

**KNOXVILLE'S COMMUNITY  
DEVELOPMENT CORPORATION  
Knoxville, Tennessee**

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**REPORT ON AUDIT OF BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION AND SINGLE AUDIT**

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**FOR THE YEAR ENDED JUNE 30, 2008**

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Knoxville's Community Development Corporation  
Knoxville, Tennessee

HUD, Knoxville Field Office  
710 Locust Street, S. W.  
Knoxville, Tennessee 37902-2526

We have audited the basic financial statements of the Knoxville's Community Development Corporation ("the Authority") as of and for the year ended June 30, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2008, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis as detailed in this Report, 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 consisted principally of inquiries made of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority. The accompanying Schedule of Expenditures of Federal Awards as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the Financial Data Schedule required by the U.S. Department of Housing and Urban Development, the Schedule of Expenditures of Federal Awards, and state financial assistance and the other supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part 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.

  
Malcolm Johnson Company  
Certified Public Accountants

DeBary, Florida  
December 23, 2008

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**

Knoxville's Community Development Corporation's (KCDC) Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of KCDC's financial activity, (c) identify changes in KCDC's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual program issues or concerns.

Since the MD&A is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with KCDC's basic financial statements (see table of contents).

**Financial Highlights**

- KCDC's net assets increased by \$2.4 million (or 2.8%) during fiscal year 2008. Since KCDC engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$83.8 million and \$86.2 million for 2007 and 2008 respectively. This increase is primarily due to an increase in Housing Assistance Payment equity now classified as a restricted net asset under the Section 8 Housing Choice Voucher Program.
- The business-type activities revenue decreased by \$2.1 million (or 5.0%) during 2008. Revenues were \$43.5 million and \$41.4 million for 2007 and 2008 respectively. This decrease is primarily due to the fact that there were no major property sales in 2008 as compared to the sale of Ridgebrook Apartments, a project based Substantial Rehabilitation Section 8 property during fiscal year 2007 and there was a decrease in restricted interest from the Capital Fund Financing Program (CFFP) and the Energy Performance contract due to a decrease in the escrow account balances. The Energy Performance contract and Capital Fund Financing Program (CFFP) project fund was completed in 2008.
- The total expenses of KCDC programs decreased by \$1.3 million (or 3.3%). Total expenses were \$40.4 million and \$39.1 million for 2007 and 2008 respectively. This decrease is primarily due to a decrease in staff as well as a decrease in salary and benefit related costs associated with early retirement incentives and voluntary reduction in force that occurred in 2007, a decrease in utilities due to increased leasing of units back in service resulting in less vacant unit utilities as well as a decrease in consumption at the hi-rise properties, and a decrease in worker's compensation insurance due to the decrease in employees from 2007 which resulted in a sizable rebate during 2008.

**Using This Annual Report**

The Report includes three major sections, the "Management's Discussion and Analysis (MD&A)", "Basic Financial Statements", and "Supplemental Information":

**MD&A**

~ Management Discussion and Analysis

**Basic Financial Statements**

~ Authority-wide Basic Financial Statements

~ Notes to Basic Financial Statements (expanded/restructured)

**Supplemental Information**

~ Supplemental Information

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**  
**(Continued)**

The primary focus of KCDC's basic financial statement (summarized program-type information) has been discarded. The new and clearly preferable focus is on both KCDC as a whole (Authority-wide). This perspective (Authority-wide) allows the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance KCDC's accountability.

**Authority-Wide Basic Financial Statements**

The Authority-wide basic financial statements are designed to be corporate-like in that all business type activities are consolidated into columns which add to a total for KCDC.

These Statements include a **Statement of Net Assets**, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for KCDC. The statement is presented in the format where assets minus liabilities, equals "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Noncurrent".

The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for KCDC. Net Assets (formerly equity) are reported in three broad categories:

**Net Assets, Invested in Capital Assets, Net of Related Debt:** This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted Net Assets:** This component of Net Assets consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

**Unrestricted Net Assets:** Consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

The Authority-wide basic financial statements also include a **Statement of Revenues, Expenses and Changes in Net Assets** (similar to an Income Statement). This Statement includes Operating Revenues, such as Rental Income, Operating Expenses, such as administrative, utilities, and maintenance, and depreciation, and Nonoperating Revenue and Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

Finally, a **Statement of Cash Flows** is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**  
**(Continued)**

**Authority-Wide Statement**

**Statement of Net Assets**

The following table reflects the condensed Statement of Net Assets compared to prior year. KCDC is engaged only in Business-Type Activities.

**Table 1 – Statement of Net Assets (in millions)**

	<u>2008</u>	<u>2007</u>	<u>Variance</u>	<u>% Change</u>
<b>Assets:</b>				
Current and restricted assets	\$ 36.8	\$ 42.7	(5.9)	(13.9%)
Capital assets, net	88.1	80.6	7.5	9.4%
Other assets	8.1	7.2	.9	12.5%
<b>Total Assets</b>	<b><u>133.0</u></b>	<b><u>130.5</u></b>	<b><u>2.5</u></b>	<b><u>1.9%</u></b>
<b>Liabilities:</b>				
Current liabilities	6.0	9.1	(3.1)	(33.7%)
Noncurrent liabilities	40.8	37.6	3.2	8.6%
<b>Total Liabilities</b>	<b><u>46.8</u></b>	<b><u>46.7</u></b>	<b><u>.1</u></b>	<b><u>.4%</u></b>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	50.8	50.7	.1	.1%
Restricted	4.7	1.7	3.0	175.2%
Unrestricted	30.7	31.4	(.7)	(2.2%)
<b>Total Net Assets</b>	<b><u>\$ 86.2</u></b>	<b><u>\$ 83.8</u></b>	<b><u>2.4</u></b>	<b><u>2.8%</u></b>

For more detailed information see the Statement of Net Assets.

**Major Factors Affecting the Statement of Net Assets**

Total liabilities increased by \$.1 million and Total Assets increased by \$2.5 million primarily due to the purchase of Valley Oaks Apartments and the increase in Capital Assets from the Energy Performance contract and the renovation work at Christenberry Heights and Lonsdale Homes, while Net Assets increased by \$2.4 million due to the increase in restricted net assets primarily due to the increase in housing assistance payment equity under the Section 8 Housing Choice Voucher program.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**  
**(Continued)**

Table 2 presents details on the change in Unrestricted Net Assets

**Table 2 – Change in Unrestricted Net Assets (in millions)**

<b>Unrestricted Net Assets 06/30/2007</b>	<b>\$ 31.4</b>
Results of Operations	2.3
Adjustments:	
Depreciation Expense	6.6
<b>Adjusted results from operations</b>	<b>8.9</b>
Capital expenditures from operations	(9.6)
<b>Unrestricted Net Assets 06/30/2008</b>	<b>\$ 30.7</b>

While the result of operations is a significant measure of KCDC's activities, the analysis of the changes in Unrestricted Net Assets provides a clearer change in financial well-being.

**Table 3 – Statement of Revenues, Expenses and Changes in Net Assets (in millions)**

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	2008	2007	Variance	% Change
<b>Revenues</b>				
Tenant revenue – rents and other	\$ 4.2	\$ 3.8	.4	10.4%
Program grants/subsidies	34.7	34.5	.2	.6%
Interest income	1.8	1.7	.1	6.2%
Other revenues	.7	3.5	(2.8)	(80.2%)
<b>Total Revenue</b>	<b>41.4</b>	<b>43.5</b>	<b>(2.1)</b>	<b>(5.0%)</b>
<b>Expenses</b>				
Administrative	7.2	8.6	(1.4)	(16.1%)
Tenant services	0.9	0.8	.1	9.6%
Utilities	3.0	3.2	(.2)	(4.3%)
Maintenance	4.7	5.9	(1.2)	(20.4%)
Protective services	0.5	0.5	0	(3.4%)
General	1.3	0.9	.4	44.6%
Interest	1.4	1.4	0	(1.0%)
Housing assistance payments	13.5	12.9	.6	4.8%
Depreciation	6.6	6.2	.4	5.6%
<b>Total Expenses</b>	<b>39.1</b>	<b>40.4</b>	<b>(1.3)</b>	<b>(3.3%)</b>
<b>Increase in Net Assets</b>	<b>\$ 2.3</b>	<b>\$ 3.1</b>	<b>(.8)</b>	<b>(26.8%)</b>

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**  
**(Continued)**

**Major Factors Affecting the Statement of Revenues, Expenses and Changes in Net Assets**

- The decrease in revenue during FY 2008 is primarily due to the fact that there were no major property sales in 2008 as compared to the sale of Ridgebrook Apartments, a project based Substantial Rehabilitation Section 8 property during fiscal year 2007 and there was a decrease in restricted interest from the Capital Fund Financing Program (CFFP) and the Energy Performance contract due to a decrease in the escrow account balances. The Energy Performance contract and Capital Fund Financing Program (CFFP) project fund was completed in 2008. The decrease in expenses during FY 2008 is primarily due to a decrease in staff as well as a decrease in salary and benefit related costs associated with early retirement incentives and voluntary reduction in force that occurred in 2007, a decrease in utilities due to increased leasing of units back in service resulting in less vacant unit utilities as well as a decrease in consumption at the hi-rise properties, and a decrease in worker's compensation insurance due to the decrease in employees from 2007 which resulted in a sizable rebate during 2008.

**Budgetary Highlights**

For the year ended June 30, 2008, budgets were prepared by KCDC and were approved by the Board of Commissioners. The budgets were primarily used as a management tool and have no legal stature. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

As indicated by the excess of revenues over expenses, KCDC's net assets increased during the fiscal year. This increase is indicative of KCDC operating within its budgetary limitations in total, for all its programs.

**Capital Assets and Debt Administration**

**Capital Assets**

As of year end, KCDC had 88.1 million invested in a variety of capital assets as reflected in the following schedule, which represents an increase (addition, deductions and depreciation) of 7.5 million from the end of last year. This net increase is primarily due to the purchase of Valley Oaks Apartments and the increase in Capital Assets from the Energy Performance contract and the renovation work at Christenberry Heights and Lonsdale Homes.

**Table 4 – Capital Assets at Year-End (Net of Depreciation) (in millions)**

	<b>Business-type Activities</b>			
	<b>2008</b>	<b>2007</b>	<b>Variance</b>	<b>% Change</b>
Land	\$ 3.4	\$ 3.2	.2	4.9%
Buildings	162.1	152.0	10.1	6.7%
Furniture and equipment	2.9	3.4	(.5)	(16.2%)
Accumulated depreciation	(116.9)	(110.9)	(6.0)	5.4%
Construction in progress	36.6	32.9	3.7	11.5%
<b>Capital Assets, net</b>	<b>\$ 88.1</b>	<b>\$ 80.6</b>	<b>\$7.5</b>	<b>9.4%</b>

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**  
**(Continued)**

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in the notes to the financial statements.

**Table 5 – Change in Capital Assets**

	<b>Business Type</b>	<b>Activities</b>
<b>Beginning Balance 06/30/2007</b>	<b>\$</b>	<b>80.6</b>
Additions		23.7
Retirements-		
Net of depreciation		(9.6)
Depreciation		(6.6)
<b>Ending Balance 06/30/2008</b>	<b>\$</b>	<b>88.1</b>

**Debt Outstanding**

As of year-end, KCDC had \$ 40.5million in long term debt (bonds, notes, etc.) outstanding compared to \$40.3 last year, showing an \$.2 million increase primarily due to debt assumed from the purchase of Valley Oaks Apartments and the completion of the Energy Performance contract and associated debt with the project. The current portion of outstanding debt decreased by \$2.6 million as a result of the payment of the Civic Building note with SunTrust Bank and the subsequent refinancing with Regions bank over a 25 year term.

**Table 6 – Outstanding Debt, at Year-End (in millions)**

<u><b>Business Type</b></u>	<b>Totals</b>	
	<b>2008</b>	<b>2007</b>
Capital Improvements-Long Term	\$ 39.1	\$ 36.3
Current Portion	1.4	4.0
<b>Total</b>	<b>\$ 40.5</b>	<b>\$ 40.3</b>

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**  
**(Continued)**

**Economic Factors**

Significant economic factors affecting KCDC are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies and other costs

**Financial Contact**

The individuals to be contacted regarding this report are Tracee B. Pross, Vice President of Finance and Administration, KCDC at (865) 755-6433 or Paul G. Bacon, Controller, KCDC at (865) 403-1119. Specific requests may be submitted to Tracee B. Pross, Vice President of Finance and Administration, KCDC, P. O. Box 3550, Knoxville, TN 37927-3550.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
Knoxville, Tennessee

**STATEMENT OF NET ASSETS**  
JUNE 30, 2008

<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents, unrestricted	\$ 12,114,532
Cash and cash equivalents, restricted	1,347,654
Investments, unrestricted	14,699,815
Investments, restricted	5,196,095
Accrued interest receivable net of allowance of \$505,230	154,630
Accounts receivable, net of allowance of \$202,155	324,614
Due from other governments	2,275,655
Inventories, net of allowance of \$95,080	453,299
Notes and mortgages receivable	41,223
Prepaid items	155,986
<b>Total current assets</b>	<u><b>36,763,503</b></u>
<b>Noncurrent assets</b>	
<b>Other assets</b>	
Notes and mortgages receivable	7,977,418
Other	148,669
<b>Total other assets</b>	<u><b>8,126,087</b></u>
<b>Capital assets</b>	
Not being depreciated	40,015,413
Depreciable, net	48,095,772
<b>Total capital assets, net</b>	<u><b>88,111,185</b></u>
<b>Total noncurrent assets</b>	<u><b>96,237,272</b></u>
<b>Total assets</b>	<u><b>133,000,775</b></u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Vendors and contractors payable	661,645
Accrued wages/taxes payable	188,671
Accrued compensated absences	32,233
Accrued interest payable	452,082
Due to other governments	87,959
Deferred revenues	1,602,834
Notes and bonds payable	1,430,914
Other current liabilities	1,285,101
Accrued utilities	281,932
<b>Total current liabilities</b>	<u><b>6,023,371</b></u>
<b>Current liabilities payable from restricted assets</b>	
<b>Resident security deposits</b>	<u><b>13,893</b></u>
<b>Noncurrent liabilities</b>	
Notes and bonds payable	39,125,905
Accrued compensated absences	1,579,382
FSS escrows	89,553
<b>Total noncurrent liabilities</b>	<u><b>40,794,840</b></u>
<b>Total liabilities</b>	<u><b>46,832,104</b></u>
<b>NET ASSETS</b>	
Invested in capital assets	50,751,710
Restricted	4,707,924
Unrestricted	30,709,037
<b>Total net assets</b>	<u><b>\$ 86,168,671</b></u>

The accompanying notes are an integral part of these basic financial statements.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
Knoxville, Tennessee

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>Operating revenues</b>	
Rental revenue	\$ 3,958,509
Other governmental grants	277,806
Other revenue	200,301
<b>Total operating revenues</b>	<u><b>4,436,616</b></u>
<b>Operating expenses</b>	
Administrative	7,147,385
Tenant services	879,151
Utilities	3,068,941
Ordinary maintenance & operation	4,685,976
Protective services	490,253
Insurance	374,954
General expenses	898,354
Housing assistance payments	13,511,613
Depreciation	6,595,553
<b>Total operating expenses</b>	<u><b>37,652,180</b></u>
<b>Operating loss</b>	<u><b>(33,215,564)</b></u>
<b>Nonoperating revenues (expenses)</b>	
HUD grants	30,359,918
Interest revenue, unrestricted	1,431,199
Interest revenue, restricted	187,921
Mortgage interest revenue	144,817
Interest and amortization	(1,371,571)
Fraud recovery	213,694
Other revenue	1,450,805
Other expense	(35,510)
Gain/(loss) on disposition of capital assets	(959,845)
<b>Total nonoperating revenues</b>	<u><b>31,421,428</b></u>
<b>Loss before contributions</b>	<u><b>(1,794,136)</b></u>
<b>Capital contributions</b>	<u><b>4,101,965</b></u>
<b>Increase in net assets</b>	<u><b>2,307,829</b></u>
<b>Net assets, beginning of year, restated</b>	<u><b>83,860,842</b></u>
<b>Net assets, end of year</b>	<u><u><b>\$ 86,168,671</b></u></u>

The accompanying notes are an integral part of these basic financial statements.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION

Knoxville, Tennessee

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008

<b>Cash Flows From Operating Activities</b>	
Receipts from dwelling rentals	\$ 3,857,905
Other receipts	3,075,834
Payments to employees and suppliers	(18,570,227)
Payments to landlords	(13,511,613)
<b>Net cash used by operating activities</b>	<b>(25,148,101)</b>
<b>Cash Flows From Noncapital Financing Activities</b>	
Operating grants	<u>29,792,064</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Capital contributions	4,101,965
Purchases of capital assets	(14,088,297)
Proceeds from disposals of capital assets	(959,845)
Principal paid on capital debt	297,264
Interest paid on capital debt	(1,369,783)
Other receipts	158,784
<b>Net cash used by capital and related financing activities</b>	<b>(11,859,912)</b>
<b>Cash Flows From Investing Activities</b>	
Purchase/sale of investments	10,592,960
Increase in notes receivable	45,139
Interest and dividends	1,722,810
<b>Net cash provided by investing activities</b>	<b>12,360,909</b>
<b>Net increase in cash and cash equivalents</b>	<b>5,144,960</b>
<b>Balance - beginning of the year</b>	<b>8,317,226</b>
<b>Balance - end of the year</b>	<b>\$ 13,462,186</b>
<b>Reconciliation of Cash Flows to Statement of Net Assets</b>	
Cash and cash equivalents, unrestricted	\$ 12,114,532
Cash and cash equivalents, restricted	1,347,654
	<b>\$ 13,462,186</b>

There are no non-cash transactions.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**

**Knoxville, Tennessee**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

**Reconciliation of Net Operating Loss to  
Net Cash Used By Operating Activities**

<b>Operating loss</b>	<b>\$ (33,215,564)</b>
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation elimination	6,595,553
Increase in accounts receivable	(105,353)
Decrease in inventory	110,777
Decrease in prepaid expenses	37,476
Increase in other assets	(148,669)
Increase in security deposits	4,749
Decrease in accounts payable	(801,708)
Decrease in accrued wages	(262,890)
Increase in compensated absences	185,431
Decrease in accrued liabilities	(258,789)
Increase in deferred credits	1,047,914
Prior year restatement	33,983
Fraud recovery, other revenue, other expense and transfers to other entities reported as nonoperating	1,628,989
Interest revenue reported in investing activities	
<b>Net cash used by operating activities</b>	<b><u>\$ (25,148,101)</u></b>

The accompanying notes are an integral part of these basic financial statements.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**A - Summary of Significant Accounting Policies and Organization:**

- 1. Organization** - Knoxville's Community Development Corporation, Inc. ("KCDC") is a public body corporate and politic pursuant to the laws of the State of Tennessee to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U. S. Department of Housing and Urban Development (HUD) and other Federal Agencies. The primary purpose of KCDC is to provide safe, decent, sanitary and affordable housing to low-income, elderly, and handicapped families in Knoxville, Tennessee.
- 2. Reporting Entity** - The governing body of KCDC is its Board of Commissioners, which is composed of seven members appointed by the Mayor of the City of Knoxville. The Board appoints a Chief Executive Officer to administer the business of KCDC. KCDC is not considered a component unit of the City of Knoxville, as the Board independently oversees KCDC's operations.

In determining how to define the reporting entity, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in *Section 2100 and 2600 of the Codification of Governmental Accounting and Financial Reporting Standards and Statement No. 14 (amended), of the Governmental Accounting Standards Board: The Financial Reporting Entity*. These criteria include manifestation of oversight responsibility including financial accountability, appointment of a voting majority, imposition of will, financial benefit to or burden on a primary organization, financial accountability as a result of fiscal dependency, potential for dual inclusion, and organizations included in the reporting entity although the primary organization is not financially accountable. Based upon the application of these criteria, the reporting entity includes the following blended component units:

**Passport Development Corporation** is a Section 115 Corporation acting as KCDC's general partner to the HOPE VI related limited partnerships formed in conjunction with low-income tax credits.

**Knoxville's Housing Development Corporation** is a Section 115 Corporation established to acquire affordable housing projects in the Knoxville area for KCDC.

**Greater Tennessee Housing Assistance Corporation** is a Section 115 Corporation established for the purpose of funding the construction of six Section 8 New Construction housing projects. Five of these six projects have now been sold.

**Family Investment Foundation, Inc.** is a 501(c)(3) Corporation established for charitable, social, vocational, recreational and health purposes, and related business ventures.

**Main programs of KCDC are as follows:**

**Low Rent Public Housing** under Annual Contributions Contract A-2571: This type of housing consists of apartments and single-family dwellings owned and operated by KCDC. Funding is provided by tenant rent payments and subsidies provided by HUD.

**Section 8 Housing Assistance Payments Programs** under Annual Contributions Contract A-3159 (Housing Choice Vouchers, and five Moderate Rehabilitation Programs): These are housing programs wherein low rent tenants lease housing units directly from private landlords rather than through KCDC. KCDC contracts with these private landlords to make assistance payments for the difference between the approved contract rent and the actual rent paid by the low rent tenants.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**A - Summary of Significant Accounting Policies and Organization: (Continued)**

**Main programs of KCDC are as follows: (Continued)**

**Section 8 New Construction Housing Programs**

- Dunlap Gardens - Contract A-82-0920
- Forest Creek - Contract A-82-0918
- Robert Brooks - Contract A-82-0915

KCDC administers these contracts in a manner similar to other Section 8 programs.

**Redevelopment Program** administers CDBG and other projects for the City of Knoxville and Knox County.

**Public Housing Capital Fund Program (CFP)** are funding programs for the modernization, demolition and redevelopment of public housing.

**The Manor**, previously known as the Bridgeview Assisted Living Program, is a program whereby KCDC provides meals, laundry service, and has a twenty-four hour staff available for the special needs of the more dependent elderly tenants. This service is provided to those tenants for a fee.

**Other Programs** administered by KCDC are designed to give assistance to residents in a manner which encourages independence and upward mobility.

- 3. Basis of Presentation and Accounting:** In accordance with uniform financial reporting standards for HUD housing programs, the basic financial statements are prepared in accordance with U. S. generally accepted accounting principles (GAAP).

Based upon compelling reasons offered by HUD, KCDC reports its basic financial statements as a special purpose government engaged solely in business-type activities, which is similar to the governmental proprietary fund type (enterprise fund), which uses the accrual basis of accounting and the flow of economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Pursuant to the election option made available by *GASB Statement No. 20, Pronouncements of the Financial Accounting Standards Board (FASB)* issued after November 30, 1989 are applied in the preparation of the basic financial statements, unless those pronouncements conflict with or contradicts GASB pronouncements.

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

**Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

**Restricted** - Net assets whose use by KCDC is subject to externally imposed stipulations that can be fulfilled by actions of KCDC pursuant to those stipulations or the expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**A - Summary of Significant Accounting Policies and Organization: (Continued)**

**3. Basis of Presentation and Accounting: (Continued)**

**Unrestricted** – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or KCDC Board or may otherwise be limited by contractual agreements with outside parties.

- 4. Budgets:** Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. The capital fund budgets are adopted on a "project length" basis. Budgets are not, however, legally adopted nor legally required for basic financial statement presentation.
- 5. Cash and Cash Equivalents:** For purposes of the Statement of Cash Flows, KCDC considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents.
- 6. Interprogram Receivables and Payables:** Interprogram receivables/payables, when present, are all current, and are the result of the use of the Public Housing Program as the common paymaster for shared costs of KCDC. Cash settlements are made periodically, and all interprogram balances net zero. Offsetting due to/due from balances are eliminated for the basic financial statement presentation.
- 7. Investments:** Investments, when present, are recorded at fair value. Investment instruments consist only of items specifically approved for public housing agencies by HUD.
- 8. Inventories -** Inventories (consisting of materials and supplies) are valued at cost using the moving average method. If inventory falls below cost due to damage, deterioration or obsolescence, KCDC establishes an allowance for obsolete inventory. KCDC relies upon its periodic (annual) inventory for financial reporting purposes. In accordance with the consumption method, inventory is expensed when items are actually placed in service.
- 9. Prepaid Items:** Payments made to vendors for goods or services that will benefit periods beyond the fiscal year end are recorded as prepaid items.
- 10. Use of Estimates:** The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the basic financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
- 11. Fair Value of Financial Instruments:** The carrying amount of KCDC's financial instruments at June 30, 2008 including cash, investments, accounts receivable, and accounts payable closely approximates fair value.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**A - Summary of Significant Accounting Policies and Organization: (Continued)**

**12. Capital Assets:**

- a. Book Value:** All purchased fixed assets are valued at cost when historical records are available. When no historical records are available, fixed assets are valued at estimated historical cost.

Land values were derived from development closeout documentation.

Donated fixed assets are recorded at their fair value at the time they are received.

Donor imposed restrictions are deemed to expire as the asset depreciates.

All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold.

- b. Depreciation:** The cost of buildings and equipment is depreciated over the estimated useful lives of the related assets on a composite basis using the straight-line method.

Depreciation commences on modernization and development additions in the year following completion.

The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

Buildings	27 years
Building modernization	10 years
Appliances	7 years
Office equipment	7 years
Maintenance equipment	5 years
Automobiles	5 years
Community space equipment	5 years
Computer Equipment	3 years

- c. Maintenance and Repairs Expenditures:** Maintenance and repairs expenditures are charged to operations when incurred. Betterments in excess of \$1,000 are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

- 13. Compensated Absences:** Compensated absences are those absences for which employees will be paid, such as vacation and sick leave computed in accordance with *GASB Statement No. 16*. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of KCDC and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of KCDC and its employees are accounted for in the period in which such services are rendered or in which such events take place.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**A - Summary of Significant Accounting Policies and Organization: (Continued)**

- 14. Litigation Losses:** KCDC recognizes estimated losses related to litigation in the period in which the occasion giving rise to the loss occurred, the loss is probable and the loss is reasonably estimable.
- 15. Annual Contribution Contracts:** Annual Contribution contracts provide that HUD shall have KCDC to audit and examine the records of public housing authorities. Accordingly, final determination of KCDC's financing and contribution status for the Annual Contribution Contracts is the responsibility of HUD based upon financial reports submitted by KCDC.
- 16. Risk Management -** KCDC 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. KCDC carries commercial insurance for all identified risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Additionally, there have been no significant reductions in insurance coverage from the prior year.
- 17. Use of Restricted Assets:** It is KCDC's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.
- 18. Operating Revenues and Expenses:** The principal operating revenues of KCDC's enterprise fund are charges to customers for rents and services. Operating expenses for KCDC's enterprise fund include the cost of providing housing and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**B - Deposits and Investments:** For purposes of the Statement of Cash Flows, KCDC considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents.

**1. HUD Deposit and Investment Restrictions**

HUD requires authorities to invest excess HUD program funds in obligations of the United States, certificates of deposit or any other federally insured instruments.

HUD also requires that deposits of HUD program funds be fully insured or collateralized at all times. Acceptable security includes FDIC/FSLIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by KCDC or with an unaffiliated bank or trust company for the account of KCDC.

**2. Deposit and Investment Risks**

KCDC held the following deposits and investments at June 30, 2008:

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**B- Deposits and Investments: (Continued)**

**2. Deposit and Investment Risks**

KCDC held the following deposits and investments at June 30, 2008:

**Deposits:**

	<u>Carrying Value</u>
<b>Demand</b>	<u>\$ 13,460,511</u>

**Investments:**

<u>Type</u>	<u>Maturity Date</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Callable</u>
<b>U.S. Treasury/Agency Securities</b>				
FHLMC	08/04/2008	\$ 360,619	AAA	Yes
FNMTA	08/11/2008	500,625	AAA	Yes
FHLB	08/15/2008	250,313	AAA	No
FHLB	08/21/2008	401,376	AAA	No
FHLB	09/12/2008	452,003	AAA	No
FHLB	09/12/2008	250,782	AAA	No
FNMTA	12/15/2008	552,063	AAA	No
FNMTA	02/17/2009	303,843	AAA	No
FHLB	03/13/2009	506,565	AAA	No
FHLB	03/13/2009	668,666	AAA	No
FHLB	07/19/2009	200,052	AAA	Yes
FFCB	10/20/2009	613,128	AAA	No
FHLB	11/13/2009	680,472	AAA	No
FHLB	12/11/2009	514,220	AAA	No
FFCB	01/04/2010	517,655	AAA	No
FHLB	02/12/2010	266,797	AAA	No
FHLMTC	02/24/2010	260,946	AAA	No
FHLB	03/12/2010	497,190	AAA	No
FHLB	04/13/2010	514,065	AAA	No
FFCB	05/24/2010	640,146	AAA	No
FHLB	06/11/2010	290,587	AAA	No
FHLB	06/23/2010	300,000	AAA	No
FHLB	07/08/2010	378,814	AAA	Yes
FHLMC	07/28/2010	410,004	AAA	Yes
FHLB	08/17/2010	513,440	AAA	No
FHLMC	09/30/2010	500,785	AAA	No
FHLMC	10/18/2010	629,511	AAA	No
FHLMTC	11/19/2010	511,830	AAA	No
FHLB	12/10/2010	620,628	AAA	No
FFCB	01/18/2011	270,479	AAA	No

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
Knoxville, Tennessee

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
(Continued)

**B- Deposits and Investments: (Continued)**

**2. Deposit and Investment Risks (Continued)**

FHLMC	01/18/2011	258,048	AAA	No
FHLMC	02/24/2011	554,025	AAA	No
FHLB	03/11/2011	258,828	AAA	No
FHLB	03/11/2011	246,095	AAA	No
FFCB	04/01/2011	495,625	AAA	Yes
FHLMC	06/09/2011	1,001,320	AAA	Yes
		<u>16,191,545</u>		
<b>Accrued interest</b>		<u>178,862</u>		
<b>Total U.S. Treasury / Agency Securities</b>		<u><b>\$ 16,370,407</b></u>		
<b>- Restricted - HCV</b>		<u>\$ 1,670,593</u>		
<b>- Unrestricted</b>		<u>14,699,814</u>		
		<u><b>\$ 16,370,407</b></u>		
<b>Restricted investments - LRPB</b>				
EPC Fund Reserves		\$ 348,842		
Revenue Fund		127,826		
Debt Service Fund		46,299		
Reserve Fund		1,806,488		
Program Expense Fund		4,777		
Retainage Fund		1,042,463		
		<u>3,376,695</u>		
<b>Restricted investments - GTHAC</b>				
Debt Service Fund		102,755		
Debt Service Reserve		38,178		
Excess Cash		7,875		
		<u>148,808</u>		
<b>Total restricted investments</b>		<u><b>5,196,096</b></u>		
<b>Demand deposits (carrying value)</b>		<u><b>13,460,511</b></u>		
<b>Total deposits and investments</b>		<u><b>33,356,421</b></u>		
Petty cash on hand		1,675		
<b>Total cash and investments</b>		<u><b>\$ 33,358,096</b></u>		
<b>Reconciliation to Statement of Net Assets:</b>				
Cash and cash equivalents, unrestricted		\$ 12,114,532		
Cash and cash equivalents, restricted		1,347,654		
Investments, unrestricted		14,699,815		
Investments, restricted		5,196,095		
		<u><b>\$ 33,358,096</b></u>		

The investments held in the various trust accounts for bond covenant purposes are invested in open-ended mutual funds which are not subject to custodial credit risk because they do not represent specific individual securities.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**B- Deposits and Investments: (Continued)**

**2. Deposit and Investment Risks (Continued)**

**Custodial Credit Risk:** Exposure to custodial credit related to deposits exists when KCDC holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in KCDC's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when KCDC holds investment that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in KCDC's name.

KCDC's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. The investment policy also limits acceptable collateral to U.S. Treasury securities obligation of federal agencies, securities of government-sponsored agencies, and other instruments which may be approved by the U.S. Department of HUD. As required by Federal 12 U.S. C.A., Section 1823(e), all financial institutions pledging collateral to KCDC must have a written collateral agreement approved by the board of directors or loan committee.

The investments held in the various trust accounts for bond covenant purposes are invested in open-ended mutual funds which are not subject to custodial credit risk because they do not represent specific individual securities.

At June 30, 2008, KCDC was not exposed to custodial credit as defined above.

**Investment Credit Risk:** KCDC's investment policy limits unrestricted investments to those allowed by the U.S. Department of HUD. These investment limitations are described in Note A. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. KCDC has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations – rating agencies – as of the year end. Unless there is information to the contrary, obligations of the U. S. government or obligations explicitly guaranteed by the U. S. government are not considered to have credit risk and do not require disclosure of credit quality.

As noted in the schedule of deposits and investment above, at June 30, 2008, the investments held by KCDC mature August 2008 through June 2011. KCDC may sell these investments at fair value at any time.

**Concentration of Investment Credit Risk:** Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of KCDC. Investments issued or explicitly guaranteed by HUD-approved instruments are excluded from this consideration.

Uncollateralized restricted investments are deposited with the Bank of New York in the amount of \$1,800,000. This represents 9% of KCDC's total investment portfolio. The funds are deposited in accordance with Trust Indenture requirements.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
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**C - Accounts Receivable:**

	<u>Due</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net</u>
Residents	\$ 299,108	\$ (202,155)	\$ 96,953
Passport Homes, L.P.	144,122	-	144,122
Headstart	40,732	-	40,732
State of Tennessee	19,206	-	19,206
Other	23,601	-	23,601
	<b><u>\$ 526,769</u></b>	<b><u>\$ (202,155)</u></b>	<b><u>\$ 324,614</u></b>

**D - Due From Other Governments:**

U.S. Department of HUD	\$ 1,879,865
Knox County	395,790
	<b><u>\$ 2,275,655</u></b>

**E - Prepaid Items:**

Prepaid insurance	\$ 145,702
Prepaid contracts	10,284
	<b><u>\$ 155,986</u></b>

**F - Notes and Mortgages Receivable:**

<u>Type</u>	<u>Reference</u>	<u>Current</u>	<u>Long Term</u>	<u>Total</u>
Mortgages	1	\$ 41,223	\$ 1,744,085	\$ 1,785,308
Hope VI loans -				
- Passport Homes LP - a	2	-	359,386	359,386
- Passport Homes LP - b	2	-	1,242,000	1,242,000
- Passport Residencies LP - a	3	-	489,718	489,718
- Passport Residencies LP - b	3	-	2,214,951	2,214,951
- Homebuyers forgivable - a	4	-	64,629	64,629
Redevelopment loan				
- Passport Homes LP	2	-	592,139	592,139
Capital fund loan				
- Passport Residences LP	3	-	270,510	270,510
Ridgebrook	5		1,000,000	1,000,000
<b>TOTALS</b>		<b><u>\$ 41,223</u></b>	<b><u>\$ 7,977,418</u></b>	<b><u>\$ 8,018,641</u></b>

**1. Mortgage Notes Receivable** – During 1982, the Greater Tennessee Housing Assistance Corporation (GTHAC) financed six (6) low-income housing projects through the issuance of bonds. In previous years, GTHAC sold five (5) properties and extinguished all related notes. At June 30, 2008, GTHAC had one remaining note due from Forest Creek Apartments, L.P.

This project is secured by, and subject to, revenue support from KCDC's Section 8 Housing Assistance Program over the life of the bond issue.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
Knoxville, Tennessee

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
(Continued)

**F - Notes and Mortgages Receivable: (Continued)**

**5. Ridgebrook Promissory Note** – KCDC sold Ridgebrook Apartment complex resulting in a promissory note receivable of \$1,000,000 dated May 1, 2007. The terms of the note have a per annum interest rate of 6% simple interest or 4.8% compounded monthly which ever is greater. The note allows for prepayment by borrower but was not paid off during the fiscal year as expected. The borrower is required to make periodic payments in an amount equal to 50% of borrower's net cash flow as defined in agreement. Net cash flow did not exist as of June 30, 2008 and therefore, no payments were made. The entire outstanding balance of the indebtedness including all accrued but unpaid interest shall be fully due and payable on the earlier to occur of: June 1, 2047 or upon sale of property by borrower. The Ridgebrook Apartment complex was part of the Section 8 Substantial Rehabilitation program with 144 units.

**G - Land, Buildings and Equipment:**

	Balance June 30, 2007	Additions	Transfers and Deletions	Transfers	Balance June 30, 2008
<b>Not being depreciated:</b>					
Land	\$ 3,212,977	\$ 156,206	\$ -	\$ -	\$ 3,369,183
Construction in progress	32,859,092	12,468,215	(8,681,077)	-	36,646,230
<b>Total not being depreciated</b>	<b>36,072,069</b>	<b>12,624,421</b>	<b>(8,681,077)</b>	<b>-</b>	<b>40,015,413</b>
<b>Depreciable:</b>					
Buildings & improvements	152,048,787	11,016,161	(933,500)	-	162,131,448
Accumulated depreciation	(108,051,395)	(6,389,323)	69,148	-	(114,371,570)
<b>Net buildings &amp; improvements</b>	<b>43,997,392</b>	<b>4,626,838</b>	<b>(864,352)</b>	<b>-</b>	<b>47,759,878</b>
Equipment	3,419,201	91,468	(643,935)	-	2,866,734
Accumulated depreciation	(2,870,221)	(206,230)	551,377	(5,766)	(2,530,840)
<b>Net equipment</b>	<b>548,980</b>	<b>(114,762)</b>	<b>(92,558)</b>	<b>(5,766)</b>	<b>335,894</b>
<b>Net depreciable assets</b>	<b>44,546,372</b>	<b>4,512,076</b>	<b>(956,910)</b>	<b>(5,766)</b>	<b>48,095,772</b>
<b>TOTAL</b>	<b>\$ 80,618,441</b>	<b>\$ 17,136,497</b>	<b>\$ (9,637,987)</b>	<b>\$ (5,766)</b>	<b>\$ 88,111,185</b>

**H - Due to Other Governments:**

U.S. Department of Housing and Urban Development (HUD)	\$ 1,935
City of Knoxville (PILOT)	86,024
	<b>\$ 87,959</b>

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
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**I - Deferred Revenues:**

Operating subsidy (HUD)	\$ 1,083,160
Development advances	349,427
Resident participation	95,158
Prepaid rents	69,307
Other	<u>5,782</u>
	<b><u>\$ 1,602,834</u></b>

**J - Notes and Bonds Payable:**

All of the following notes and bonds payable are secured directly by real property which was financed.

1. KCDC issued a promissory note to SunTrust Bank in the amount of \$3,250,000 (interest at 4.9% annum). The proceeds from the loan were utilized to reimburse KCDC for construction of a Civic Building which provides office space for the Tennessee Department of Labor as part of the overall HOPE VI strategy in the Mechanicsville community. The note was paid in full on March 1, 2008 and refinanced through Regions Bank in the amount of \$2,803,426. The note bears interest at 2.85% annum. The note is to be paid in monthly increments of \$13,076 for a 25 year term ending March 10, 2033. The outstanding balance as of June 30, 2008 was \$2,784,571.

	<u>Principal</u>	<u>Interest</u>
2009	\$ 78,591	\$ 78,326
2010	80,861	76,057
2011	83,196	73,722
2012	85,598	71,320
2013	88,070	68,848
2014-2018	479,995	304,594
2019-2023	553,414	231,175
2024-2028	638,063	146,525
2029-2033	<u>696,783</u>	<u>49,022</u>
	<b><u>\$ 2,784,571</u></b>	<b><u>\$ 1,099,589</u></b>

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**J - Notes and Bonds Payable: (Continued)**

2. On July 1, 1992, GTHAC issued Mortgage Revenue Bonds totaling \$6,520,000. These bonds were issued to provide refinancing to fund two FHA mortgage loans made to two (2) owners of multifamily rental residential developments in Tennessee, occupied by individuals of low income within the meaning of Section 8 of the U.S. Housing Act. These are term bonds called serially at par, not taxable and pay interest at 7.25% per annum. The final call date is July 1, 2024. Principal balance at June 30, 2008 is \$1,765,000. The related unamortized discount is \$68,194. Currently, all notes are being called, and this note is expected to be paid in full in the near future. The trustee has instructed KCDC to make no further payments of principal or interest. The principal maturities of these bonds are as follows:

	<b>Principal</b>
2009	\$ 122,738
2010	50,000
2011	60,000
2012	62,000
2013	65,000
2014-2019	575,000
2020-2024	830,262
Unamortized discount	<u>( 68,194)</u>
	 <b><u>\$ 1,696,806</u></b>

3. In July 2000, KCDC issued a note to the City of Knoxville, Tennessee in the amount of \$2,540,000. Proceeds from the note were used by KCDC in its Hope VI project in the historic Mechanicsville Redevelopment Area. The note is primarily payable from and secured by a pledge of the Tax Increment Revenues. In the event of a deficiency in such Tax Increment Revenues, this note is generally payable from the Authority's income and revenues. The principal balance is payable on the second business day prior to May 1 and November 1 of each year beginning on November 1, 2000. The outstanding balance as of June 30, 2008 is \$2,009,800. Future projected payments are as follows:

	<b>Principal</b>	<b>Interest</b>
2009	\$ 134,400	\$ 90,168
2010	138,100	86,136
2011	141,800	81,993
2012	147,100	77,385
2013	152,300	72,420
2014-2018	879,500	240,260
2019-2020	<u>416,600</u>	<u>31,505</u>
	 <b><u>\$ 2,009,800</u></b>	 <b><u>\$ 679,867</u></b>

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**J - Notes and Bonds Payable: (Continued)**

4. On April 15, 2004, KCDC issued a promissory note to SunTrust Bank in the amount of \$2,470,155. The proceeds from the loan were utilized to reimburse KCDC for construction of a Head Start building in order to provide preschool education for qualified low income eligible children. The note bears interest at 3.2% per annum. The note is to be paid in monthly increments of \$11,869, with the remaining balance to be paid January 15, 2010. The outstanding balance as of June 30, 2008 was \$2,251,818. Future projected payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2009	\$ 72,294	\$ 70,128
2010	<u>2,179,524</u>	<u>37,967</u>
	<b><u>\$ 2,251,818</u></b>	<b><u>\$ 108,095</u></b>

5. KCDC pledged a portion of its annual Capital Fund Program Grant from HUD to secure allocable portion of Bonds issued by KCDC. KCDC's net proceeds, \$22,540,000 is being used to acquire, construct, equip, renovate and improve public housing developments owned and operated by KCDC for rental to be occupied by qualified tenants under the applicable HUD rules and regulations. The bonds are designated "Capital Program Revenue Bonds, Series 2004". The entire proceeds of \$22,540,000 were deposited with the Trustee (Bank of New York), which has been authorized and directed to apply and disburse such monies for the purposes and in the order specified in the Master Trust Indenture. The outstanding balance as of June 30, 2008 was \$20,865,000. The Bonds are payable as follows:

	<u>Principal</u>	<u>Interest</u>
2009	\$ 875,000	\$ 841,408
2010	900,000	818,658
2011	930,000	782,758
2012	960,000	748,483
2013	1,000,000	710,483
2014-2018	5,705,000	2,812,190
2019-2023	7,145,000	1,334,814
2024-2025	<u>3,350,000</u>	<u>62,431</u>
	<b><u>\$ 20,865,000</u></b>	<b><u>\$ 8,111,225</u></b>

6. On November 9, 2006, KCDC entered into a Master Equipment Lease – Purchase Agreement with National City Commercial Capital Corporation. This agreement is the financing mechanism used to fund the energy equipment replacements and renovations included in the Energy Performance Contract between KCDC and Ameresco, Inc. Energy Performance Contracting is an innovative financing technique that uses cost savings from reduced energy consumption to repay the cost of installing energy conservation measures. The lease payments will begin twenty-two (22) months after the start of capital improvements which began in November 2006 resulting in the first payment being made October 2008. HUD has encouraged Housing Agencies such as KCDC to participate in such Energy Performance Contracts. As a result, KCDC has an outstanding balance on this capital lease as of June 30, 2008 of \$9,971,426. The capital lease is payable as follows:

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

(Continued)

**J - Notes and Bonds Payable: (Continued)**

	<u>Principal</u>	<u>Interest</u>
2009	\$ 147,891	\$ 454,191
2010	326,390	441,120
2011	341,586	425,924
2012	357,489	410,020
2013	374,133	393,377
2014	391,552	375,958
2015-2019	2,248,786	1,588,762
2020-2024	2,823,348	1,014,199
2025-2029	<u>2,960,251</u>	<u>301,664</u>
	<b><u>\$ 9,971,426</u></b>	<b><u>\$ 5,405,215</u></b>

7. On March 31, 2008, KCDC purchased Valley Oaks Apartments, a Section 8 project based property from Knox Housing Partnership in the amount of \$63,977. As a condition of the sale, KCDC assumed two forgivable notes as detailed below:

In 2006, Knox Housing Partnership entered into a forgivable loan agreement with the City of Knoxville. The City agreed to provide a loan to the Partnership in the amount of \$480,000 in funding under the Home Investment Partnership Program (HOME) for the purpose of stairs replacement and rehabilitation. The Partnership agreed to maintain all HOME assisted rental units in compliance with Section 8 Housing Quality Standards for at least ten years following the completion of the improvements. Assuming the Project meets eligibility criteria, the loan will be forgiven at the rate of 1.67% (1/60<sup>th</sup>) per month, beginning February, 2012, with the entire loan forgiven in ten years after project completion.

On August 29, 1994, Knox Housing Partnership purchased Valley Oaks Apartments from HUD for a cost of \$1. In exchange for this bargain purchase price, the Partnership agreed to maintain the property as rental or cooperative housing for a period of thirty years. Because of the stipulations in the purchase contract, the project recorded the apartment buildings and land at their fair market value of \$497,400 less the cost of \$1 actually paid. As the HUD requirements are met for the purchase of this property at the bargain price, the Forgivable HUD Advance in the amount of \$497,399 will be reduced and a HUD contribution recognized as follows:

25% of the \$497,399 or \$124,350 on August 30, 2009  
25% of the \$497,399 or \$124,350 on August 30, 2014  
50% of the \$497,399 or \$248,699 on August 30, 2024

The outstanding balance as of June 30, 2008 was \$977,399.

8. The Housing Authority as the Redevelopment agency for the City of Knoxville has entered into tax increment financing agreements between various developers and various financial institutions to help developers secure financing within the redevelopment area. The debt is non-recourse debt to KCDC. These agreements are designed to give developers an incentive to redevelop vacant downtown property. The tax increment financing agreement is between KCDC, the developer, and the financial institution. The property tax payments as well as the equity in the property are used as collateral as well as the developer's personal guarantee on the loan. The following tax increment financing agreements have been issued by KCDC:

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**J - Notes and Bonds Payable: (Continued)**

**Tax Increment Financing Summary**

<u>Redevelopment Project</u>	<u>Location</u>	<u>Principal(s)</u>	<u>Date Approved</u>	<u>TIF Amount</u>	<u>Capital Investment</u>
1. Jackson / Depot (Fire Street Lofts)	214 Jackson	David Dewhirst 214 Jackson, LLC	9-28-04	\$1,100,000	\$6,400,000
2. Jackson / Depot (Commerce Building)	122-126 Gay	ELOC Dev. One, LLC Cole Smith	10-25-05	\$735,000	\$6,100,000
3. Gay Street Burwell Building	602 S. Gay	Cardinal Investment Properties, LLC Brian Conley	10-25-05	\$1,100,000	\$7,450,000
4. *Gay Street (Charter Federal Building)	123 S. Gay	HNB Development, LLC Thomas Grace & Dewhirst	10-25-05	\$1,750,000	\$13,725,000
5. World's Fair Park (Candy Factory & Houses)	Clinch & 11 <sup>th</sup> St.	Kinsey, Probasco, Hays	1-17-06	\$1,600,000	\$13,407,000
6. Old Knoxville Glove Factory	445 W. Blount Avenue	Camden Mgm't Inc. & Focus Development, Inc John Gumpert & Brad Johnson	3-28-06	\$2,800,000	\$27,550,330
7. Gay Street (Mast General Store - Top 3 floors)	402 Gay	Gay Street Development Partners, LLC John Craig, Wayne Balsius & Faris Eid	8-1-2006	\$850,000	\$6,401,000
8. Gay Street (Crimson Building)	302 S. Gay St.	Crimson Inferno, LLC Jeffery Nash, Buzz Gross	3-13-2007	\$350,000	\$4,912,572
9. Downtown North / I-275 (Greystone Building)	912 N. Central Avenue	North Central Village, LLC Jeffery Nash	4-9-2007	\$200,000	\$2,031,639
10. Jackson / Depot (JFG Warehouse)	129 W. Jackson	Testerman, Testerman & Buckner, LCC Building Project Kyle Testerman	7-31-2007	\$400,000	\$4,174,256
11. Gay Street (News Sentinel Towers)	208 W. Church Street	Devon Group Jill VanBeke	8-28-2007	\$8,500,000	\$56,229,500
12. Brownlow (Brownlow School)	1305 Luttrell	KP Jon Kinsey	9-27-2007	\$575,000	\$5,450,000
13. Jackson/Depot (JFG Lofts)	200-202 W. Jackson	Dewhirst Properties David Dewhirst	1-29-2008	\$930,000	\$7,560,000
14. Jackson/Depot (SE Glass Building)	100 N. Broadway	Conversion Properties Joe Petre	6-17-2008	\$460,123	\$4,103,976
15. Gay Street (500 Block)	516-524 Gay St.	500 Block LLC John Craig	7-29-2008	\$814,000	\$4,908,189

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**K - Other Current Liabilities:**

Contract retainages	\$ 1,234,444
FSA match	31,243
Tenant refunds	12,174
Escheat	<u>7,240</u>
	<b><u>\$1,285,101</u></b>

**L - Other Accrued Liabilities:**

Utilities	\$ 277,505
Other	<u>4,427</u>
	<b><u>\$ 281,932</u></b>

**M - Capitalized Interest Costs:**

KCDC capitalizes interest cost incurred on funds used to construct or renovate structures. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. There was no interest cost capitalized in 2008. Interest cost expensed was \$1,371,571.

**N - Schedule of Changes in Noncurrent Liabilities:**

	June 30, 2007		Year Ended June 30, 2008				
	Long-term Portion	Current Portion	Additions	Payments	Total	Current Portion	Long-term Portion
Notes and bonds payable	\$ 36,308,474	\$ 3,951,081	\$ 977,400	\$ (680,136)	\$40,556,819	\$ 1,430,914	\$ 39,125,905
Accrued compensated absences	1,243,571	182,613	310,431	(125,000)	1,611,615	32,233	1,579,382
Other accrued liabilities	-	-	89,553	-	89,553	-	89,553
	<u>\$ 37,552,045</u>	<u>\$ 4,133,694</u>	<u>\$ 1,377,384</u>	<u>\$ (805,136)</u>	<u>\$42,257,987</u>	<u>\$ 1,463,147</u>	<u>\$ 40,794,840</u>

**O - Annual Contributions by Federal Agencies:**

**Annual Contributions Contract A-2571** – Pursuant to the Annual Contributions Contract, HUD contributes an operating subsidy for low-rent public housing. The operating subsidy contributions for the year ended June 30, 2008 were \$12,372,004. HUD also contributed additional funds through the Capital Fund Program for modernization and operations in the amount of \$6,236,404.

**Annual Contributions Contract A-3159** – Annual Contributions Contract A-3159 for Section 8 programs provides for housing assistance payments to private owners of residential units on behalf of eligible low or very low-income families. The program provides for such payments with respect to existing and moderately rehabilitated housing covering the difference between the maximum rental on a dwelling unit, and the amount of rent contribution by a participating family and related administrative expense. KCDC is also eligible to receive reimbursement for preliminary expenses prior to lease up.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**O - Annual Contributions by Federal Agencies: (Continued)**

HUD contributions for the year ended June 30, 2008, were as follows:

Housing Choice Vouchers	\$ 14,472,838
Section 8 Moderate Rehabilitation	471,345
Mainstream Vouchers	429,903
Disaster Vouchers	<u>5,473</u>
	<b><u>\$ 15,379,559</u></b>

**Housing Assistance Payments Contracts** – Housing Assistance Payments Contracts are for Section 8 Housing programs which provide for housing assistance payments to owners of newly constructed housing units on behalf of eligible low or very low income families. The program provides for the difference between the maximum rental on a dwelling unit, and the amount of rent contributed by a participating family and related administrative expense. HUD contributions for the year ended June 30, 2008 were \$473,916.

Additional funding for project modernization and development and for resident services is provided by HUD and other federal agencies as detailed in the "Schedule of Expenditures of Federal Awards and State Financial Assistance" contained within this report.

- P - Defined Contribution Pension Plan:** KCDC provides pension benefits for all its full-time employees through a defined contribution plan entitled "Housing Authority Retirement Trust (HART)". The plan is administered by ADP. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The HART Trustees are authorized to establish and amend plan benefits. Employees are eligible to participate six months after the date of employment. KCDC contributes approximately 12.8% of the employee's base salary each month for employees hired prior to November 1, 2006. For employees hired after October 31, 2006 the employer contribution is 8.8%, while the employee has no required contribution. KCDC's contributions for each employee (and interest allocated to the employee's account) are fully vested after 7 years of continuous service. KCDC contributions for, and interest forfeited by, employees who leave employment before vesting are used to reduce KCDC's current-period contribution requirement.

KCDC's total payroll in fiscal year 2008 was \$7,478,580. Payroll covered by the pension plan was \$6,765,789. KCDC made the required contributions amounting to \$860,251, and employees made elective contributions of \$11,638.

- Q - Post-Employment Health Plan Benefits:** KCDC provides for the accumulation of tax-free monies to be used for health-related costs in a benefit plan known as the "Post Employment Health Plan" administered by Nationwide. The Plan is an agent multiple-employer defined benefit OPEB plan.

KCDC contributes a fixed amount of \$15 per month to each participating employee's universal PEHP account. All regular, full-time employees are enrolled in the plan on the first day of the month following completion of three years of service. Benefits and options are outlined in literature made public by Nationwide, or may be accessed on-line at [www.nrsforu.com](http://www.nrsforu.com). Contributions to the PEHP are determined by the Board of Commissioners of KCDC. PEHP benefits available to KCDC employees are established and amended by the PEHP trustees.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**Q - Post-Employment Health Plan Benefits: (Continued)**

KCDC funds the program in a fixed amount per month per participant, and has net all financial obligations of the PEHP. Additionally, KCDC has accrued a liability for PEHP which relate to sick leave conversions which may become available in the future.

The employee does not contribute to this plan.

**R - Economic Dependency:** KCDC receives approximately 81% of its revenues from HUD. If the amount of revenues received from HUD falls below critical levels, KCDC's reserves could be adversely affected.

**S - Contingencies:** KCDC is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to KCDC in the current and prior years. No such examinations were conducted by HUD for the year ended June 30, 2008.

**T - Conduit Type Debt:** Debt related to the original acquisition and early modernization of the public housing developments is funded, guaranteed and serviced by HUD. There is no debt or pledge of faith and credit on part of KCDC. Accordingly, this debt has not been recorded in the basic financial statements of KCDC. Additionally, HUD no longer provides debt service information to KCDC.

**U - Commitments:** KCDC is engaged in modernization programs funded by HUD. In this regard, KCDC has entered into construction-type contracts with approximately \$1,967,623 remaining until completion.

**V - Leasing Activities (as Lessor):** KCDC is the lessor of dwelling units mainly to low-income residents. The rents under the leases are determined generally by the resident's income as adjusted for eligible deductions regulated by HUD, although the resident may opt for a flat rent. Leases may be cancelled by the lessee at any time. KCDC may cancel the lease only for cause.

Revenues associated with these leases are recorded in the financial statements and schedules as "Rental Revenue". Rental Revenue per dwelling unit generally remains consistent from year to year, but is affected by general economic conditions which impact personal income and local job availability.

**W - Interprogram Transfers:** KCDC will make cash transfers to and between its various programs as outlined in the Federal Regulations and authorized and approved by KCDC's Board of Commissioners. All these programs are part of the Enterprise Fund, therefore there are no interfund transfers.

**X - Other Leases:** KCDC has entered into a 55-year ground lease with Passport Homes, L.P. for the development of HOPE VI housing.

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Continued)**

**Y - Schedule of Changes in Net Assets:**

	<b>Invested in Capital Assets - Net of Related Debt</b>	<b>Restricted Net Assets</b>	<b>Unrestricted Net Assets</b>	<b>Total</b>
<b>Balance - beginning of year</b>	<b>\$ 50,725,645</b>	<b>\$1,710,843</b>	<b>\$31,390,371</b>	<b>\$ 83,826,859</b>
Adjustments to restate beginning balance	3,264	-	30,719	33,983
<b>Balance - beginning of year, restated</b>	<b>50,728,909</b>	<b>1,710,843</b>	<b>31,421,090</b>	<b>83,860,842</b>
Increase in investment in capital assets	21,059	-	-	21,059
Increase in restricted net assets	-	2,997,081	-	2,997,081
Decrease in unrestricted net assets	-	-	(712,053)	(712,053)
<b>Balance - end of year</b>	<b>\$ 50,749,968</b>	<b>\$4,707,924</b>	<b>\$30,709,037</b>	<b>\$ 86,166,929</b>
<b>Adjustments to restate beginning balance</b>				
HOPE VI homeowner second mortgage adjustments	\$ -	\$ -	\$ (8,556)	\$ (8,556)
Correct of prior year Ridgebrook sale proceeds(KHDC)	-	-	(55,155)	(55,155)
Correct of prior year EVI income (KHDC)	-	-	(148,670)	(148,670)
Fixed Asset related adjustments	3,264	-	-	3,264
CF Soft Cost adjustment (216); PYA Admin Fee (2646)	-	-	2,862	2,862
Correction of prior year equity (322 AMP) (240,233),rounding (5)	-	-	240,238	240,238
<b>Net adjustments to restate beginning balance</b>	<b>\$ 3,264</b>	<b>\$ -</b>	<b>\$ 30,719</b>	<b>\$ 33,983</b>

**SUPPLEMENTAL INFORMATION**

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
Knoxville, Tennessee

**COMBINING SCHEDULE OF NET ASSETS**  
JUNE 30, 2008

	Total AMPs	Housing Choice Vouchers	Supportive Housing - Disabilities (Mainstream)	Business Activity	Central Office Cost Center	MOD Rehab I	MOD Rehab II
<b>ASSETS</b>							
<b>Current assets</b>							
Cash and cash equivalents, unrestricted	\$ 7,778,514	\$ 54,693	\$ -	\$ 1,258,940	\$ 2,048,642	\$ 2,171	\$ -
Cash and cash equivalents, restricted	-	1,285,769	-	-	-	-	-
Investments, unrestricted	2,691,714	320,343	-	235,850	224,445	1,473	40,893
Investments, restricted	3,376,694	1,670,593	-	-	-	-	-
Accrued interest receivable net of allowance of \$505,234	13,670	10,107	-	1,197	1,140	-	208
Accounts receivable, net of allowance of \$202,155	47,312	56,467	-	4,488	150,339	-	-
Due from other governments	1,798,048	32,891	8,751	-	-	-	10,971
Inventories, net of allowance of \$95,080	433,850	-	-	-	19,449	-	-
Notes and mortgages receivable	-	-	-	-	-	-	-
Prepaid items	130,543	7,436	-	-	12,472	-	-
<b>Total current assets</b>	<b>16,270,345</b>	<b>3,438,299</b>	<b>8,751</b>	<b>1,500,475</b>	<b>2,456,487</b>	<b>3,644</b>	<b>52,072</b>
<b>Noncurrent assets</b>							
<b>Other assets</b>							
Notes and mortgages receivable	4,576,565	-	-	-	-	-	-
Other	109,230	-	-	-	-	-	-
<b>Total other assets</b>	<b>4,685,795</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Capital assets</b>							
Not being depreciated	39,577,132	-	-	-	-	-	-
Depreciable, net	40,621,740	-	-	1,068	1,493	-	-
<b>Total capital assets, net</b>	<b>80,198,872</b>	<b>-</b>	<b>-</b>	<b>1,068</b>	<b>1,493</b>	<b>-</b>	<b>-</b>
<b>Total noncurrent assets</b>	<b>84,884,667</b>	<b>-</b>	<b>-</b>	<b>1,068</b>	<b>1,493</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>101,155,012</b>	<b>3,438,299</b>	<b>8,751</b>	<b>1,501,543</b>	<b>2,457,980</b>	<b>3,644</b>	<b>52,072</b>
<b>LIABILITIES</b>							
<b>Current liabilities</b>							
Vendors and contractors payable	543,598	16,447	6,105	16,590	20,565	-	3,162
Accrued wages/taxes payable	103,386	9,532	-	860	57,526	-	-
Accrued compensated absences	9,482	1,487	-	307	17,768	-	-
Accrued interest payable	429,497	-	-	-	-	-	-
Due to other governments	86,024	-	-	-	-	1,935	-
Deferred revenues	1,182,240	63,873	-	-	-	-	-
Notes and bonds payable	1,022,891	-	-	-	-	-	-
Other current liabilities	1,247,743	40	-	112	1,575	-	-
Accrued utilities	272,150	-	-	-	5,173	-	-
<b>Total current liabilities</b>	<b>4,897,011</b>	<b>91,379</b>	<b>6,105</b>	<b>17,869</b>	<b>102,607</b>	<b>1,935</b>	<b>3,162</b>
<b>Current liabilities payable from restricted assets</b>							
<b>Resident security deposits</b>							
-	-	-	-	-	-	-	-
<b>Noncurrent liabilities</b>							
Notes and bonds payable	29,813,535	-	-	-	-	-	-
Accrued compensated absences	464,568	72,857	-	15,058	870,622	-	-
FSS escrows	-	89,553	-	-	-	-	-
<b>Total noncurrent liabilities</b>	<b>30,278,103</b>	<b>162,410</b>	<b>-</b>	<b>15,058</b>	<b>870,622</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>35,175,114</b>	<b>253,789</b>	<b>6,105</b>	<b>32,927</b>	<b>973,229</b>	<b>1,935</b>	<b>3,162</b>
<b>NET ASSETS</b>							
Invested in capital assets	50,862,984	-	-	1,068	1,493	-	-
Restricted	1,555,892	2,866,809	-	-	-	-	-
Unrestricted	13,561,022	317,701	2,646	1,467,548	1,483,258	1,709	48,910
<b>Total net assets</b>	<b>\$ 65,979,898</b>	<b>\$ 3,184,510</b>	<b>\$ 2,646</b>	<b>\$ 1,468,616</b>	<b>\$ 1,484,751</b>	<b>\$ 1,709</b>	<b>\$ 48,910</b>

MOD Rehab III	MOD Rehab IV	MOD Rehab VI	Other Federal Program (DVP)	Sect 8 HAP-Special Alloc (Valley Oaks)	N/C S/R Section 8 Pgms	State/Local	Component Units	Elimination	Total
\$ 6,211	\$ 21,603	\$ 213	\$ -	\$ 7,699	\$ 17,793	\$ 144,101	\$ 773,952	\$ -	\$ 12,114,532
-	-	-	-	52,022	-	-	9,863	-	1,347,654
39,653	50,812	8,943	-	-	285,184	435,200	10,365,305	-	14,699,815
-	-	-	-	-	-	-	148,808	-	5,196,095
201	258	46	-	-	1,447	2,209	124,147	-	154,630
-	-	-	-	1,168	-	1,603	63,237	-	324,614
366	1,675	1,535	-	1,826	23,802	179,506	216,284	-	2,275,655
-	-	-	-	-	-	-	-	-	453,299
-	-	-	-	-	-	-	41,223	-	41,223
-	-	-	-	1,921	-	-	3,614	-	155,986
<b>46,431</b>	<b>74,348</b>	<b>10,737</b>	<b>-</b>	<b>64,636</b>	<b>328,226</b>	<b>762,619</b>	<b>11,746,433</b>	<b>-</b>	<b>36,763,503</b>
-	-	-	-	-	-	592,139	2,808,714	-	7,977,418
-	-	-	-	-	-	-	39,439	-	148,669
-	-	-	-	-	-	592,139	2,848,153	-	8,126,087
-	-	-	-	156,206	-	48,000	234,075	-	40,015,413
-	-	-	-	806,811	-	-	6,664,660	-	48,095,772
-	-	-	-	963,017	-	48,000	6,898,735	-	88,111,185
-	-	-	-	963,017	-	640,139	9,746,888	-	96,237,272
<b>46,431</b>	<b>74,348</b>	<b>10,737</b>	<b>-</b>	<b>1,027,653</b>	<b>328,226</b>	<b>1,402,758</b>	<b>21,493,321</b>	<b>-</b>	<b>133,000,775</b>
-	-	-	-	-	-	43,535	11,643	-	661,645
-	-	-	-	1,148	547	7,685	7,987	-	188,671
-	-	-	-	-	-	3,174	15	-	32,233
-	-	-	-	-	-	-	22,585	-	452,082
-	-	-	-	-	-	-	-	-	87,959
-	-	-	-	1,825	-	349,427	5,469	-	1,602,834
-	-	-	-	-	-	-	408,023	-	1,430,914
-	-	-	-	-	-	467	35,164	-	1,285,101
-	-	-	-	4,427	-	115	67	-	281,932
-	-	-	-	7,400	547	404,403	490,953	-	6,023,371
-	-	-	-	3,936	-	-	9,957	-	13,893
-	-	-	-	977,399	-	-	8,334,971	-	39,125,905
-	-	-	-	-	-	155,528	749	-	1,579,382
-	-	-	-	-	-	-	-	-	89,553
-	-	-	-	977,399	-	155,528	8,335,720	-	40,794,840
-	-	-	-	988,735	547	559,931	8,836,630	-	46,832,104
-	-	-	-	(14,382)	-	48,000	(147,453)	-	50,751,710
-	-	-	-	47,913	-	-	237,310	-	4,707,924
46,431	74,348	10,737	-	5,387	327,679	794,827	12,566,834	-	30,709,037
<b>\$ 46,431</b>	<b>\$ 74,348</b>	<b>\$ 10,737</b>	<b>\$ -</b>	<b>\$ 38,918</b>	<b>\$ 327,679</b>	<b>\$ 842,827</b>	<b>\$ 12,656,691</b>	<b>\$ -</b>	<b>\$ 86,168,671</b>

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
Knoxville, Tennessee

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Total AMPs	Housing Choice Vouchers	Supportive Housing - Disabilities (Mainstream)	Business Activity	Central Office Cost Center	MOD Rehab I	MOD Rehab II
<b>Operating revenues</b>							
Rental revenue	\$ 3,835,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fee revenue	-	-	-	-	4,541,149	-	-
Other governmental grants	-	-	-	-	-	-	-
Other revenue	194,630	-	-	-	-	-	-
<b>Total operating revenues</b>	<b>4,030,345</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,541,149</b>	<b>-</b>	<b>-</b>
<b>Operating expenses</b>							
Administrative	4,487,059	1,329,711	58,212	72,654	2,681,089	1,273	14,610
Asset management fee	437,780	-	-	-	-	-	-
Tenant services	655,656	71,293	-	152,202	-	-	-
Utilities	2,982,367	-	-	-	77,169	-	-
Ordinary maintenance & operation	4,528,087	42,541	-	233	1,008,152	-	-
Protective services	490,253	-	-	-	-	-	-
Insurance	310,139	14,647	-	736	36,139	-	-
General expenses	433,292	198,727	-	13,327	116,901	-	-
Housing assistance payments	-	12,300,527	371,691	-	-	6,350	105,036
Depreciation	6,263,270	4,615	-	214	373	-	-
<b>Total operating expenses</b>	<b>20,587,903</b>	<b>13,962,061</b>	<b>429,903</b>	<b>239,366</b>	<b>3,919,823</b>	<b>7,623</b>	<b>119,646</b>
<b>Operating income (loss)</b>	<b>(16,557,558)</b>	<b>(13,962,061)</b>	<b>(429,903)</b>	<b>(239,366)</b>	<b>621,326</b>	<b>(7,623)</b>	<b>(119,646)</b>
<b>Nonoperating revenues (expenses)</b>							
HUD grants	14,506,443	14,472,838	429,903	-	-	8,401	119,647
Interest revenue, unrestricted	393,616	139,643	-	16,623	30,207	180	2,902
Interest revenue, restricted	177,352	-	-	-	-	-	-
Mortgage interest revenue	-	-	-	-	-	-	-
Interest and amortization	(930,460)	-	-	-	-	-	-
Fraud recovery	38,233	174,905	-	-	-	-	-
Other revenue	465,727	7,610	-	239,638	9,674	-	-
Other expense	(31,907)	-	-	-	-	-	-
Gain/(loss) on disposition of capital assets	(94,239)	(271)	-	-	-	-	-
<b>Total nonoperating revenues</b>	<b>14,524,765</b>	<b>14,794,725</b>	<b>429,903</b>	<b>256,261</b>	<b>39,881</b>	<b>8,581</b>	<b>122,549</b>
<b>Income (loss) before contributions and transfers</b>	<b>(2,032,793)</b>	<b>832,664</b>	<b>-</b>	<b>16,895</b>	<b>661,207</b>	<b>958</b>	<b>2,903</b>
<b>Capital contributions</b>	<b>4,101,965</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Transfers from (to) other programs</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,171,105</b>	<b>(1,171,105)</b>	<b>-</b>	<b>-</b>
<b>Transfers from (to) other entities</b>	<b>159,451</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,994,649</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net assets</b>	<b>2,228,623</b>	<b>832,664</b>	<b>-</b>	<b>1,188,000</b>	<b>1,484,751</b>	<b>958</b>	<b>2,903</b>
<b>Net assets, beginning of year, restated</b>	<b>63,751,275</b>	<b>2,351,846</b>	<b>2,646</b>	<b>280,616</b>	<b>-</b>	<b>751</b>	<b>46,007</b>
<b>Net assets, end of year</b>	<b>\$ 65,979,898</b>	<b>\$ 3,184,510</b>	<b>\$ 2,646</b>	<b>\$ 1,468,616</b>	<b>\$ 1,484,751</b>	<b>\$ 1,709</b>	<b>\$ 48,910</b>

MOD Rehab III	MOD Rehab IV	MOD Rehab VI	Other Federal Program (DVP)	Sect 8 HAP-Special Alloc (Valley Oaks)	N/C S/R Section 8 Pgms	State/Local	Component Units	Elimination	Total
\$ -	\$ -	\$ -	\$ -	\$ 13,334	\$ -	\$ -	\$ 109,460	\$ -	\$ 3,958,509
-	-	-	-	-	-	-	-	(4,541,149)	-
-	-	-	-	-	-	-	277,806	-	277,806
-	-	-	-	257	-	-	5,414	-	200,301
-	-	-	-	13,591	-	-	392,680	(4,541,149)	4,436,616
4,403	29,356	10,074	-	11,824	61,881	266,007	1,169,222	(3,049,990)	7,147,385
-	-	-	-	-	-	-	-	(437,780)	-
-	-	-	-	-	-	-	-	-	879,151
-	-	-	-	7,072	-	1,277	1,056	-	3,068,941
-	-	-	-	7,357	-	13,378	139,607	(1,053,379)	4,685,976
-	-	-	-	-	-	-	-	-	490,253
-	-	-	-	1,080	-	2,798	9,415	-	374,954
-	-	-	-	3,779	-	5,265	127,063	-	898,354
31,395	217,453	50,616	4,921	-	423,624	-	-	-	13,511,613
-	-	-	-	30,446	-	716	295,919	-	6,595,553
35,798	246,809	60,690	4,921	61,558	485,505	289,441	1,742,282	(4,541,149)	37,652,180
(35,798)	(246,809)	(60,690)	(4,921)	(47,967)	(485,505)	(289,441)	(1,349,602)	-	(33,215,564)
35,798	246,809	60,690	5,473	26,490	447,426	-	-	-	30,359,918
2,729	3,583	649	-	3	18,928	31,081	791,055	-	1,431,199
-	-	-	-	18	-	-	10,551	-	187,921
-	-	-	-	-	-	-	144,817	-	144,817
-	-	-	-	-	-	-	(441,111)	-	(1,371,571)
156	260	140	-	-	-	-	-	-	213,694
-	-	-	-	-	-	113,802	614,354	-	1,450,805
-	-	-	-	(3,603)	-	-	-	-	(35,510)
-	-	-	-	-	-	716	(866,051)	-	(959,845)
38,683	250,652	61,479	5,473	22,908	466,354	145,599	253,615	-	31,421,428
2,885	3,843	789	552	(25,059)	(19,151)	(143,842)	(1,095,987)	-	(1,794,136)
-	-	-	-	-	-	-	-	-	4,101,965
-	-	-	-	-	-	-	-	-	-
-	-	-	-	63,977	-	-	(2,218,077)	-	-
2,885	3,843	789	552	38,918	(19,151)	(143,842)	(3,314,064)	-	2,307,829
43,546	70,505	9,948	(552)	-	346,830	986,669	15,970,755	-	83,860,842
\$ 46,431	\$ 74,348	\$ 10,737	\$ -	\$ 38,918	\$ 327,679	\$ 842,827	\$ 12,656,691	\$ -	\$ 86,168,671

Knoxville's Community Development Corporation  
Knoxville, TN

Statement and Reconciliation of Actual  
Capital Funds Costs and Advances  
For the Year Ended June 30, 2008

Program Number	501-03	501-04	501-05	501-06	501-07	501-02R	501-03R	501-04R	501-05R	501-06R	501-07R	502-05R	502-06R	502-07R
<b>BUDGET</b>	29,921,030	4,511,709	5,515,357	5,419,351	5,448,230	5,095,426	459,254	356,554	467,376	98,348	430,111	320,537	101,276	245,722
Advances(actual):														
Cash receipts-Prior Years	15,125,939	4,402,103	3,695,891	3,515,352	839,526		459,254	356,554	467,376	98,348		3,724		
Cash receipts-Current Year	7,083,371	109,606	1,788,278	79,002	2,436,725	2,065,442					430,111	10,239		
<b>Cumulative as of June 30, 2008</b>	<b>22,209,310</b>	<b>4,511,709</b>	<b>5,484,169</b>	<b>3,594,354</b>	<b>3,276,251</b>	<b>2,065,442</b>	<b>459,254</b>	<b>356,554</b>	<b>467,376</b>	<b>98,348</b>	<b>430,111</b>	<b>13,963</b>		
Costs (Hard & Soft):														
Costs-Prior Years	16,279,519	4,404,772	3,715,204	3,570,175	1,915,374		459,254	356,554	467,376	98,348		4,651		
Costs-Current Year	6,236,404	106,937	1,772,925	85,212	1,427,753	2,239,988					430,111	9,510		
<b>Cumulative as of June 30, 2008</b>	<b>22,515,923</b>	<b>4,511,709</b>	<b>5,488,129</b>	<b>3,655,387</b>	<b>3,343,127</b>	<b>2,239,988</b>	<b>459,254</b>	<b>356,554</b>	<b>467,376</b>	<b>98,348</b>	<b>430,111</b>	<b>14,161</b>		
Excess/(Deficiency) of Advances Due To/(From) HUD	(306,613)	-	(3,960)	(61,033)	(66,876)	(174,546)	-	-	-	-	-	(198)	-	-
<b>Actual MOD Cost Certificate Issued?</b>		No but Complete	No	No	No	No	No but Complete	No but Complete	No but Complete	No but Complete	No but Complete	No	No	No
<b>Soft Costs</b>														
Prior Years	852,144	369,556	387,966	59,235	33,028		2,359							
Prior Year Adjustment	(241)													
Current Year	417,156	25	38,743	20,935	233,225	124,228								
<b>Cumulative as of June 30, 2008</b>	<b>1,269,059</b>	<b>369,340</b>	<b>426,709</b>	<b>80,170</b>	<b>266,253</b>	<b>124,228</b>	<b>2,359</b>							
<b>Hard Costs</b>														
Prior Years	13,709,967	2,317,808	3,327,238	3,510,940	1,882,346		456,895	356,554	467,376	98,348		4,651		
Prior Year Adjustment	241													
Current Year	4,101,965	106,912	16,899	64,277	1,194,528	2,115,760					430,111	9,510		
<b>Cumulative as of June 30, 2008</b>	<b>17,812,173</b>	<b>2,424,961</b>	<b>3,344,137</b>	<b>3,575,217</b>	<b>3,076,874</b>	<b>2,115,760</b>	<b>456,895</b>	<b>356,554</b>	<b>467,376</b>	<b>98,348</b>	<b>430,111</b>	<b>14,161</b>		
<b>Hard cost transfers to LIPH</b>														
Prior Years	(5,217,656)	(174,267)	(2,875,476)	(1,295,100)	(212,890)		(375,367)							
Prior Year Adjustment														
Current Year	(1,346,711)													
<b>Cumulative as of June 30, 2008</b>	<b>(6,564,367)</b>	<b>(174,267)</b>	<b>(2,875,476)</b>	<b>(1,295,100)</b>	<b>(212,890)</b>		<b>(81,528)</b>	<b>(356,554)</b>	<b>(467,376)</b>	<b>(98,348)</b>		<b>(342,905)</b>		
<b>Hard Costs remaining on CFP</b>	<b>11,247,806</b>	<b>2,250,694</b>	<b>468,661</b>	<b>2,280,117</b>	<b>2,863,984</b>	<b>2,115,760</b>					<b>430,111</b>	<b>14,161</b>		
<b>Debt service transfers</b>														
Prior Years	1,717,408	1,717,408												
Current Year	1,717,283		1,717,283											
<b>Cumulative as of June 30, 2008</b>	<b>3,434,691</b>	<b>1,717,408</b>	<b>1,717,283</b>											
<b>Cumulative Hard and Soft Costs and debt service transfers</b>	<b>22,515,923</b>	<b>4,511,709</b>	<b>5,488,129</b>	<b>3,655,387</b>	<b>3,343,127</b>	<b>2,239,988</b>	<b>459,254</b>	<b>356,554</b>	<b>467,376</b>	<b>98,348</b>	<b>430,111</b>	<b>14,161</b>		

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
Knoxville, Tennessee

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor*	CFDA Number	Program Title	Pass Thru Entity	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<b>Federal awards:</b>							
HUD	14.181	Supportive Housing for Disabled (Mainstream)	NA	\$ 58,045	\$ 363,107	\$ 429,903	\$ (8,751)
HUD	14.182	N/C S/R Section 8 Programs	NA	9,614	414,010	447,426	(23,802)
HUD	14.195	Section 8 HAP Program - Special allocations	NA	-	24,664	26,490	(1,826)
HUD	14.856	Section 8 Moderate Rehabilitation	NA	6,609	452,124	471,345	(12,612)
		<b>Total project based Section 8 cluster</b>		<b>16,223</b>	<b>890,798</b>	<b>945,261</b>	<b>(38,240)</b>
HUD	14.850a	Low Rent Public Housing	NA	-	11,963,729	12,372,004	(408,275)
HUD	14.871	Housing Choice Vouchers	NA	-	14,439,947	14,472,838	(32,891)
HUD	14.DVP	KD HAP & Disaster Voucher	NA	-	5,473	5,473	-
HUD	14.872	Public Housing Capital Fund Program	NA	(1,153,580)	7,083,371	6,236,404	(306,613)
		<b>Total U.S. Department of HUD</b>		<b>(1,079,312)</b>	<b>34,746,425</b>	<b>34,461,883</b>	<b>(794,770)</b>
		<b>Total Federal Awards</b>		<b>(1,079,312)</b>	<b>34,746,425</b>	<b>34,461,883</b>	<b>(794,770)</b>
<b>State Awards:</b>							
TN	NA	Tax Increment Grant	COK	(112,003)	173,525	277,806	(216,284)
		<b>Total State Awards</b>		<b>(112,003)</b>	<b>173,525</b>	<b>277,806</b>	<b>(216,284)</b>
		<b>Total Federal and State Awards</b>		<b>\$ (1,191,315)</b>	<b>\$ 34,919,950</b>	<b>\$ 34,739,689</b>	<b>\$ (1,011,054)</b>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**A. Basis of Accounting:**

This schedule is prepared on the accrual basis of accounting.

**B. Reconciliation of Total Federal Awards Expenditures to Financial Data Schedule:**

FDS line 706	HUD PHA Grants	\$ 30,359,918
FDS line 706.1	Capital Grants	4,101,965
FDS line 708	Other government grants - total	277,806
	Less: NonGrant Portion (Redevelopment)	-
		<b>\$ 34,739,689</b>

**C. Reconciliation of Ending (Accrued) Deferred to Statement of Net Assets**

FDS line 122	Accounts receivable - HUD other projects	\$ (1,879,865)
FDS line 124	Accounts receivable - other governments	(395,790)
	Less: Local Items	179,506
FDS line 331	Accounts Payable - HUD PHA Programs	1,935
FDS line 342	Deferred Revenue - HUD PHA Programs	1,083,160
		<b>\$ (1,011,054)</b>

**\*Legend**

HUD	U.S. Department of Housing and Urban Development
COK	City Of Knoxville
TN	State of Tennessee
NC	Section 8 New Construction
SR	Section 8 Substantial Rehabilitation

**SINGLE AUDIT SECTION**

# MALCOLM JOHNSON COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Commissioners  
Knoxville's Community Development Corporation  
Knoxville, Tennessee

HUD, Knoxville Field Office  
710 Locust Street, S. W.  
Knoxville, Tennessee 37902-2526

We have audited the basic financial statements of the Knoxville's Community Development Corporation ("the Authority") as of and for the year ended June 30, 2008, and have issued our report thereon dated December 23, 2008, which included a disclaimer of opinion on Management's Discussion and Analysis. 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 Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority'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 basic financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited 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 Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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 Authority's management, the Authority's Board of Commissioners, others within the entity, and the U.S. Department of HUD and is not intended to be and should not be used by anyone other than these specified parties.

  
Malcolm Johnson Company  
Certified Public Accountants

DeBary, Florida  
December 23, 2008

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAMS AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Knoxville's Community Development Corporation  
Knoxville, Tennessee

HUD, Knoxville Field Office  
710 Locust Street, S. W.  
Knoxville, Tennessee 37902-2526

**Compliance**

We have audited the compliance of the Knoxville's Community Development Corporation ("the Authority") 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 its major federal programs for the year ended June 30, 2008. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority'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 Authority'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 Authority's compliance with those requirements.

In our opinion, the Authority 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 June 30, 2008.

**Internal Control Over Compliance**

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the 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 Authority's internal control over compliance.

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

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

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

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, the U.S. Department of HUD and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Malcolm Johnson Company**  
Certified Public Accountants

DeBary, Florida  
December 23, 2008

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Basic Financial Statements**

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
~ Material weakness identified?	No
~ Significant deficiency identified that is not considered to be a material weakness?	None
Noncompliance material to basic financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
~ Material weakness identified?	No
~ Significant deficiency identified that is not considered to be a material weakness?	None
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit finding disclosed that is required to be reported in accordance with section 510(a) of Circular A-133?	No
Identification of major programs:	
<b>CFDA Number</b> 14.850a	<b>Name of Federal Program</b> Low Rent Public Housing
Dollar threshold used to distinguish between type A and type B programs:	\$1,033,062
Auditee qualified as low-risk auditee?	Yes

**KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION**  
**Knoxville, Tennessee**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**(Continued)**

**SECTION II – BASIC FINANCIAL STATEMENT FINDINGS**

There are no Basic Financial Statement Findings.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There are no Federal Award Findings and Questioned Costs.

**SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no Prior Audit Findings.