

TABLE OF CONTENTS

	PAGE
Independent Auditor’s Report on Basic Financial Statements and Supplemental Information	1
Management’s Discussion and Analysis (MD&A)	i-vi
 Basic Financial Statements	
Statement of Net Assets	2
Statement of Revenues, Expenses and Changes in Net Assets	3
Statement of Cash Flows	4-5
Notes to Basic Financial Statements	6-27
 Supplemental Information	
Combining Schedule of Net Assets	28-29
Combining Schedule of Revenues, Expenses and Changes in Net Assets	30-31
Schedule of Expenditures of Federal Awards and State Financial Assistance	32
 Single Audit Section	
Summary of Auditors’ Results	33
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 <i>Government Auditing Standards</i>	34
Report on Compliance With Requirements Applicable to Each Major Program and On Internal Control Over Compliance in Accordance With OMB Circular A-133	35-36
Schedule of Findings and Questioned Costs.....	37

MALCOLM JOHNSON & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 530848

210 N. Highway 17-92

DeBary, Florida 32753-0848

Phone (386) 668-6464 Fax (386) 668-6463

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, 2009, 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, 2009, 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 January 20, 2010, 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 prior year's net assets were restated to make corrections to Capital Assets as described in Note Y.

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 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, P.A.
Certified Public Accountants

DeBary, Florida
January 20, 2010

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

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 \$3.3 million (or 3.8%) during fiscal year 2009. Since KCDC engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$86.2 million and \$89.4 million for 2008 and 2009 respectively. This increase is primarily due to obtaining the ARRA Stimulus Grant during fiscal year 2009 and the Construction in Progress increase it has generated. KCDC has had no major purchases of any kind during the year, therefore income from operations has also been a factor in the increase of Net Assets.
- The business-type activities revenue increased by \$2.6 million (or 6.3%) during 2009. Revenues were \$41.4 million and \$44 million for 2008 and 2009 respectively. This increase is primarily due to the annual increase in HUD LIPH Operating Subsidy, Capital Fund Program and the addition of the ARRA Stimulus Program. There were no major property sales in during the FY2009.
- The total expenses of KCDC programs increased by \$1.6 million (or 4.1%). Total expenses were \$39.1 million and \$40.7 million for 2008 and 2009 respectively. This increase is primarily due to an increase in HAP costs due to increased leasing.

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 (new) ~ 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, 2009
(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 "Non-Current".

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, 2009
(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>2009</u>	<u>2008</u>	<u>Variance</u>	<u>% Change</u>
Assets:				
Current and restricted assets	\$ 39.6	\$ 36.8	2.8	7.6%
Capital assets, net	87.2	88.1	-.9	-1.0%
Other assets	7.1	8.1	-1.0	-13.6%
Total Assets	<u>133.9</u>	<u>133.0</u>	<u>.9</u>	<u>.7%</u>
Liabilities:				
Current liabilities	5.0	6.0	-1.0	-16.7%
Noncurrent liabilities	39.5	40.8	-1.3	-3.2%
Total Liabilities	<u>44.5</u>	<u>46.8</u>	<u>-2.3</u>	<u>-4.9%</u>
Net Assets:				
Invested in net assets, net of related debt	49.8	50.8	-1.0	1.9%
Restricted	4.2	4.6	-.5	-10.6%
Unrestricted	35.4	30.7	4.7	15.3%
Total Net Assets	<u>\$ 89.4</u>	<u>\$ 86.1</u>	<u>3.3</u>	<u>3.8%</u>

For more detailed information see the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Total assets increased by \$.9 million this is primarily due to the increase in the investment portfolio this year. Many investments were called in the prior year due to the economic situation at the time. Total liabilities decreased by \$2.3 million which is primarily due to debt reduction and Net Assets increased by \$3.3 million. This increase is again due to the generating of assets for the ARRA Stimulus Grant as well as the income generated from operation during the year.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009
(Continued)

Table 2 presents details on the change in Unrestricted Net Assets

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

Unrestricted Net Assets 06/30/2008	\$ 30.7
Results of Operations-FY09	3.2
Adjustments:	
Depreciation Expense	6.5
Adjusted results from operations	9.7
Capital expenditures from operations	-5.0
Unrestricted Net Assets 06/30/2009	\$ 35.4

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.

	2009	2008	Variance	% Change
Revenues				
Tenant revenue – rents and other	\$ 4.4	\$ 4.2	.2	.5%
Program grants/subsidies	36.4	34.7	1.7	4.9%
Interest income	1.2	1.8	-.6	-33.3%
Other revenues	2.0	.7	1.3	185.7%
Total Revenue	44.0	41.4	2.6	6.3%
Expenses				
Administrative	7.3	7.2	.1	1.3%
Tenant services	0.9	0.9	.0	0.0%
Utilities	3.0	3.0	.0	0.0%
Maintenance	4.8	4.7	.1	2.1%
Protective services	0.5	0.5	0	0.0%
General	1.4	1.3	.1	7.6%
Interest	1.7	1.4	.3	21.4%
Housing assistance payments	14.6	13.5	1.1	8.1%
Depreciation	6.5	6.6	-.1	-1.5%
Total Expenses	40.7	39.1	1.6	4.1%
Increase in Net Assets	\$ 3.3	\$ 2.3	1.0	43.5%

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009
(Continued)

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

- The increase in revenue from last year is due to a much smaller loss in 2009 of disposals of Fixed assets, as well as an increase in Capital Grants (ARRA Stimulus Grant) and Operating revenue income from the Federal Government. The increase in expenses during FY 2009 is directly related to HAP payments caused by increased leasing thru the Section 8 Program.

Budgetary Highlights

For the year ended June 30, 2009, 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 87.2 million invested in a variety of capital assets as reflected in the following schedule, which represents a decrease (addition, deductions and depreciation) of \$.9 million from the end of last year. This net decrease is primarily due to a greater decrease this year in depreciable assets as compared to the increase in construction in progress for the year.

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

	Business-type Activities			
	2009	2008	Variance	% Change
Land	\$ 3.4	\$ 3.4	0.00	0.0%
Buildings	166.3	162.1	4.2	2.6%
Furniture and equipment	2.6	2.9	-.3	-10.3%
Accumulated depreciation	-123.1	-116.9	-6.2	-5.3%
Construction in progress	38.0	36.6	1.4	3.8%
Capital Assets, net	\$ 87.2	\$ 88.1	(0.9)	(1.0%)

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009
(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

	Business Type Activities
Beginning Balance 06/30/2008	\$ 88.1
Additions	7.1
Retirements -	
Net of depreciation	(1.5)
Depreciation	(6.5)
Ending Balance	\$ 87.2

Debt Outstanding

As of year-end, KCDC had \$ 39.2 million in debt (bonds, notes, etc.) outstanding compared to \$ 40.5 million last year, showing a \$ 1.3 million decrease primarily due to KCDC not having incurred debt during FY2009, therefore the decrease is from annual payments made to reduce debt owed.

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

	Totals	
	2009	2008
Business Type		
Capital Improvements-Long Term	\$ 37.7	\$ 39.1
Current Portion	1.5	1.4
Total	\$ 39.2	\$ 40.5

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 Robert Coggins, 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, 2009

ASSETS

Current assets

Cash and cash equivalents, unrestricted	\$ 9,126,454
Cash and cash equivalents, restricted	244,221
Investments, unrestricted	21,773,157
Investments, restricted	4,601,357
Accrued interest receivable	126,372
Accounts receivable, net of allowance	314,739
Due from other governments	2,819,016
Inventories, net of allowance for obsolescence of \$101,420	162,866
Notes and mortgages receivable	213,153
Prepaid items	181,687
Total current assets	<u>39,563,022</u>

Noncurrent assets

Other assets

Notes and mortgages receivable	6,913,901
Unamortized loan costs	138,555
Total other assets	<u>7,052,456</u>

Capital assets

Not being depreciated	41,418,100
Depreciable, net	45,817,377
Total capital assets, net	<u>87,235,477</u>

Total noncurrent assets

94,287,933

Total assets

133,850,955

LIABILITIES

Current liabilities

Vendors and contractors payable	1,583,745
Accrued wages/taxes payable	286,495
Accrued compensated absences	190,037
Accrued interest payable	469,223
Due to other governments	212,002
Deferred revenue	402,132
Notes and bonds payable	1,516,208
Other current liabilities	27,140
Other accrued liabilities	271,022
Total current liabilities	<u>4,958,004</u>

Current liabilities payable from restricted assets

Resident security deposits

13,101

Noncurrent liabilities

Notes and bonds payable	37,737,890
Accrued compensated absences	1,575,960
FSS escrows	157,153
Total noncurrent liabilities	<u>39,471,003</u>

Total liabilities

44,442,108

NET ASSETS

Invested in capital assets	49,795,202
Restricted	4,246,940
Unrestricted	35,366,705

Total net assets

\$ 89,408,847

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, 2009

Operating revenues	
Rental revenue	\$ 4,137,132
Other governmental grants	297,297
Other revenue	216,944
Total operating revenues	<u>4,651,373</u>
Operating expenses	
Administrative	7,264,393
Tenant services	866,982
Utilities	3,015,856
Ordinary maintenance & operation	4,842,228
Protective services	493,653
Insurance	544,082
General expenses	800,371
Housing assistance payments	14,631,029
Depreciation	6,483,169
Total operating expenses	<u>38,941,763</u>
Operating loss	<u>(34,290,390)</u>
Nonoperating revenues (expenses)	
HUD grants	31,321,741
Interest revenue, unrestricted	915,747
Interest revenue, restricted	192,753
Mortgage interest revenue	144,895
Interest expense	(1,729,991)
Fraud recovery	92,465
Other revenue	1,631,040
Other expense	(90,408)
Gain/(loss) on disposition of capital assets	(4,582)
Total nonoperating revenues	<u>32,473,660</u>
Loss before contributions	<u>(1,816,730)</u>
Capital contributions	<u>5,031,035</u>
Increase in net assets	<u>3,214,305</u>
Net assets, beginning of year, restated	<u>86,194,542</u>
Net assets, end of year	<u>\$ 89,408,847</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, 2009

Cash Flows From Operating Activities	
Receipts from dwelling rentals	\$ 4,146,214
Other receipts	1,037,044
Payments to employees and suppliers	(17,644,220)
Payments to landlords and residents	(14,631,029)
Net cash used by operating activities	<u>(27,091,991)</u>
Cash Flows From Noncapital Financing Activities	
Operating grants	<u>30,902,423</u>
Cash Flows From Capital and Related Financing Activities	
Capital contributions	5,031,035
Purchases of capital assets	(5,607,461)
Proceeds from disposals of capital assets	(4,582)
Principal paid on capital debt	(1,302,721)
Interest paid on capital debt	(1,712,850)
Net cash used by capital and related financing activities	<u>(3,596,579)</u>
Cash Flows From Investing Activities	
Purchase/sale of investments	(6,478,604)
Increase in notes receivable	891,587
Interest	1,281,653
Net cash provided by investing activities	<u>(4,305,364)</u>
Net increase in cash and cash equivalents	(4,091,511)
Balance - beginning of the year	<u>13,462,186</u>
Balance - end of the year	<u><u>\$ 9,370,675</u></u>
Reconciliation of Cash Flows to Statement of Net Assets	
Cash and cash equivalents, unrestricted	\$ 9,126,454
Cash and cash equivalents, restricted	244,221
	<u><u>\$ 9,370,675</u></u>

There are no non-cash transactions.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009
(Continued)

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

Operating income/(loss)	\$ (34,290,390)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation elimination	6,483,168
Increase in accounts receivable	9,875
Increase in inventory	290,433
Increase in prepaid expenses	(25,701)
Increase in other assets	10,114
Decrease in security deposits	(792)
Decrease in accounts payable	922,100
Decrease in accrued wages	97,824
Decrease in compensated absences	154,382
Decrease in accrued liabilities	(1,201,271)
Decrease in deferred credits	(1,200,702)
Prior year restatement	25,872
Fraud recovery, other revenue, other expense and transfers to other entities reported as nonoperating	<u>1,633,097</u>
Net cash used by operating activities	<u><u>\$ (27,091,991)</u></u>

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, 2009

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 which was organized 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 has 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.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

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

Main programs of KCDC are as follows: (Continued)

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.

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.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

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

3. Basis of Presentation and Accounting: (Continued)

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.

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.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

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

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, 2009 including cash, investments, accounts receivable, and accounts payable closely approximates fair value.

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

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

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

12. Capital Assets: (Continued)

- 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.
- 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.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

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, 2009:

Deposits:

Demand	<u>Carrying Value</u> <u>\$ 10,837,177</u>
--------	---

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks

Investment:

Investment Type	Maturity Date	Fair Market Value 6/30/09	Moody's Rating	S & P Rating	Callable
FHLB	08/19/2009	999,900.00	Aaa	AAA	No
FHLB	09/17/2009	999,700.00	Aaa	AAA	No
FFCB	10/20/2009	607,878.00	Aaa	AAA	No
FHLB	11/13/2009	664,827.00	Aaa	AAA	No
FHLB	12/11/2009	510,470.00	Aaa	AAA	No
FFCB	01/04/2010	512,500.00	Aaa	AAA	No
FHLB	02/12/2010	260,625.00	Aaa	AAA	No
FHLMTC	02/24/2010	262,149.00	Aaa	AAA	Yes
FHLB	03/12/2010	507,970.00	Aaa	AAA	No
FHLB	04/13/2010	516,875.00	Aaa	AAA	No
FFCB	05/24/2010	635,154.00	Aaa	AAA	No
FHLB	06/11/2010	292,513.00	Aaa	AAA	No
FHLMC	07/28/2010	415,878.00	Aaa	AAA	Yes
FHLB	08/17/2010	522,500.00	Aaa	AAA	No
FHLMC	09/30/2010	516,060.00	Aaa	AAA	Yes
FHLMC	10/18/2010	639,871.00	Aaa	AAA	Yes
FHLMTC	11/19/2010	523,770.00	Aaa	AAA	Yes
FHLB	12/10/2010	633,936.00	Aaa	AAA	No
FFCB	01/18/2011	274,880.00	Aaa	AAA	No
FHLMC	01/18/2011	264,610.00	Aaa	AAA	No
FHLMC	02/24/2011	571,400.00	Aaa	AAA	No
FHLB	03/11/2011	265,938.00	Aaa	AAA	No
FHLB	03/11/2011	257,423.00	Aaa	AAA	No
FHLMTC	03/16/2011	1,006,150.00	Aaa	AAA	Yes
FNMA	04/01/2011	1,007,500.00	Aaa	AAA	Yes
FNMA	04/11/2011	514,375.00	Aaa	AAA	No
FHLB	06/10/2011	412,124.00	Aaa	AAA	No
FHLB	06/10/2011	103,031.00	Aaa	AAA	No
FHLMTC	07/14/2011	500,635.00	Aaa	AAA	Yes
FNMA	08/18/2011	502,345.00	Aaa	AAA	Yes
FHLB	07/22/2011	503,750.00	Aaa	AAA	Yes
FFCB	10/03/2011	522,190.00	Aaa	AAA	No
FBECBSB	11/02/2011	385,413.00	Aaa	AAA	No
FBECBSB	11/30/2011	284,605.00	Aaa	AAA	No
FICO STRIPS	12/06/2011	545,216.00	Aaa	AAA	No
FFCB	01/17/2012	504,065.00	Aaa	AAA	No
FFCB	01/17/2012	1,008,130.00	Aaa	AAA	No
FHLMC	02/02/2012	502,120.00	Aaa	AAA	Yes
FHLMTC	02/17/2012	502,530.00	Aaa	AAA	Yes
FNMTA	02/24/2012	504,375.00	Aaa	AAA	Yes
FHLB	03/05/2012	506,720.00	Aaa	AAA	No
FHLMTC	03/15/2012	503,535.00	Aaa	AAA	Yes
FHLMC	04/20/2012	503,820.00	Aaa	AAA	Yes
FHLMC	05/11/2012	498,095.00	Aaa	AAA	Yes
FHLB	06/22/2012	1,005,309.00	Aaa	AAA	Yes
Total securities		23,982,860.00			
Accrued interest		187,780.00			
		\$ 24,170,640.00			

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks (Continued)

- Restricted - HCV	\$ 2,397,483
- Unrestricted	21,773,157
	<u>24,170,640</u>
Restricted investments - LRPB	
EPC Fund Reserves	10,350
Revenue Fund	186,223
Debt Service Fund	445
Reserve Fund	1,806,488
Program Expense Fund	4,308
	<u>2,007,814</u>
Restricted investments - GTHAC	
Debt Service Fund	134,736
Debt Service Reserve	53,448
Excess Cash	7,875
	<u>196,059</u>
Demand deposits (carrying value)	9,369,001
Total deposits and investments	<u>35,743,514</u>
Petty cash on hand	1,675
Total cash and investments	<u>\$ 35,745,189</u>
Reconciliation to Statement of Net Assets	
Cash and cash equivalents, unrestricted	\$ 9,126,454
Cash and cash equivalents, restricted	244,221
Investments, unrestricted	21,773,157
Investments, restricted	4,601,357
	<u><u>\$ 35,745,189</u></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.

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.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

B - Deposits and Investments: (Continued)

2. Custodial Credit Risk: (Continued)

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, 2009, 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, 2009, the investments held by KCDC mature August 2009 through June 2012. 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 \$1,806,488. This represents 6.6% of KCDC's total investment portfolio. The funds are deposited in accordance with Trust Indenture requirements.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

C - Accounts Receivable:

	Due	Allowance for Doubtful Accounts	Net
Residents	\$ 286,102	\$ (218,317)	\$ 67,785
Passport Homes, L.P.	175,255	-	175,255
Passport Residences, L.P.	11,186	-	11,186
Other PHA's	18,954	-	18,954
State of Tennessee	16,706	-	16,706
Landlords	11,597	-	11,597
Other	10,389	-	10,389
	<u>\$ 530,189</u>	<u>\$ (218,317)</u>	<u>\$ 311,872</u>

D - Due From Other Governments:

U.S. Department of HUD	\$ 2,330,759
City of Knoxville	298,758
Knox County	160,542
Metro Knoxville Airport Authority	20,104
Other	8,853
	<u>\$ 2,819,016</u>

E - Prepaid Items:

Prepaid insurance	\$ 145,702
Prepaid Travel & Training	21,587
Other	14,398
	<u>\$ 181,687</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

F - Notes and Mortgages Receivable:

<u>Type</u>	<u>Reference</u>	<u>Current</u>	<u>Long Term</u>	<u>Total</u>
Mortgages	1	\$46,451	\$1,702,274	\$1,748,725
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	-	42,923	42,923
Redevelopment loan				
- Passport Homes LP	2	-	592,139	592,139
Capital fund loan				
- Passport Residences LP	3	-	270,510	270,510
Promissory Note				
Columbia Housing Authority	5	<u>166,702</u>	<u>-0-</u>	<u>166,702</u>
TOTALS		<u>\$ 213,153</u>	<u>\$6,913,901</u>	<u>\$7,127,054</u>

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, 2009, 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.

2 Passport Homes Limited Partnership – KCDC entered into a mixed financing arrangement with Passport Homes L.P. (PHLP) for the rehabilitation of the University Avenue Affordable Housing Project, "Passport Homes", in the Mechanicsville Community. The notes receivable consists of \$1,242,000 in Hope VI grant proceeds, \$359,386 in McKinney funds and \$592,139 in KCDC Redevelopment funds.

The Hope VI funds were provided through HUD as a grant to KCDC.

The McKinney funds were provided through the McKinney Act Refunding Agreement with GTHAC regarding mortgage refunding bonds.

In cooperation with HUD, these funds have been loaned to PHLP, and are due 25 years after completion of the project. The capital improvements purchased with these funds are reflected on the financial statements of PHLP.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

F - Notes and Mortgages Receivable: (Continued)

Interest, along with an outstanding allowance for doubtful accounts, accrues on these notes as follows:

Hope VI loan	2.00% annually
McKinney loan	5.98% annually
Redevelopment loan	2.00% annually

3. Passport Residences Limited Partnership – KCDC entered into a mixed financing arrangement with Passport Residences, L.P. (PRLP) for the addition of 50 public housing units as part of Passport Homes in the Mechanicsville Community in Knoxville, Tennessee. The notes receivable consists of \$2,214,951 in Hope VI grant proceeds, \$489,718 in Affordable Housing Program (AHP) Funds, and \$270,510 in KCDC's Capital Fund Program.

The Hope VI funds were provided through HUD as a grant to KCDC.

The Affordable Housing funds were provided through the FHLB as a grant to KCDC.

The Capital Funds were provided through HUD as a grant to KCDC.

In cooperation with HUD, the Hope VI funds have been loaned to PRLP, and are due 25 years after completion of the project. The FHLB funds as well as the proceeds from the Capital Funds Program that have been loaned to PRLP are due 30 years after completion of the project. The capital improvements purchased with these funds are reflected on the financial statements of PRLP.

Interest, along with an offsetting allowance for doubtful accounts, accrues on these notes as follows:

Hope VI loan	.25% annually
AHP FHLB loan	.25% annually
Capital Fund loan	5.23% annually

4. Homebuyers (forgivable) – KHDC sells homes to qualifying families and provides soft second mortgages which are forgivable in annual portions contingent upon certain program requirements.
5. Columbia Housing Authority – On September 1, 2008, KHDC entered into a one-year promissory note arrangement with Columbia Housing Authority for up to \$200,000 to assist in financing efforts as a result of a delay in receiving an extension and modification to a FHLBA grant. Interest accrues on this note at a fixed rate per annum equal to 4%. As of June 30, 2009, the balance was 166,702.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

G - Land, Buildings and Equipment:

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2009</u>
Not being depreciated:					
Land	\$ 3,369,183	\$ -	\$ -	\$ -	\$ 3,369,183
Construction in progress	36,646,230	7,087,405	(169,090)	(5,515,628)	38,048,917
Total not being depreciated	<u>40,015,413</u>	<u>7,087,405</u>	<u>(169,090)</u>	<u>(5,515,628)</u>	<u>41,418,100</u>
Depreciable:					
Buildings & improvements	162,131,448	-	-	4,149,011	166,280,459
Accumulated depreciation	(114,371,569)	(6,302,383)	210	-	(120,673,742)
Net buildings & improvements	<u>47,759,879</u>	<u>(6,302,383)</u>	<u>210</u>	<u>4,149,011</u>	<u>45,606,717</u>
Equipment	2,866,734	63,099	(339,413)	(2,852)	2,587,568
Accumulated depreciation	(2,530,840)	(180,786)	331,847	2,870	(2,376,909)
Net equipment	<u>335,894</u>	<u>(117,687)</u>	<u>(7,566)</u>	<u>18</u>	<u>210,659</u>
Net depreciable assets	<u>48,095,773</u>	<u>(6,420,070)</u>	<u>(7,356)</u>	<u>4,149,029</u>	<u>45,817,376</u>
TOTAL	<u>\$ 88,111,186</u>	<u>\$ 667,335</u>	<u>\$ (176,446)</u>	<u>\$ (1,366,599)</u>	<u>\$ 87,235,476</u>

H - Due to Other Governments:

U.S. Department of Housing and Urban Development (HUD)	\$ 14,278
City of Knoxville (PILOT)	<u>197,724</u>
	<u>\$ 212,002</u>

I - Deferred Revenues:

City of Knoxville	\$ 315,039
Operating Subsidy	31,294
Resident participation	38,126
Prepaid rents	9,893
Other	<u>7,780</u>
	<u>\$ 402,132</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

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 \$2,707,104.

	<u>Principal</u>	<u>Interest</u>
2010	\$ 79,759	\$ 76,057
2011	83,196	73,722
2012	85,598	71,320
2013	88,070	68,848
2014	90,613	66,305
2015-2019	493,855	290,734
2020-2024	569,394	215,195
2025-2029	656,487	128,101
2030-2033	560,132	30,981
	<u>\$ 2,707,104</u>	<u>\$ 1,021,263</u>

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 \$63,932. 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:

	<u>Principal</u>
2010	\$ -
2011	-
2012	105,000
2013	112,000
2014	125,000
2015-2020	575,000
2021-2024	848,000
Unamortized discount	(63,932)
	<u>\$ 1,701,068</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

J - Notes and Bonds Payable: (Continued)

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, 2009 is \$1,875,400. Future projected payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2010	\$ 138,000	\$ 86,136
2011	141,800	81,993
2012	147,100	77,385
2013	152,300	72,420
2014	159,800	64,805
2015-2019	922,800	196,285
2020	<u>213,600</u>	<u>10,675</u>
	<u>\$ 1,875,400</u>	<u>\$ 589,699</u>

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, 2009 was \$2,179,591. Future projected payments, upon anticipated refinancing in FY 010, are as follows:

	<u>Principal</u>	<u>Interest</u>
2010	\$ 71,595	\$ 66,935
2011	77,876	64,546
2012	80,341	60,081
2013	82,884	59,538
2014	85,507	56,915
2018-2019	469,884	242,227
2020-2024	549,102	163,009
2025-2029	641,674	70,436
2030	<u>120,728</u>	<u>1,680</u>
	<u>\$2,179,591</u>	<u>\$ 785,367</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

J - Notes and Bonds Payable: (Continued)

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, 2009 was \$19,990,000. The Bonds are payable as follows:

	<u>Principal</u>	<u>Interest</u>
2010	\$ 900,000	\$ 818,658
2011	930,000	782,758
2012	960,000	748,483
2013	1,000,000	710,483
2014	1,040,000	664,483
2015-2019	5,970,000	2,542,304
2020-2024	7,475,000	990,506
2025	<u>1,715,000</u>	<u>12,142</u>
	<u>\$19,990,000</u>	<u>\$ 7,269,817</u>

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, 2009 of \$9,823,536. The capital lease is payable as follows:

	<u>Principal</u>	<u>Interest</u>
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>2,960,252</u>	<u>301,664</u>
	<u>\$ 9,823,536</u>	<u>\$ 4,951,024</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

J - Notes and Bonds Payable: (Continued)

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% (1/60th) 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, 2009 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, 2009
(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 th 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, 2009
(Continued)

K - Other Current Liabilities:

Refunds	\$ 9,918
Escheat Property	13,640
Retainage ⁰	<u>3,582</u>
	<u>\$27,140</u>

L - Other Accrued Liabilities:

Utilities	\$ 245,673
Property taxes – Valley Oaks	12,783
Other	<u>12,566</u>
	<u>\$ 271,022</u>

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 2009. Interest cost expensed was \$1,363,078.

N - Schedule of Changes in Noncurrent Liabilities:

	June 30, 2008		Year Ended June 30, 2009		June 30, 2009	
	Long-term Portion	Current Portion	Additions	Payments	Current Portion	Long-term Portion
Notes and bonds payable	\$ 39,125,905	\$ 1,430,914	\$ -	\$ (1,302,721)	\$ 1,516,208	\$ 37,737,890
Accrued compensated absences	1,579,382	32,233	259,473	(105,091)	190,037	1,575,960
FSS escrows	89,553	-	98,752	(31,152)	-	157,153
	<u>\$ 40,794,840</u>	<u>\$ 1,463,147</u>	<u>\$ 358,225</u>	<u>\$ (1,438,964)</u>	<u>\$ 1,706,245</u>	<u>\$ 39,471,003</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, 2009 were \$13,309,777. HUD also contributed additional funds through the Capital Fund and ARRA Programs for modernization and operations in the amount of \$7,282,496.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

O - Annual Contributions by Federal Agencies: (Continued)

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.

HUD contributions for the year ended June 30, 2009, were as follows:

Housing Choice Vouchers	\$ 14,710,921
Section 8 Moderate Rehabilitation	487,123
Mainstream Vouchers	441,303
Special Allocations	<u>121,156</u>
	<u>\$ 15,760,503</u>

- 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 2009 was \$6,750,107. Payroll covered by the pension plan was \$6,708,246. KCDC made the required contributions amounting to \$844,277, and employees made elective contributions of \$10,921.

- 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. 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, 2009
(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 employees do not contribute to this plan.

R - Economic Dependency: KCDC receives approximately 83% 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, 2009.

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 \$1,626,652 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, 2009
(Continued)

Y - Schedule of Changes in Net Assets:

	Invested in Capital Assets - Net of Related Debt	Restricted Net Assets	Unrestricted Net Assets	Total
Balance - beginning of year	\$ 50,751,710	\$ 4,707,924	\$ 30,709,037	\$ 86,168,671
Adjustments to restate beginning balance	(1,848)	-	27,720	25,872
Balance - beginning of year, restated	50,749,862	4,707,924	30,736,757	86,194,543
Increase in unrestricted net assets	-	-	4,629,948	4,629,948
Increase in restricted net assets	-	(460,984)	-	(460,984)
Decrease in investment in capital assets	(954,660)	-	-	(954,660)
Balance - end of year	\$ 49,795,202	\$ 4,246,940	\$ 35,366,705	\$ 89,408,847
Adjustments to restate beginning balance				
Fixed asset correction	\$ (1,848)	\$ -	\$ -	\$ (1,848)
Soft second forgivable mortgage correction	-	-	(21,706)	(21,706)
Prior year interest earned on contract retainage	-	-	(89,290)	(89,290)
Resident participation correction	-	-	79,953	79,953
Section Eight tenant receivables correction	-	-	58,763	58,763
Net adjustments to restate beginning balance	\$ (1,848)	\$ -	\$ 27,720	\$ 25,872

This restatement, although immaterial both qualitatively and quantitatively, has been made in this manner in accordance with HUD's line definition guide for financial reporting.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF NET ASSETS
JUNE 30, 2009

	Total Projects	Program Totals	Business Activities	State/Local	Component Units	Supportive Housing for Persons with Disabilities (Mainstream)	N/C S/R Section 8 Programs
ASSETS							
Current assets							
Cash and cash equivalents, unrestricted	\$ 5,697,150	\$ 2,737,711	\$ 817,274	\$ -	\$ 1,644,087	\$ -	\$ -
Cash and cash equivalents, restricted	-	244,221	-	-	8,885	-	-
Investments, unrestricted	7,344,457	12,068,654	247,163	662,706	10,747,043	-	-
Investments, restricted	2,007,817	2,593,540	-	-	196,058	-	-
Accrued interest receivable	20,403	104,268	1,788	3,299	83,014	-	-
Accounts receivable, net of allowance	30,154	98,023	18,954	11,787	17,899	-	-
Due from other governments	1,704,879	1,114,137	-	327,715	160,542	5,607	3,000
Due from/to other programs	(282)	-	362,154	(356,943)	-	(2,211)	(3,000)
Inventories, net of allowance for obsolescence	110,699	-	-	-	-	-	-
Notes and mortgages receivable	-	213,153	-	-	213,153	-	-
Prepaid items	143,780	14,396	831	347	3,453	-	-
Total current assets	17,059,057	19,188,103	1,448,164	648,911	13,074,134	3,396	-
Noncurrent assets							
Other assets							
Notes and mortgages receivable	4,576,565	2,337,336	-	592,139	1,745,197	-	-
Unamortized loan costs	102,403	36,152	-	-	36,152	-	-
Total other assets	4,678,968	2,373,488	-	592,139	1,781,349	-	-
Capital assets							
Not being depreciated	40,979,819	438,281	-	48,000	234,075	-	-
Depreciable, net	38,579,774	7,145,960	854	-	6,368,741	-	-
Total capital assets, net	79,559,593	7,584,241	854	48,000	6,602,816	-	-
Total noncurrent assets	84,238,561	9,957,729	854	640,139	8,384,165	-	-
Total assets	101,297,618	29,145,832	1,449,018	1,289,050	21,458,299	3,396	-
LIABILITIES							
Current liabilities							
Vendors and contractors payable	761,934	725,414	17,285	60,387	49,714	750	-
Accrued wages/taxes payable	193,522	23,941	2,151	6,047	2,068	-	-
Accrued compensated absences	10,442	159,881	343	158,096	19	-	-
Accrued interest payable	447,497	21,726	-	-	21,726	-	-
Due to other governments	191,631	20,371	-	-	6,093	-	-
Deferred revenue	78,329	323,803	495	322,324	-	-	-
Notes and bonds payable	1,226,390	289,818	-	-	289,818	-	-
Other current liabilities	15,080	9,020	48	5,684	2,258	-	-
Other accrued liabilities	245,007	20,601	-	127	92	-	-
Total current liabilities	3,169,832	1,594,575	20,322	552,665	371,788	750	-
Current liabilities payable from restricted assets							
Resident security deposits	-	13,101	-	-	8,393	-	-
Noncurrent liabilities							
Notes and bonds payable	28,587,146	9,150,744	-	-	8,173,345	-	-
Accrued compensated absences	511,663	98,304	16,803	10,838	954	-	-
FSS escrows	-	157,153	-	-	-	-	-
Total noncurrent liabilities	29,098,809	9,406,201	16,803	10,838	8,174,299	-	-
Total liabilities	32,268,641	11,013,877	37,125	563,503	8,554,480	750	-
NET ASSETS							
Invested in capital assets	49,858,812	(155,253)	854	48,000	(159,279)	-	-
Restricted	1,576,093	2,670,847	-	-	243,715	-	-
Unrestricted	17,594,072	15,616,361	1,411,039	677,547	12,819,383	2,646	-
Total net assets	\$ 69,028,977	\$ 18,131,955	\$ 1,411,893	\$ 725,547	\$ 12,903,819	\$ 2,646	\$ -

Housing Choice Vouchers	Section 8 Mod Rehab TN003MR0 001	Section 8 Mod Rehab TN003MR0 002	Section 8 Mod Rehab TN003MR0 003	Section 8 Mod Rehab TN003MR0 004	Section 8 Mod Rehab TN003MR0 006	Section 8 HAP Special Allocations - Valley Oaks	Formula Capital Fund Stimulus Grant	Central Office Cost Center	Elimination	Grand Total
\$ 205,502	\$ 3,468	\$ 13,359	\$ 8,633	\$ 21,510	\$ 5,881	\$ 17,997	\$ -	\$ 691,593	\$ -	\$ 9,126,454
173,077	-	-	-	-	-	62,259	-	-	-	244,221
259,878	1,426	40,780	38,712	61,991	8,955	-	-	2,360,046	-	21,773,157
2,397,482	-	-	-	-	-	-	-	-	-	4,601,357
15,092	11	310	501	385	68	-	-	1,701	-	126,372
46,035	-	-	-	-	-	3,348	-	186,562	-	314,739
50,025	-	-	1,351	-	-	119	565,778	-	-	2,819,016
-	-	-	-	-	-	-	-	282	-	-
-	-	-	-	-	-	-	-	52,167	-	162,866
-	-	-	-	-	-	-	-	-	-	213,153
7,817	-	-	-	-	-	1,948	-	23,511	-	181,687
3,154,908	4,905	54,449	48,997	83,886	14,904	85,671	565,778	3,315,862	-	39,563,022
-	-	-	-	-	-	-	-	-	-	6,913,901
-	-	-	-	-	-	-	-	-	-	138,555
-	-	-	-	-	-	-	-	-	-	7,052,456
-	-	-	-	-	-	156,206	-	-	-	41,418,100
-	-	-	-	-	-	776,365	-	91,643	-	45,817,377
-	-	-	-	-	-	932,571	-	91,643	-	87,235,477
-	-	-	-	-	-	932,571	-	91,643	-	94,287,933
3,154,908	4,905	54,449	48,997	83,886	14,904	1,018,242	565,778	3,407,505	-	133,850,955
27,165	504	500	500	502	500	1,829	565,778	96,397	-	1,583,745
13,442	-	-	-	-	-	233	-	69,032	-	286,495
1,423	-	-	-	-	-	-	-	19,714	-	190,037
-	-	-	-	-	-	-	-	-	-	469,223
-	1,900	2,835	-	6,231	3,312	-	-	-	-	212,002
-	-	-	-	-	-	984	-	-	-	402,132
-	-	-	-	-	-	-	-	-	-	1,516,208
1,030	-	-	-	-	-	-	-	3,040	-	27,140
-	-	-	-	-	-	20,382	-	5,414	-	271,022
43,060	2,404	3,335	500	6,733	3,812	23,428	565,778	193,597	-	4,958,004
-	-	-	-	-	-	4,708	-	-	-	13,101
-	-	-	-	-	-	977,399	-	-	-	37,737,890
69,709	-	-	-	-	-	-	-	965,993	-	1,575,960
157,153	-	-	-	-	-	-	-	-	-	157,153
226,862	-	-	-	-	-	977,399	-	965,993	-	39,471,003
269,922	2,404	3,335	500	6,733	3,812	1,005,535	565,778	1,159,590	-	44,442,108
-	-	-	-	-	-	(44,828)	-	91,643	-	49,795,202
2,379,219	-	-	-	-	-	47,913	-	-	-	4,246,940
505,767	2,501	51,114	48,497	77,153	11,092	9,622	-	2,156,272	-	35,366,705
\$ 2,884,986	\$ 2,501	\$ 51,114	\$ 48,497	\$ 77,153	\$ 11,092	\$ 12,707	\$ -	\$ 2,247,915	\$ -	\$ 89,408,847

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	Total Projects	Program Totals	Business Activities	State/Local	Component Units	Supportive Housing for Persons with Disabilities (Mainstream)	N/C S/R Section 8 Programs
Operating revenues							
Rental revenue	\$ 4,021,261	\$ 115,871	\$ -	\$ -	\$ 60,384	\$ -	\$ -
Fee revenue	-	-	-	-	-	-	-
Other governmental grants	-	297,297	-	-	297,297	-	-
Other revenue	210,674	6,270	-	-	2,976	-	-
Total operating revenues	4,231,935	419,438	-	-	360,657	-	-
Operating expenses							
Administrative	4,882,349	2,593,054	136,736	270,513	705,979	63,846	-
Asset management fee	437,640	-	-	-	-	-	-
Tenant services	635,462	231,520	157,354	-	-	-	-
Utilities	2,903,518	29,928	-	1,406	1,286	-	-
Ordinary maintenance & operation	4,536,043	254,336	172	3,885	117,777	-	-
Protective services	493,653	-	-	-	-	-	-
Insurance	437,152	42,062	398	2,453	13,501	-	-
General expenses	610,878	86,014	1,781	10,231	24,189	-	-
Housing assistance payments	-	14,631,029	-	-	-	377,457	-
Depreciation	6,078,344	326,578	213	-	295,919	-	-
Total operating expenses	21,015,039	18,194,521	296,654	288,488	1,158,651	441,303	-
Operating income (loss)	(16,783,104)	(17,775,083)	(296,654)	(288,488)	(797,994)	(441,303)	-
Nonoperating revenues (expenses)							
HUD grants	15,489,593	15,832,148	-	-	-	441,303	-
Interest revenue, unrestricted	214,720	668,580	12,647	22,325	611,422	-	-
Interest revenue, restricted	95,913	96,840	-	-	405	-	-
Mortgage interest revenue	-	144,895	-	-	144,895	-	-
Interest expense	(1,363,078)	(366,913)	-	-	(366,913)	-	-
Fraud recovery	32,847	59,618	-	-	-	-	-
Other revenue	282,026	1,224,416	227,285	148,883	823,336	-	-
Other expense	(70,780)	(19,628)	-	-	-	-	-
Gain/(loss) on disposition of capital assets	(166,696)	-	-	-	-	-	-
Total nonoperating revenues	14,514,545	17,639,956	239,932	171,208	1,213,145	441,303	-
Income (loss) before contributions and transfers	(2,268,559)	(135,127)	(56,722)	(117,280)	415,151	-	-
Capital contributions	3,661,566	1,369,469	-	-	-	-	-
Transfers from (to) other entities	473,995	(473,995)	-	-	(473,995)	-	-
Increase (decrease) in net assets	1,867,002	760,347	(56,722)	(117,280)	(58,844)	-	-
Net assets, beginning of year, restated	67,161,975	17,371,608	1,468,615	842,827	12,962,663	2,646	-
Net assets, end of year	\$ 69,028,977	\$ 18,131,955	\$ 1,411,893	\$ 725,547	\$ 12,903,819	\$ 2,646	\$ -

Housing Choice Vouchers	Section 8 Mod Rehab TN003MR0 001	Section 8 Mod Rehab TN003MR0 002	Section 8 Mod Rehab TN003MR0 003	Section 8 Mod Rehab TN003MR0 004	Section 8 Mod Rehab TN003MR0 006	Section 8 HAP Special Allocations - Valley Oaks	Formula Capital Fund Stimulus Grant	Central Office Cost Center	Elimination	Grand Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,487	\$ -	\$ -	\$ -	\$ 4,137,132
-	-	-	-	-	-	-	-	4,774,952	(4,774,952)	-
-	-	-	-	-	-	-	-	-	-	297,297
-	-	-	-	-	-	3,294	-	-	-	216,944
-	-	-	-	-	-	58,781	-	4,774,952	(4,774,952)	4,651,373
1,297,320	1,468	15,963	4,741	32,174	10,975	53,339	-	3,058,515	(3,269,525)	7,264,393
-	-	-	-	-	-	-	-	-	(437,640)	-
74,166	-	-	-	-	-	-	-	-	-	866,982
-	-	-	-	-	-	27,236	-	82,410	-	3,015,856
7,446	-	-	-	-	-	53,411	71,645	1,119,636	(1,067,787)	4,842,228
-	-	-	-	-	-	-	-	-	-	493,653
21,867	-	-	-	-	-	3,843	-	64,868	-	544,082
31,507	-	-	-	-	-	18,306	-	103,479	-	800,371
13,832,024	9,682	114,175	33,078	216,793	47,820	-	-	-	-	14,631,029
-	-	-	-	-	-	30,446	-	78,247	-	6,483,169
15,264,330	11,150	130,138	37,819	248,967	58,795	186,581	71,645	4,507,155	(4,774,952)	38,941,763
(15,264,330)	(11,150)	(130,138)	(37,819)	(248,967)	(58,795)	(127,800)	(71,645)	267,797	-	(34,290,390)
14,710,921	11,859	130,034	37,820	248,737	58,673	121,156	71,645	-	-	31,321,741
14,698	83	2,068	2,035	2,825	477	-	-	32,447	-	915,747
96,374	-	-	-	-	-	61	-	-	-	192,753
-	-	-	-	-	-	-	-	-	-	144,895
-	-	-	-	-	-	-	-	-	-	(1,729,991)
59,138	-	240	30	210	-	-	-	-	-	92,465
24,912	-	-	-	-	-	-	-	124,598	-	1,631,040
-	-	-	-	-	-	(19,628)	-	-	-	(90,408)
-	-	-	-	-	-	-	-	162,114	-	(4,582)
14,906,043	11,942	132,342	39,885	251,772	59,150	101,589	71,645	319,159	-	32,473,660
(358,287)	792	2,204	2,066	2,805	355	(26,211)	-	586,956	-	(1,816,730)
-	-	-	-	-	-	-	1,369,469	-	-	5,031,035
-	-	-	-	-	-	-	-	-	-	-
(358,287)	792	2,204	2,066	2,805	355	(26,211)	1,369,469	586,956	-	3,214,305
3,243,273	1,709	48,910	46,431	74,348	10,737	38,918	(1,369,469)	1,660,959	-	86,194,542
\$ 2,884,986	\$ 2,501	\$ 51,114	\$ 48,497	\$ 77,153	\$ 11,092	\$ 12,707	\$ -	\$ 2,247,915	\$ -	\$ 89,408,847

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Federal Grantor</u>	<u>CFDA Number</u>	<u>Program Title</u>	<u>Pass Thru Entity</u>	<u>Beginning (Accrued) Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred</u>
Federal awards:							
HUD	14.181	Supportive Housing for Disabled (Mainstream)	NA	\$ (8,751)	\$ 444,447	\$ 441,303	\$ (5,607)
HUD	14.182	N/C S/R Section 8 Programs	NA	(23,802)	20,802	-	(3,000)
HUD	14.195	Section 8 HAP Program - Special allocations	NA	-	121,037	121,156	(119)
HUD	14.856	Section 8 Moderate Rehabilitation	NA	(12,612)	512,662	487,123	12,927
Total project based Section 8 cluster				(45,165)	1,098,948	1,049,582	4,201
HUD	14.850	Low Rent Public Housing	NA	(408,275)	13,692,246	13,309,777	(25,806)
HUD	14.871	Housing Choice Vouchers	NA	(32,891)	14,693,787	14,710,921	(50,025)
HUD	14.872	Public Housing Capital Fund Program	NA	(306,613)	4,498,368	5,839,534	(1,647,779)
HUD	14.885	ARRA Stimulus Capital Fund Grant	NA	-	875,336	1,441,114	(565,778)
Total U.S. Department of HUD				(792,944)	34,858,685	36,350,928	(2,285,187)
Total Federal Awards				(792,944)	34,858,685	36,350,928	(2,285,187)
State Awards:							
TN	NA	Tax Increment Grant	COK*	(216,284)	353,039	297,297	(160,542)
Total State Awards				(216,284)	353,039	297,297	(160,542)
Total Federal and State Awards				\$ (1,009,228)	\$ 35,211,724	\$ 36,648,225	\$ (2,445,729)

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	\$ 31,321,741
FDS line 706.1	Capital Grants	5,031,035
FDS line 708	Other government grants - total	297,297
	Less: PPA CFP Hard Cost	(1,848)
		<u>\$ 36,648,225</u>

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

FDS line 122	Accounts receivable - HUD other projects	\$ (2,330,759)
FDS line 124	Accounts receivable - other governments	(488,257)
FDS line 331	Accounts Payable - HUD PHA Programs	14,278
FDS line 333	Accounts payable - other government	197,724
FDS line 342	Deferred Revenue - HUD PHA Programs	<u>543,716</u>
		(2,063,298)
Less: non-grant items		
	Redevelopment	3,912
	Section 8 HCV	(61,630)
	KHDC	(6,093)
	Public Housing (Pilot, Prepaid Rent, Resident Participation)	<u>(318,620)</u>
	Net amount due from/to other governments	\$ (2,445,729)

***Legend**

COK City Of Knoxville

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

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:

CFDA Number	Name of Federal Program
14.871	Housing Choice Vouchers
14.872/14.885	Capital Fund Cluster
14.856	Section 8 Moderate Rehabilitation
14.181	Supportive Housing for Persons With Disabilities
14.195	Section 8 HAP Special Allocations

Dollar threshold used to distinguish between type A and type B programs:	\$1,033,062
Auditee qualified as low-risk auditee?	Yes

MALCOLM JOHNSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 530848
210 N. Highway 17-92
DeBary, Florida 32753-0848

Phone (386) 668-6464 Fax (386) 668-6463

**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, 2009, and have issued our report thereon dated January 20, 2010, 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.

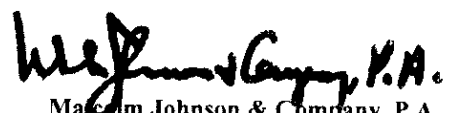
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the Authority's internal control.

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, P.A.
Certified Public Accountants

DeBary, Florida
January 20, 2010

MALCOLM JOHNSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 530848
210 N. Highway 17-92
DeBary, Florida 32753-0848

Phone (386) 668-6464 Fax (386) 668-6463

**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, 2009. 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, 2009.

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, P.A.
Certified Public Accountants

DeBary, Florida
January 20, 2010

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009
(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.