhouse buildings comprising 182 units of rental housing. Of the 182 units, 170 shall be public housing units eligible to receive the benefits of operating subsidies provided to MDHA by HUD. The remaining 12 units shall be market units. Phase I of the project was completed in November 2002. Preston Taylor Homes Phase II consists of the demolition of 250 units of housing and new construction of 116 units, of which 104 shall be public housing units and 12 are market rate units. Phase II of the project was completed in October 2003. (See Note 6.)

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

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

NOTE 14 - NET 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 for certain deposits and investments under grant programs.

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

The changes in net assets for the year ended September 30, 2009 is as follows:

	Invested in Capital Assets	Restricted	Unrestricted	Totals
Net Assets - September 30, 2008	$ 201,151,132	$ 7,316,413	$ 77,603,374	$ 286,070,919
Change in net assets - 2009	3,894,684	(4,664,487)	1,991,498	1,221,695
Net Assets - September 30, 2009	$ 205,045,816	$ 2,651,926	$ 79,594,872	$ 287,292,614

NOTE 15—INCOME TAXES

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

NOTE 16—MAJOR FUNDING SOURCE

The Agency is substantially funded by Federal awards. Management does not anticipate any material change in funding.

NOTE 17 – SUBSEQUENT EVENTS

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through February 1, 2010, the date the combined 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, 2009

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	07-01-09 TO 09-30-10	$ 203
Weatherization Assistance for Low-Income Persons	81.042	Z-10-000409	07-01-09 TO 06-30-10	247,390
Weatherization Assistance for Low-Income Persons	81.042	Z-05-021676	07-01-04 to 06-30-09	869,941
TOTAL U.S. DEPARTMENT OF ENERGY				1,117,534
U.S. DEPARTMENT OF EDUCATION				
Passed through State Department of Education:				
21st Century Grant	84.287	Z-09-21333-00	08-01-08 to 06-30-09	16,879
TOTAL U.S. DEPARTMENT OF EDUCATION				16,879
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Public and Indian Housing	14.850	A-3777	10-01-08 to 09-30-09	22,781,007
Section 8 Housing Choice Vouchers	14.871	A-3152V	10-01-08 to 09-30-09	32,929,139
Lower-Income Housing Assistance Program - Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	A-3152M	10-01-08 to 09-30-09	67,911
Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	A-3152M	10-01-08 to 09-30-09	443,002
DHAP	97.109	A-3152M	10-01-07 to 03-01-09	161,468
HUD-Veterans Affairs Supportive Housing	14.VSH	TN005VA0001	05-01-08 to 04-30-09	547,116
Section 8 5yr Mainstream Vouchers	14.879	TN005DV0001	10-01-08 to 09-30-09	383,907

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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 (TN43P00550105)	N/A	$ 1,094,388
Public Housing Capital Fund	14.872	A-3777 (TN43P00550106)	N/A	1,861,847
Public Housing Capital Fund	14.872	A-3777 (TN43P00550107)	N/A	3,802,730
Public Housing Capital Fund	14.872	A-3777 (TN43P00550108)	N/A	2,697,892
American Recovery and Reinvestment Act Formula Capital Fund Stimulus Grant	14.885	A-3777 (TN43S00550109)	N/A	456,840
Shelter Plus Care	14.238	TN37C50-4003	04-01-06 to 03-31-11	81,675
Shelter Plus Care	14.238	TN37C30-4001	04-01-04 TO 03-31-09	74,094
Shelter Plus Care	14.238	TN37C60-4001	04-27-07 to 04-26-12	83,748
Shelter Plus Care	14.238	TN37C60-4014	04-27-07 to 04-26-12	51,125
Shelter Plus Care	14.238	TN37C70-4016	03-01-08 to 02-28-09	15,557
Shelter Plus Care	14.238	TN0070C4J040801	03-01-09 TO 02-28-10	21,466
Shelter Plus Care	14.238	TN37C70-4015	03-01-08 to 02-28-09	485,689
Shelter Plus Care	14.238	TN0068C4J040801	03-01-09 to 02-28-10	861,266
HMIS	14.235	TN0060B4J070801	07-01-08 TO 06-30-09	16,515
HMIS	14.235	TN37B704010	07-01-08 to 06-30-09	40,412

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2007

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD		EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)					
Direct Programs (Continued):					
Resident Opportunity and Supportive Services	14.870	TN005RFS164A008	04-27-09 to 04-27-10	$	77,087
Resident Opportunity and Supportive Services	14.870	TN005RFS167A007	03-12-08 to 03-12-09		39,593
Resident Opportunity and Supportive Services	14.870	TN005REF036A007	06-09-2008 to 06-09-2011		187,755
Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)	14.866	TN43URD005I103	09-01-04 TO 09-30-08		188,799
Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)	14.866	TN43URD005N103	09-29-04 to 09-30-09		250,000
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		5,486,578
HOME Investment Partnerships Program	14.239	M-XX-MC-47-0203	N/A		6,967,572
Emergency Shelter Grants Program	14.231	S-06-MC-47-0004	04-01-06 to 03-31-09		217,601
HOPWA	14.241	TN-H06-F002	04-01-06 to 03-31-09		947,974
Neighborhood Stabilization Program	14.256	B-08-MN-47-0004	03-06-09 to 03-06-14		50,179
Homelessness Prevention and Rapid Re-housing Program	14.257	S-09-MY-47-0004	07-10-09 to 07-10-12		11,863

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2007

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD		EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)					
Passed Through State Department of Energy:					
Brownfields Revolving Loan	66.818	BF-96415904-0	10-01-04 to 09-30-10	$	231,855
Passed Through Federal Highway Administration					
TDOT Dickerson Road	20.205	PIN 030604.01	39,595		1,074,459
TDOT RMH Greenway Ext	20.205	PIN 110937.00	06-11-08 to 06-15-13		479,650
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					85,169,759
TOTAL FEDERAL FINANCIAL ASSISTANCE				$	86,304,172

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METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2009

PROGRAM NUMBER		DESCRIPTION		EXPENDITURES
14.871		Section 8 Housing Choice Vouchers	$	32,929,139
14.850	*	Public and Indian Housing		22,781,007
14.872	*	Public Housing Capital Fund		9,456,857
14.885	*	ARRA Formula Capital Fund Stimulus		456,840
14.866		Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)		438,799
14.218		Community Development Block Grants/Entitlement Grants		5,486,578
14.239		Home Investment Partnerships Program		6,967,572
14.238	*	Shelter Plus Care		1,674,620
97.109		Disaster Housing Assistance Program		161,468
14.241		Housing Opportunities for Persons With AIDS		947,974
81.042		Weatherization Assistance for Low-Income Persons		1,117,534
14.249		Section 8 Moderate Rehabilitation - Single Room Occupancy		510,913
14.879		Section 8 Five Year Mainstream Vouchers		383,907
14.231		Emergency Shelter Grants Program		217,601
14.235		HMIS		56,927
14.256		NSP		50,179
14.257		HPRP		11,863
84.287		21st Century Grant		16,879
14.VSH		HUD-Veterans Affairs Supportive Housing		547,116
20.205	*	Federal Highway Administration		1,554,109
66.818		Brownfields Pilots Cooperative Agreement		231,855
14.870		Resident Opportunity and Supportive Services		304,435
		TOTAL FEDERAL FINANCIAL ASSISTANCE	$	86,304,172

*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

	TN43P005501-05
Funds approved	$ 8,902,084
Funds expended	8,902,084
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.

	TN43P005501-06
Funds approved	$ 8,419,138
Funds expended	8,419,138
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.

	TN43URD005I103
Funds approved	$ 20,000,000
Funds expended	20,000,000
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

McCauley Nicolas & Company, LLC
Certified Public Accountants

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

Board of Commissioners
Metropolitan Development and Housing Agency
Nashville, Tennessee

We have audited the statement of net assets of the Metropolitan Development and Housing Agency ("the Agency"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of September 30, 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated February 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
February 1, 2010

McCauley Nicolas & Company, LLC
Certified Public Accountants

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

Board of Commissioners
Metropolitan Development and Housing Agency
Nashville, Tennessee

Compliance

We have audited the compliance of the Metropolitan Development and Housing Agency (the "Agency"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

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

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 09-01 and 09-02.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as described below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questions as item 09-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
February 1, 2010

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

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	
14.850	Public and Indian Housing	$22,781,007
14.872	Public Housing Capital Fund	$ 9,456,857
14.885	ARRA-Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded	$ 456,840
14.238	Shelter Plus Care	$ 1,674,620
20.205	Highway Planning and Construction	$ 1,554,109

Dollar threshold used to distinguish between Type A and Type B programs: $ 2,589,125

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 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

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

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

Questioned costs: There were no questioned costs.

Criteria: 24 CFR 960.206 requires that the method of selecting applicants must leave a clear audit trail that can be used to verify each applicant has been selected in accordance with the method specified in the Agency's admission policy.

Effect: We were not able to verify that applicants were added to the waiting list and admitted into public housing based on correct priority or need.

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

Management's Response: We concur. We will examine the process for admission of tenants and implement procedures to monitor the process of placing applicants on the waiting list and admitting them to public housing. We will also review the waiting list and include only current applicants ranked in accordance with our policy.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Item 09-02 CFDA No. 14.238 Shelter Plus Care

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

Questioned costs: There were no questioned costs.

Criteria: The Agency must examine a participant's income initially, and at least annually thereafter, to determine the amount of rent payable by the participant. (24 CFR 582.310)

Effect: Participant may not be properly paying their proportionate rent.

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

Management's Response: We have corrected the two files in question and will continue to reiterate current policy and procedures pertaining to verification requirements to staff. Compliance monitoring will continue through supervisory reviews and utilizing new staff training opportunities.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

Item 08-1 CFDA No. 14.850 Public and Indian Housing

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

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

Status: This finding is also a finding for the year ended September 30, 2009. See Finding 09-01.