KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

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

FOR THE YEAR ENDED JUNE 30, 2013

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MALCOLM JOHNSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 530848
DeBary, Florida 32753-0848

Phone (386) 668-6464 Fax (386) 668-6463
malcolmjohnson@mpinet.net

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

Report on the Financial Statements
We have audited the accompanying financial statements of the Knoxville's Community Development Corporation (KCDC) which include the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, cash flows for the year then ended, and the related notes to the financial statements which collectively comprise KCDC's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion on 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 from material misstatement.

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

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

Opinion
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of KCDC as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting Principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i-vii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information
Our audit was conducted for the purpose of forming an opinion on KCDC's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* the Financial Data Schedule, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information referred to above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards,* we have also issued our report dated February 21, 2014 on our consideration of KCDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KCDC's internal control over financial reporting and compliance.

Malcolm Johnson & Company, P.A.

Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
February 21, 2014

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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 total net position decreased by $4.9 million (or 4.7 %) during fiscal year 2013. Since KCDC engages only in business-type activities, the decrease is all in the category of business-type net position. Net Position was $104.2 million and $99.3 million for 2012 and 2013 respectively. This decrease is primarily due to the reserve recapture from HUD, decreased federal funding and other revenue, and increased expenditure of operating funds on capital projects due to HUD's release of the restriction over operating reserves within the fiscal period.
- The business-type activities revenue decreased by $2.7 million (or 5.1 %) during fiscal year 2013. Revenues were $52.8 million and $50.1 million for 2012 and 2013 respectively. This decrease is primarily due to the decrease in program grants/subsidies which consisted of a decrease in current year capital and other government grants funding related to current year capital project needs and a decrease in other revenue from prior year capital project closeouts. There were no major property sales during this year.
- The total expenses of KCDC programs increased by $1.9 million (or 3.6 %). Total expenses were $53.1 million and $55 million for 2012 and 2013 respectively. This increase is primarily due to an increase in HAP expenses due to increased leasing and an increase in ordinary maintenance for capital related projects.

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 (new)

Basic Financial Statements
~ Authority-wide Basic Financial Statements (new)
~ Notes to Basic Financial Statements (expanded/restructured)

Supplemental Information
~ Supplemental Information

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 Position**, which is similar to a Balance Sheet. The Statement of Net Position reports all financial and capital resources for KCDC. The statement is presented in the format where assets minus liabilities, equals "Net Position", formerly known as Net Assets. 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 Position** (the "Unrestricted Net Position") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for KCDC. Net Position (formerly Net Assets) are reported in three broad categories:

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

Unrestricted Net Position: Consists of Net Position that do not meet the definition of "Net Investment in Capital Assets", or "Restricted Net Position".

The Authority-wide basic financial statements also include a **Statement of Revenues, Expenses and Changes in Net Position** (similar to an Income Statement). This Statement includes Operating Revenues, such as Rental Income, Operating Expenses, such as administrative, utilities, 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 Position is the "Change in Net Position", 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.

Authority-Wide Statement

Statement of Net Position

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

Table 1 – Statement of Net Position (in millions)

	2013	2012	Net Change	% Change
Assets				
Current and Restricted Assets	$ 43	$ 48	(5.1)	-10.65%
Capital Assets, net	83	84	(1.3)	-1.55%
Other Assets	11	10	0.8	-7.69%
Total Assets	**137**	**142**	**(5.6)**	**-3.93%**
Liabilities				
Current Liabilities	8	5	2.6	49.06%
Non-Current Liabilities	30	33	(3.3)	-10.03%
Total Liabilities	**38**	**38**	**(0.7)**	**-1.83%**
Net Postion				
Net Investment in Capital Assets	52	53	(0.7)	-1.32%
Restricted Net Position	2	1	0.2	14.29%
Unrestricted Net Position	45	50	(4.4)	-8.85%
Total Net Position	**$ 99**	**$ 104**	**(4.9)**	**-4.70%**

For more detailed information see the Statement of Net Position.

Major Factors Affecting the Statement of Net Position

Total assets decreased by $5.6 million primarily due to a decrease in receivables from prior year capital project closeout, cash from increased need and use of reserves this year, a decrease in assets held for sale, and a decrease in capital assets from increased depreciation activity from capital project closeouts. Total liabilities decreased by $0.7 million which is primarily due to current year payments for all other note and bond activity. Net Position decreased by $4.9 million this year. As mentioned previously, this decrease is primarily due to the use of reserves to fund operations as a result of a combination of decreased funding and an increase in maintenance for eligible capital related projects.

Table 2 presents details on the change in Unrestricted Net Position

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

Unrestricted Net Position June 30, 2012	**$ 49.7**
Results of Operations and special items-FY 13	(4.9)
Adjustments:	
Depreciation Expense	10.3
Adjusted results from operations	5.4
Capital expenditures from operations and restricted adjustment	(9.8)
Unrestricted Net Position June 30, 2013	**$ 45.3**

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

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

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

	2013	2012	Net Change	% Change
Revenues				
Tenant Rents/Other	$ 4.3	$ 4.7	(0.4)	-8.5%
Program Subsidies-Grants	43.1	43.9	(0.8)	-1.8%
Interest Income	0.3	0.6	(0.3)	-50.0%
Other Revenues	2.4	3.6	(1.2)	-33.3%
Total Revenues	**50.1**	**52.8**	**(2.7)**	**-5.1%**
Expenses				
Administrative	7.7	7.9	(0.2)	-2.5%
Tenant Services	0.9	0.9	-	0.0%
Utilities	3.1	2.8	0.3	10.7%
Maintenance	8.0	6.5	1.5	23.1%
Protective Services	0.5	0.5	-	0.0%
General	2.1	2.3	(0.2)	-8.7%
Interest	1.4	1.5	(0.1)	-6.7%
Extraordinary Maintenance & Casualty Losses	0.1	0.2	(0.1)	-50.0%
Housing Assistance Payments	20.9	20.7	0.2	1.0%
Depreciation	10.3	10.5	(0.2)	-1.9%
Special Items Loss/(Gain)	-	(0.7)	0.7	-100.0%
Total Expenses	**$ 55.0**	**$ 53.1**	**1.9**	**3.6%**
Decrease in Net Position	**(4.9)**	**(0.3)**	**(4.6)**	**1533.3%**

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

The decrease in revenue from last fiscal year is primarily due to the decrease in current year capital and other government grant funding related to timing of capital project needs and other income from prior year capital project closeouts. The increase in expenses from last fiscal year is primarily due to an increase in HAP expenses due to increased leasing, an increase in utility expenses, and an increase in ordinary maintenance due to current needs.

Budgetary Highlights

For the year ended June 30, 2013, 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 expenses over revenues, KCDC's net position decreased during the fiscal year. This decrease is attributable to expense decisions made to increase leasing in the Housing Choice Voucher program and increase ordinary maintenance due to current needs. The decrease in capital and other government revenue is the result of timing related to capital project needs.

Capital Assets and Debt Administration

Capital Assets

For the year ended June 30, 2013, KCDC had 82.8 million invested in a variety of capital assets as reflected in the following schedule, which represents a decrease (deductions and depreciation) of $1.3 million from the end of last year. This decrease is primarily due to current year depreciation as a result of capital project closeouts.

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

	Business-type Activities			
	2013	**2012**	**Net Change**	**%Change**
Land	$ 3.7	$ 3.7	-	0%
Buildings	222.0	220.2	1.8	0.80%
Furniture and equipment	2.0	1.9	0.1	5.30%
Accumulated depreciation	(154.9)	(149.3)	(5.6)	6.90%
Construction in progress	10.0	7.6	2.4	31.60%
Capital Assets, net	**$ 82.8**	**$ 84.1**	**(1.3)**	**-1.50%**

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 June 30, 2012	**$ 84.1**
Additions	9.0
Retirements - Net of depreciation	(10.3)
Ending Balance June 30, 2013	**$ 82.8**

Debt Outstanding

For the year ended June 30, 2013, KCDC had $ 32.5 million in debt (bonds, notes, etc.) outstanding compared to $33.2 last year, showing an $0.7 million decrease primarily due to current year payments for all other note and bond activity.

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

Business Type	2013	2012	Net Change	% Change
Capital Improvements - Long Term	$ 28.2	$ 31.3	(3.1)	-9.90%
Current Portion of Debt	4.3	1.9	2.4	126.30%
Total Debt	**$ 32.5**	**$ 33.2**	**(0.7)**	**-2.10%**

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 fuel costs, 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 Cynthia Elaine Antrican, Acting Controller, KCDC at (865) 403-1146 extension 199. Specific requests may be submitted to Tracee B. Pross, Vice President of Finance and Administration, KCDC, P. O. Box 3550, Knoxville, TN 37927-3550.

Roster of Board Members

Chairman:	R. Culver Schmid
Vice Chairman:	David Hutchins
Secretary:	Alvin J. Nance
Treasurer:	Phyllis J. Patrick
Commissioner:	Ellen Adcock
Commissioner:	Dr. Daniel P. Murphy
Commissioner:	Dr. John B. Turner
Commissioner:	Lisa Y. Wagoner

Roster of Management Officials

Alvin Nance, Executive Director/CEO
Arthur W. Cate, Jr., Chief Operating Officer
Tracee B. Pross, Vice President Finance & Administration
Jordana Nelson, General Counsel and Vice President of Redevelopment

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS	
Current assets	
Cash and cash equivalents, unrestricted	$ 16,230,361
Cash and cash equivalents, restricted	829,093
Investments, unrestricted	20,035,026
Investments, restricted	3,002,406
Accrued interest receivable	21,824
Accounts receivable, net of allowance	318,022
Due from other governments	1,158,807
Inventories, net of allowance for obsolescence of $4,710	89,493
Prepaid items	379,060
Assets held for sale	696,946
Total current assets	**42,761,038**
Noncurrent assets	
Other assets	
Notes and mortgages receivable	10,216,117
Investments in joint ventures	13,220
Debt issuance costs - unamortized	98,107
Total other assets	**10,327,444**
Capital assets	
Not being depreciated	13,797,427
Depreciable, net	69,011,689
Total capital assets, net	**82,809,116**
Other noncurrent assets	
Assets held for conveyance	893,634
Total other noncurrent assets	**893,634**
Total noncurrent assets	**94,030,194**
Total assets	**136,791,232**
LIABILITIES	
Current liabilities	
Vendors and contractors payable	394,408
Accrued wages/taxes payable	268,899
Accrued compensated absences	566,084
Accrued interest payable	422,586
Due to other governments	148,389
Unearned revenues	1,103,040
Notes and bonds payable	4,300,543
Other current liabilities	99,639
Accrued liabilities	569,849
Total current liabilities	**7,873,437**
Noncurrent liabilities	
Notes and bonds payable	28,238,860
Accrued compensated absences	1,320,861
FSS escrows	99,775
Total noncurrent liabilities	**29,659,496**
Total liabilities	**37,532,933**
NET POSITION	
Net investment in capital assets	52,416,673
Restricted	1,590,524
Unrestricted	45,251,102
Total net position	**$ 99,258,299**

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 POSITION
FOR THE YEAR ENDED JUNE 30, 2013

Operating revenues	
Rental revenue	$ 4,160,498
HUD grants	36,566,989
Other governmental grants	624,086
Other revenue	2,924,357
Total operating revenues	**44,275,930**
Operating expenses	
Administrative	7,750,049
Tenant services	852,304
Utilities	3,069,753
Ordinary maintenance & operation	8,019,702
Protective services	522,368
Insurance	554,541
General expenses	1,498,771
Housing assistance payments	20,938,575
Depreciation	10,282,330
Total operating expenses	**53,488,393**
Operating income (loss)	**(9,212,463)**
Nonoperating revenues (expenses)	
Interest revenue, unrestricted	173,899
Interest revenue, restricted	92,778
Interest expense	(1,402,775)
Gain on disposition of assets	(490,101)
Fraud recovery	120,831
Other expense	(113,019)
Cost of sale of assets	52,752
Total nonoperating revenues	**(1,565,635)**
Income (loss) before contributions	**(10,778,098)**
Capital contributions	**5,869,281**
Increase (decrease) in net assets	**(4,908,817)**
Net position, beginning of year	**104,167,116**
Net position, end of year	**$ 99,258,299**

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, 2013

Cash Flows From Operating Activities	
Receipts from dwelling rentals	$ 5,531,200
Operating grants	37,430,264
Receipts from fees	(297,240)
Other receipts	2,519,967
Payments to employees and suppliers	(19,720,624)
Payments to landlords and resident benefits	(23,055,617)
Net cash provided (used) by operating activities	**2,407,950**
Cash Flows From Noncapital Financing Activities	
Interest paid on operating debt	(1,489)
Net cash provided (used) by noncapital financing activitiews	**(1,489)**
Cash Flows From Capital and Related Financing Activities	
Capital contributions	5,859,638
Purchases of capital assets	(9,008,986)
Proceeds/(loss) from disposals of capital assets	52,752
Principal paid on capital debt	(648,165)
Interest paid on capital debt	(1,423,770)
Net cash provided (used) by capital and related financing activities	**(5,168,531)**
Cash Flows From Investing Activities	
Purchase of investments	(3,017,949)
Proceeds from homebuyer note activity - net	7,136
Investment in joint ventures	56,050
Interest	273,809
Net cash provided (used) by investing activities	**(2,680,954)**
Net increase (decrease) in cash and cash equivalents	**(5,443,024)**
Balance - beginning of the year	**22,502,478**
Balance - end of the year	**$ 17,059,454**
Reconciliation of Cash Flows to Statement of Net Position	
Cash and cash equivalents, unrestricted	**$ 16,230,361**
Cash and cash equivalents, restricted	**829,093**
	$ 17,059,454

There are no non-cash transactions.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities

Operating income/(loss)	**$ (9,212,463)**
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:	
Depreciation elimination	10,282,330
Decrease in accounts receivable	1,475,631
Increase in due to/from other governments	(235,335)
Decrease in inventory	15,259
Decrease in prepaid expenses	36,528
Decrease in other assets	10,114
Increase in accounts payable	173,394
Decrease in accrued wages	(462,641)
Increase in accrued compensated absences	116,268
Decrease in accrued liabilities	(109,701)
Increase in unearned credits	310,754
Other revenue and expense reported as nonoperating	7,812
	$ 2,407,950

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

KNOXVILLE COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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 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.
   - **Family Investment Foundation, Inc.** is a 501(c)(3) Corporation established for charitable, social, vocational, recreational and health purposes, and related business ventures.
   - **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. All debts have been paid and all projects have been sold. The corporation is now dormant.

   Main programs of KCDC are as follows:

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

   Section 8 Housing Assistance Payments Programs under Annual Contributions Contract A-3159 (Housing Choice Vouchers and 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.

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

Main programs of KCDC are as follows: (Continued)

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

Public Housing Capital Fund Cluster of Programs are programs for the modernization, demolition and redevelopment of public housing which include Capital Fund Programs.

The Manor 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.

Entrepreneurial Activities is a program which provides technical assistance to other PHA's and local governments.

Central Office Cost Center is a business unit within KCDC that earns income from fees and/or by overseeing other business activity.

Other Programs administered by KCDC are designed to give assistance to residents in a manner which encourages independence and upward mobility and provide professional services to other agencies as needed.

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 GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement* are applied in the preparation of the basic financial statements, unless those pronouncements conflict with or contradict GASB pronouncements.

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

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

3. Basis of Presentation and Accounting: (Continued)

Net Investment in Capital Assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
Restricted - Net position whose use by KCDC is subject to externally imposed stipulations that can be fulfilled by actions of KCDC pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.
Unrestricted – Net position that is not subject to externally imposed stipulations. Unrestricted net position 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.

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, 2013 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

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 $5,000 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 position are available.

18. **Operating Revenues and Expenses:** The principal operating revenues of KCDC's enterprise fund are charges to customers for rents and services. Operating expenses for KCDC's enterprise fund include the cost of providing housing and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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 deposit and investments at June 30, 2013:

Deposits:

Demand deposits – carrying value	**$ 17,057,679**

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks (Continued)

Investment:

Investment	Maturity Date	Amortized Value	Moody's Rating	S & P Rating	Callable
FHMLC	2/24/2015	$ 1,000,000	Aaa	AA+	Yes
FHLB	3/12/2015	999,620	Aaa	AA+	Yes
FHLB	4/30/2015	1,000,000	Aaa	AA+	Yes
FFCB	8/6/2015	1,000,000	Aaa	AA+	Yes
FNMA	8/7/2015	999,788	Aaa	AA+	Yes
FFCB	10/16/2015	1,000,000	Aaa	AA+	Yes
FNMA	11/27/2015	2,001,600	Aaa	AA+	Yes
FHLB	12/28/2015	2,000,415	Aaa	AA+	Yes
FNMA	1/29/2016	499,828	Aaa	AA+	Yes
FNMA	1/29/2016	1,500,000	Aaa	AA+	Yes
FFCB	2/8/2016	1,000,000	Aaa	AA+	Yes
FFCB	3/7/2016	1,000,000	Aaa	AA+	Yes
FFCB	3/28/2016	999,771	Aaa	AA+	Yes
FFCB	4/11/2016	1,000,000	Aaa	AA+	Yes
FFCB	4/18/2016	999,027	Aaa	AA+	Yes
FFCB	5/9/2016	999,008	Aaa	AA+	Yes
FFCB	5/23/2016	999,710	Aaa	AA+	Yes
FHMLC	6/20/2016	1,989,812	Aaa	AA+	Yes
Total Securities		**$ 20,988,579**			

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks (Continued)

Restricted - HCV	$ 953,553
Unrestricted	20,035,026
	20,988,579
Restricted investments - LRPH	
Revenue fund	194,987
Debt service fund	44,659
Debt service reserve	1,806,488
Program expense fund	2,719
	2,048,853
Demand Deposits (Carrying Value)	**17,057,679**
Total Deposits and Investments	**40,095,111**
Petty cash on hand	1,775
Total Cash and Investments	**$ 40,096,886**
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents - unrestricted	$ 16,230,361
Cash and cash equivalents - restricted	829,093
Investments - unrestricted	20,035,026
Investments - restricted	3,002,406
	$ 40,096,886

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.

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks (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, 2013, 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, 2013, the investments held by KCDC mature February 24, 2015 through June 20, 2016. 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 $2,048,853. This represents 8.89% of KCDC's total investment portfolio. The funds are deposited in accordance with Trust Indenture requirements.

C - Accounts Receivable:

Affiliates	$ 262,249
Tenant accounts net of allowance for doubtful accounts of $41,647	46,316
Other	9,457
	$ 318,022

D - Due From Other Governments:

U.S. Department of HUD	$ 462,481
Local Governments	696,326
	$ 1,158,807

E - Prepaid Items:

Prepaid insurance	$ 200,899
Other prepayments	178,161
	$ 379,060

F - Assets held for Conveyance:

In its capacity as a local redevelopment agency, KCDC contracts with other local governmental agencies for various types of redevelopment projects. These projects may range from relatively minor projects such as rehabilitation of family dwellings up to much larger commercial redevelopment endeavors.

In the course of this activity, KCDC often assumes ownership of selected properties during the rehabilitation period, only to transfer or sell these properties in accordance with the contract with the respective local governments.

The prior year ended June 30, 2012 was the first year in which these transactions were recorded. At that time the recorded amount was based upon estimates. In the current year more accurate data was obtained which resulted in a decrease of $490,101. This decrease has been recorded in the current year operations rather than as a prior year restatement. The current portion is $696,946. The noncurrent portion is $893,634.

G - Notes and Mortgages Receivable:

Type	Reference	Current	Long-Term	Total
Mortgages		$ -	$ -	$ -
HOPE VI Loans -				
-Passport Homes LP - a	1	-	359,386	359,386
-Passport Homes LP - b	1	-	1,242,000	1,242,000
-Passport Residencies LP - a	2	-	489,718	489,718
-Passport Residencies LP - b	2	-	2,214,951	2,214,951
-Homebuyers forgivable - a	3		10,490	10,490
Redevelopment Loan				
-Passport Homes LP	1	-	592,139	592,139
Capital Fund Loan				
-Passport Residencies LP	2	-	270,510	270,510
Capital Funds Loan				
-Eastport Development LP	4	-	100,000	100,000
ARRA Loan				
-Eastport Development LP	4	-	4,058,273	4,058,273
KHDC Loan				
-Eastport Development LP	4	-	128,650	128,650
Passport Dev Corp				
-Eastport Development LP	4	-	750,000	750,000
Totals		**$ -**	**$ 10,216,117**	**$10,216,117**

1. **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.

G - Notes and Mortgages Receivable: (Continued)

1. Passport Homes Limited Partnership (Continued)

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.

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

2. 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

3. Homebuyers (forgivable) - KCDC sells homes to qualifying families and provides soft second mortgages which are forgivable in annual portions contingent upon certain program requirements.

G - Notes and Mortgages Receivable: (Continued)

4. **Eastport Development Limited Partnership** - KCDC entered into a mixed financing arrangement with Eastport Development, L.P. (EDLP) for the addition of 60 public housing units as part of The Residences at Eastport II in the Five Points Community in Knoxville, Tennessee. As of June 30, 2012, the project was completed. The notes receivable consist of $100,000 in KCDC's Capital Fund Program, $4,058,273 in ARRA funds, $128,650 in Knoxville's Housing Development Corporation (KHDC) funds and $750,000 in Passport Development Corporation (PDC) funds. The prior year Construction note (KHDC) of $2.308,211 has been paid.

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

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

In cooperation with HUD, the Capital and ARRA Funds are being loaned to EDLP, and are due 40 years after completion of the project. The capital improvements purchased with these funds are reflected on the financial statements of EDLP.

	Interest Accrual Rate	Maturity Date
Capital Funds Loan	0% annually	October 1, 2051
ARRA Funds Loan	0% annually	October 1, 2051
KHDC Loan	0% annually	October 1, 2051
Passport Development Corporation Loan	0% annually	October 1, 2051

H - Land, Buildings and Equipment:

	Balance June 30, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Not being depreciated:					
Land	$ 3,743,359	$ -	$ -	$ -	$ 3,743,359
Construction in progress	7,573,655	7,703,565	-	(5,223,152)	10,054,068
Total not being depreciated	**11,317,014**	**7,703,565**	-	**(5,223,152)**	**13,797,427**
Depreciable:					
Buildings & improvements	220,146,827	1,067,145	(4,487,965)	5,223,152	221,949,159
Accumulated depreciation	(147,453,570)	(10,228,303)	4,487,965	-	(153,193,908)
Net buildings & improvements	**72,693,257**	**(9,161,158)**	-	**5,223,152**	**68,755,251**
Equipment	1,903,969	238,276	(167,078)	-	1,975,167
Accumulated depreciation	(1,831,780)	(54,027)	167,078	-	(1,718,729)
Net equipment	**72,189**	**184,249**	-	-	**256,438**
Net depreciable assets	**72,765,446**	**(8,976,909)**	-	**5,223,152**	**69,011,689**
TOTAL	**$ 84,082,460**	**$ (1,273,344)**	**$ -**	**$ -**	**$ 82,809,116**

I - Due to Other Governments:

City of Knoxville (PILOT)	$ 117,536
U.S. Department of HUD	30,853
	$ 148,389

J - Deferred Revenues:

Local Governments	$ 488,586
HUD	500,772
Prepaid Rents	64,404
Resident Association and Other	49,278
	$ 1,103,040

K - Notes and Bonds Payable:

Reference	Interest Expense	Current	Long-Term	Total
1	$ 69,909	$ 2,383,796	$ -	$ 2,383,796
2	71,151	159,800	1,136,300	1,296,100
3	59,543	85,395	1,785,509	1,870,904
4	766,410	1,040,000	15,160,000	16,200,000
5	392,381	391,552	8,032,386	8,423,938
6	-	240,000	373,049	613,049
7	33,267	-	1,751,616	1,751,616
	$ 1,392,661	$ 4,300,543	$ 28,238,860	$ 32,539,403

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 with a maturity date of October 31, 2013. The outstanding balance as of June 30, 2013 was $2,383,796. The balance of the loan is due in full in the fiscal year 2014.

K - Notes and Bonds Payable: (Continued)

2. 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, 2013 is $1,296,100. Future projected payments are as follows:

	Principal	Interest
2014	$ 159,800	$ 64,805
2015	167,200	56,815
2016	175,400	48,455
2017	183,700	39,685
2018	193,400	30500
2019-2020	416,600	31,505
	$ 1,296,100	$ 271,765

3. 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 was paid in full in March 2010 and refinanced through Sun Trust Bank in the amount of $2,130,465: The note bears interest at 3.1134% annum. The note is to be paid in monthly increments of $11,869 for a five year term ending March 15, 2015. The outstanding balance as of June 30, 2013 was $1,870,904. Future projected payments are as follows:

	Principal	Interest
2014	$ 85,395	$ 57,027
2015	1,785,509	40,897
	$ 1,870,904	$ 97,924

4. 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, 2013 was $16,200,000. The Bonds are payable as follows:

K - Notes and Bonds Payable: (Continued)

	Principal	Interest
2014	$ 1,040,000	$ 714,410
2015	1,090,000	670,810
2016	1,135,000	614,060
2017	1,190,000	554,560
2018	1,250,000	499,560
2019-2022	7,145,000	1,543,010
2023-2025	3,350,000	85,750
	$ 16,200,000	**$ 4,682,160**

5. 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 that 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, 2013 of $8,423,938. The capital lease is payable as follows:

	Principal	Interest
2014	$ 391,552	$ 375,958
2015	409,782	357,728
2016	428,860	338,649
2017	448,827	318,682
2018	469,724	297,786
2019-2022	2,697,747	1,139,801
2023-2027	3,387,018	450,530
2028-2029	190,428	1,450
	$ 8,423,938	**$ 3,280,584**

6. On March 13, 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:

K - Notes and Bonds Payable: (Continued)

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 met eligibility criteria, the loan would have been 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. However, HUD determined that the HOME criteria had not been met with the conversion of the property to Public Housing so the note is now due and is not forgivable. The outstanding balance as of June 30, 2013 was $240,000 with final payment to be made in fiscal year 2014.

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, 2014
50% of the $497,399 or $248,699 on August 30, 2024

The outstanding balance as of June 30, 2013 was $373,049.

The outstanding balance for both notes as of June 30, 2013 was $613,049.

7. On December 29, 2011 KCDC issued a promissory note to Home Federal Bank in an amount up to $2,160,000. The majority of the proceeds from the loan, $1,880,000, are being used to finance the development of the land and the construction of improvements thereon consisting of an approximately 16,000 square foot office building, a portion of which will be leased to the State of Tennessee for use by the Department of Labor and Workforce Development which office building shall be of benefit to the residents of the Mechanicsville redevelopment area. The remainder of the proceeds, $280,000, will be held for the completion of the build out of the second floor improvements contingent upon entering into a lease agreement for all or a portion of the second floor. Interest only payments shall be payable for which such interest accrues commencing on January 29, 2012 through and including December 29, 2014. The note bears interest at 3.0% per annum. Principal and interest shall thereafter be payable on January 29, 2015; however, the full principal balance hereof and all accrued interest thereon shall be due and payable on December 29, 2017. Upon conversion to a permanent loan, monthly payments shall be calculated so as to fully amortize the principal balance of the Note over an amortization period of 20 years. The amount of such payments shall be $12,027 per month. The outstanding balance as of June 30, 2013 was $1,751,616.

K - Notes and Bonds Payable: (Continued)

8. KCDC 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:

Tax Increment Financing Summary

Redevelopment Project	Location	Principal(s)	Date Approved	TIF Amount	Capital Investment
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	$500,000	$6,100,000
3. Gay Street Burwell Building	602 S. Gay	Cardinal Investment Properties, LLC Brian Conley	10-25-05	$855,796	$7,450,000
4. Gay Street (Charter Federal Building/Holston Bldg)	123 S. Gay	HNB Development, LLC Thomas Grace & Dewhirst	10-25-05	$1,600,000	$13,725,000
5. World's Fair Park (Candy Factory & Houses)	Clinch & 11th St.	Kinsey, Probasco, Hays	1-17-06	$1,600,000	$13,407,000
6. Old Knoxville Glove Factory (Citiview@Riverwalk)	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	$1,441,802	$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	$240,000	$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

K - Notes and Bonds Payable: (Continued)

12. Brownlow (Brownlow School)	1305 Luttrell	KP Jon Kinsey	9-27-2007	$542,284	$5,450,000
13. Jackson/Depot (JFG Lofts)	200-202 W. Jackson	Dewhirst Properties David Dewhirst	1-29-2008	$810,000	$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	$812,500	$4,908,189
16. Fifth Avenue Condos	605,607 King Street 201,209 W.5th Ave	Svend Brooks, Tim. Wesley, Earl Worsham	3-26-09	$356,000	$3,734,762
17. Daylight Building	501 Union Avenue	David Dewhurst Mark Heinz	6-25-09	$959,000	$6,745,000
18. The Landings	710 East Hill Ave	Aaron White Hunter Connelly	8-27-09	$1,500,000	$28,240,321
19. Harold's Building	131 S. Gay Street	John W. Craig Timothy Hill Michael Hatcher	8-27-09	$129,000	$847,866
20. University Commons	Kingston Pike	Jim Harrison Bud Cullom	4-26-12	$10,000,000	$62,000,000
21. The Landings, Phase II	930 Riverside Forest Way	Aaron White Hunter Connelly	8-27-09	$715,000	see No. 18

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 2013.

L - Other Liabilities:

	Current	Long-Term
FSS escrows	$ 92,347	$ 99,775
Contract retainage	5,980	-
Other	1,312	-
	$ 99,639	$ 99,775

M - Accrued Liabilities

Contractors	$ 461,501
Capital lease fee	63,760
Accrued utilities	44,588
	$ 569,849

N - Schedule of Changes in Noncurrent Liabilities:

	June 30, 2012		Year Ended June 30, 2013		June 30, 2013	
	Long-term Portion	Current Portion	Additions	Payments	Current Portion	Long-term Portion
Notes and bonds payable	$ 31,251,408	$ 1,936,160	$ 2,160,000	$ (2,808,165)	$ 4,300,543	$ 28,238,860
Accrued compensated absences	1,485,688	449,816	325,059	(373,618)	566,084	1,320,861
FSS Escrows	103,345	47,183	59,099	(17,505)	92,347	99,775
	$ 32,840,441	$ 2,433,159	$ 2,544,158	$ (3,199,288)	$ 4,958,974	$ 29,659,496

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, 2013 were $12,148,602. HUD also contributed additional funds through the Capital fund and ARRA programs for modernization and operations in the amount of $7,302,921.

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, 2013 were as follows:

Housing Choice Vouchers	$ 21,948,948
Section 8 Moderate Rehabilitation	512,694
Supportive Housing for Persons with Disabilities	523,105
	$ 22,984,747

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 2013 was $7,604,132. Payroll covered by the pension plan was $6,808,452. KCDC made the required contributions amounting to $826,006, and employees made elective contributions of $4,261.

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.

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 85% of its revenue from HUD. If the amount of revenues received from HUD falls below critical levels, KCDC's reserves could be adversely affected.

S - **Contingencies:**

1. 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. There were no such examinations for the year ended June 30, 2013.

2. KCDC is a defendant in various lawsuits and has retained outside counsel to vigorously defend such litigation. The outcome of these cases is currently indeterminable and, therefore, management believes that it is unlikely that resolution of these matters will have a material adverse effect on the financial condition of KCDC.

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 and other sources. In this regard, KCDC has entered into construction-type contracts with approximately $1,803,485 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. and a 99-year ground lease with Passport Residences, L.P. for the development of HOPE VI housing. KCDC has also entered into a ground lease with Eastport Development LP for the development of a low income housing project.

SUPPLEMENTAL INFORMATION

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF NET ASSETS
JUNE 30, 2013

ASSETS	Low Rent Public Housing Program	Section 8 Housing Choice Voucher Program	Blended Component Units	State & Local Programs	Other Business Activities	Supportive Housing for Persons with Disabilities	Neighborhood Stabilization Program	Section 8 Moderate Rehabilitation Program	Community Development Block Grant	Central Office Cost Center	Eliminations	Total 2013
Current assets												
Cash and cash equivalents, unrestricted	$ 9,194,351	$ 304,891	$ 3,432,688	$ 341,508	$ 139,990	$ 17,123	$ -	$ 77,161	$ -	$ 2,722,649	$ -	$ 16,230,361
Cash and cash equivalents, restricted	-	829,093	-	-	-	-	-	-	-	-	-	829,093
Investments, unrestricted	10,872,914	289,324	5,745,479	34,407	141,883	13,675	-	113,274	-	2,824,070	-	20,035,026
Investments, restricted	2,048,853	953,553	-	-	-	-	-	-	-	-	-	3,002,406
Accrued interest receivable	10,891	1,245	5,756	34	142	14	-	112	-	3,630	-	21,824
Accounts receivable, net of allowance	35,989	15,337	266,217	-	230	-	-	249	-	-	-	318,022
Due from other governments	441,782	12,843	165,552	530,774	-	-	-	7,856	-	-	-	1,158,807
Inventories, net of allowance for obsolescence of $4,710	49,888	-	-	-	-	-	-	-	-	39,605	-	89,493
Prepaid items	203,715	12,588	5,813	979	45	-	-	-	-	155,920	-	379,060
Assets held for sale	-	-	-	696,946	-	-	-	-	-	-	-	696,946
Total current assets	**22,858,383**	**2,418,874**	**9,621,505**	**1,604,648**	**282,290**	**30,812**	-	**198,652**	-	**5,745,874**	-	**42,761,038**
Noncurrent assets												
Other assets												
Notes and mortgages receivable	8,734,838	-	889,140	592,139	-	-	-	-	-	-	-	10,216,117
Investments in joint ventures	-	-	13,220	-	-	-	-	-	-	-	-	13,220
Debt issuance costs - unamortized	75,103	-	23,004	-	-	-	-	-	-	-	-	98,107
Total other assets	**8,809,941**	-	**925,364**	**592,139**	-	-	-	-	-	-	-	**10,327,444**
Capital assets												
Not being depreciated	12,952,806	-	152,035	451,286	-	-	241,300	-	-	-	-	13,797,427
Depreciable, net	63,134,093	-	5,822,153	-	-	-	-	-	-	55,443	-	69,011,689
Total capital assets, net	**76,086,899**	-	**5,974,188**	**451,286**	-	-	**241,300**	-	-	**55,443**	-	**82,809,116**
Other noncurrent assets												
Assets held for conveyance	-	-	-	893,634	-	-	-	-	-	-	-	893,634
Total other noncurrent assets	-	-	-	**893,634**	-	-	-	-	-	-	-	**893,634**
Total noncurrent assets	**84,896,840**	-	**6,899,552**	**1,937,059**	-	-	**241,300**	-	-	**55,443**	-	**94,030,194**
Total assets	107,755,223	2,418,874	16,521,057	3,541,707	282,290	30,812	241,300	198,652	-	5,801,317	-	136,791,232

LIABILITIES												
Current liabilities												
Vendors and contractors payable	310,628	23,582	5,049	2,325	6,098	-	-	-	-	46,726	-	394,408
Accrued wages/taxes payable	139,505	21,197	-	715	2,047	-	-	-	-	105,435	-	268,899
Accrued compensated absences	248,224	26,532	-	2,597	11,204	-	-	-	-	277,527	-	566,084
Accrued interest payable	405,609	-	16,977	-	-	-	-	-	-	-	-	422,586
Due to other governments	117,536	13,271	-	-	-	7,991	-	9,591	-	-	-	148,389
Unearned revenues	607,594	6,860	-	488,586	-	-	-	-	-	-	-	1,103,040
Notes and bonds payable	1,671,552	-	2,628,991	-	-	-	-	-	-	-	-	4,300,543
Other current liabilities	6,192	92,347	-	1,100	-	-	-	-	-	-	-	99,639
Accrued liabilities	220,076	-	877	348,896	-	-	-	-	-	-	-	569,849
Total current liabilities	**3,726,916**	**183,789**	**2,651,894**	**844,219**	**19,349**	**7,991**	-	**9,591**	-	**429,688**	-	**7,873,437**
Noncurrent liabilities												
Notes and bonds payable	23,565,435	-	4,673,425	-	-	-	-	-	-	-	-	28,238,860
Accrued compensated absences	579,190	61,907	-	6,060	26,142	-	-	-	-	647,562	-	1,320,861
FSS escrows	-	99,775	-	-	-	-	-	-	-	-	-	99,775
Total noncurrent liabilities	**24,144,625**	**161,682**	**4,673,425**	**6,060**	**26,142**	-	-	-	-	**647,562**	-	**29,659,496**
Total liabilities	**27,871,541**	**345,471**	**7,325,319**	**850,279**	**45,491**	**7,991**	-	**9,591**	-	**1,077,250**	-	**37,532,933**
NET POSITION												
Net investment in capital assets	52,973,868	-	(1,305,224)	451,286	-	-	241,300	-	-	55,443	-	52,416,673
Restricted	-	1,590,524	-	-	-	-	-	-	-	-	-	1,590,524
Unrestricted	26,909,814	482,879	10,500,962	2,240,142	236,799	22,821	-	189,061	-	4,668,624	-	45,251,102
Total net position	**$ 79,883,682**	**$ 2,073,403**	**$ 9,195,738**	**$ 2,691,428**	**$ 236,799**	**$ 22,821**	**$ 241,300**	**$ 189,061**	**$ -**	**$ 4,724,067**	**$ -**	**$ 99,258,299**

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Low Rent Public Housing Program	Section 8 Housing Choice Voucher Program	Blended Component Units	State & Local Programs	Other Business Activities	Supportive Housing for Persons with Disabilities	Neighborhood Stabilization Program	Section 8 Moderate Rehabilitation Program	Community Development Block Grant	Central Office Cost Center	Eliminations	Total 2013
Operating revenues												
Rental revenue	$ 4,160,498	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,160,498
Fee revenue	-	-	-	-	-	-	-	-	-	5,155,527	(5,155,527)	-
HUD grants	13,582,242	21,948,948	-	-	-	523,105	-	512,694	-	-	-	36,566,989
Other governmental grants	-	-	307,532	-	-	-	241,300	-	75,254	-	-	624,086
Other revenue	617,957	16,162	693,727	1,339,174	247,805	-	-	-	-	251,894	(242,362)	2,924,357
Total operating revenues	**18,360,697**	**21,965,110**	**1,001,259**	**1,339,174**	**247,805**	**523,105**	**241,300**	**512,694**	**75,254**	**5,407,421**	**(5,397,889)**	**44,275,930**
Operating expenses												
Administrative	5,997,862	1,739,863	100,690	212,797	21,939	68,682	-	58,330	-	3,209,284	(3,659,398)	7,750,049
Asset management fee	394,780	-	-	-	-	-	-	-	-	-	(394,780)	-
Tenant services	449,554	102,575	9,360	25,254	265,236	-	-	-	-	325	-	852,304
Utilities	2,987,278	-	9,898	1,354	-	-	-	-	-	71,223	-	3,069,753
Ordinary maintenance & operation	7,355,883	5,162	60,449	629,388	695	-	-	-	59,535	1,064,637	(1,156,047)	8,019,702
Protective services	500,445	-	-	21,923	-	-	-	-	-	-	-	522,368
Insurance	471,554	21,521	8,398	1,261	385	-	-	-	-	51,422	-	554,541
General expenses	1,189,234	112,938	63,187	6,378	20,106	-	-	(109)	-	294,701	(187,664)	1,498,771
Housing assistance payments	-	20,030,462	-	-	-	454,462	-	453,651	-	-	-	20,938,575
Depreciation	10,048,932	-	227,955	-	-	-	-	-	-	5,443	-	10,282,330
Total operating expenses	**29,395,522**	**22,012,521**	**479,937**	**898,355**	**308,361**	**523,144**	**-**	**511,872**	**59,535**	**4,697,035**	**(5,397,889)**	**53,488,393**
Operating income (loss)	**(11,034,825)**	**(47,411)**	**521,322**	**440,819**	**(60,556)**	**(39)**	**241,300**	**822**	**15,719**	**710,386**	**-**	**(9,212,463)**
Nonoperating revenues (expenses)												
Interest revenue, unrestricted	100,756	2,949	42,210	1,849	1,429	223	-	896	-	23,587	-	173,899
Interest revenue, restricted	92,778	-	-	-	-	-	-	-	-	-	-	92,778
Interest expense	(1,165,618)	-	(237,157)	-	-	-	-	-	-	-	-	(1,402,775)
Gain on disposition of assets	-	-	-	(490,101)	-	-	-	-	-	-	-	(490,101)
Fraud recovery	42,305	78,511	-	-	-	-	-	15	-	-	-	120,831
Other expense	(109,127)	-	(800)	-	-	-	-	-	-	(3,092)	-	(113,019)
Cost of sale of assets	25,931	-	-	-	-	-	-	-	-	26,821	-	52,752
Total nonoperating revenues	**(1,012,975)**	**81,460**	**(195,747)**	**(488,252)**	**1,429**	**223**	**-**	**911**	**-**	**47,316**	**-**	**(1,565,635)**
Income (loss) before contributions and transfers	**(12,047,800)**	**34,049**	**325,575**	**(47,433)**	**(59,127)**	**184**	**241,300**	**1,733**	**15,719**	**757,702**	**-**	**(10,778,098)**
Capital contributions	**5,869,281**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,869,281**
Transfers from (to) other entities	**1,836,975**	**-**	**(1,820,810)**	**-**	**-**	**-**	**(446)**	**-**	**(15,719)**	**-**	**-**	**-**
Increase (decrease) in net assets	**(4,341,544)**	**34,049**	**(1,495,235)**	**(47,433)**	**(59,127)**	**184**	**240,854**	**1,733**	**-**	**757,702**	**-**	**(4,908,817)**
Net position, beginning of year	**84,225,226**	**2,039,354**	**10,690,973**	**2,738,861**	**295,926**	**22,637**	**446**	**187,328**	**-**	**3,966,365**	**-**	**104,167,116**
Net position, end of year	**$ 79,883,682**	**$ 2,073,403**	**$ 9,195,738**	**$ 2,691,428**	**$ 236,799**	**$ 22,821**	**$ 241,300**	**$ 189,061**	**$ -**	**$ 4,724,067**	**$ -**	**$ 99,258,299**

Knoxville's Community Development Corp. (TN003)
KNOXVILLE, TN
Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133 Fiscal Year End: 06/30/2013

	Project Total	14.871 Housing Choice Vouchers	14.181 Supportive Housing for Persons with Disabilities	14.256 Neighborhood Stabilization Program (Recovery Act Funded)	6 Component Units	14.218 Community Development Block Grants/ Entitlement Grants	2 State/Local	1 Business Activities	14.856 Lower Income Housing Assistance Program_ Section 8 Moderate	COCC	Subtotal	ELIM	Total
111 Cash - Unrestricted	$9,194,351	$304,891	$17,123		$3,432,688		$341,508	$139,990	$77,161	$2,722,649	$16,230,361		$16,230,361
112 Cash - Restricted - Modernization and Development									$0				
113 Cash - Other Restricted		$829,093							$0		$829,093		$829,093
114 Cash - Tenant Security Deposits									$0				
115 Cash - Restricted for Payment of Current Liabilities									$0				
100 Total Cash	$9,194,351	$1,133,984	$17,123	$0	$3,432,688	$0	$341,508	$139,990	$77,161	$2,722,649	$17,059,454	$0	$17,059,454
121 Accounts Receivable - PHA Projects									$0				
122 Accounts Receivable - HUD Other Projects	$441,782	$12,843							$7,856		$462,481		$462,481
124 Accounts Receivable - Other Government					$165,552		$530,774		$0		$696,326		$696,326
125 Accounts Receivable - Miscellaneous	$4,139	$1,120			$266,217			$230	$0		$271,706		$271,706
126 Accounts Receivable - Tenants	$52,098								$0		$52,098		$52,098
126.1 Allowance for Doubtful Accounts -Tenants	-$21,188						$0		$0		-$21,188		-$21,188
126.2 Allowance for Doubtful Accounts - Other	$0	$0			$0		$0	$0	$0		$0		$0
127 Notes, Loans, & Mortgages Receivable - Current									$0				
128 Fraud Recovery	$940	$34,676							$249		$35,865		$35,865
128.1 Allowance for Doubtful Accounts - Fraud	$0	-$20,459							$0		-$20,459		-$20,459
129 Accrued Interest Receivable	$10,891	$1,245	$14		$5,756		$34	$142	$112	$3,630	$21,824		$21,824
120 Total Receivables, Net of Allowances for Doubtful Accounts	$488,662	$29,425	$14	$0	$437,525	$0	$530,808	$372	$8,217	$3,630	$1,498,653	$0	$1,498,653
131 Investments - Unrestricted	$10,872,914	$289,324	$13,675		$5,745,479		$34,407	$141,883	$113,274	$2,824,070	$20,035,026		$20,035,026
132 Investments - Restricted	$2,048,853	$953,553							$0		$3,002,406		$3,002,406
135 Investments - Restricted for Payment of Current Liability									$0				
142 Prepaid Expenses and Other Assets	$203,715	$12,588			$5,813		$979	$45	$0	$155,920	$379,060		$379,060
143 Inventories	$52,513								$0	$41,690	$94,203		$94,203
143.1 Allowance for Obsolete Inventories	-$2,625								$0	-$2,085	-$4,710		-$4,710
144 Inter Program Due From									$0				
145 Assets Held for Sale							$696,946		$0		$696,946		$696,946
150 Total Current Assets	$22,858,383	$2,418,874	$30,812	$0	$9,621,505	$0	$1,604,648	$282,290	$198,652	$5,745,874	$42,761,038	$0	$42,761,038
161 Land	$3,543,324				$152,035		$48,000		$0		$3,743,359		$3,743,359
162 Buildings	$213,714,014				$8,217,026				$0	$18,119	$221,949,159		$221,949,159
163 Furniture, Equipment & Machinery - Dwellings									$0				
164 Furniture, Equipment & Machinery - Administration	$827,651	$25,766					$21,183		$0	$1,100,567	$1,975,167		$1,975,167
165 Leasehold Improvements									$0				
166 Accumulated Depreciation	-$151,407,572	-$25,766			-$2,394,873		-$21,183		$0	-$1,063,243	-$154,912,637		-$154,912,637
167 Construction in Progress	$9,409,482			$241,300			$403,286		$0		$10,054,068		$10,054,068

168 Infrastructure									$0				
160 Total Capital Assets, Net of Accumulated Depreciation	$76,086,899	$0	$0	$241,300	$5,974,188	$0	$451,286	$0	$0	$55,443	$82,809,116	$0	$82,809,116
171 Notes, Loans and Mortgages Receivable - Non-Current	$8,734,838				$889,140		$592,139		$0		$10,216,117		$10,216,117
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due									$0				
173 Grants Receivable - Non Current									$0				
174 Other Assets	$75,103				$23,004		$893,634		$0		$991,741		$991,741
176 Investments in Joint Ventures					$13,220				$0		$13,220		$13,220
180 Total Non-Current Assets	$84,896,840	$0	$0	$241,300	$6,899,552	$0	$1,937,059	$0	$0	$55,443	$94,030,194	$0	$94,030,194
190 Total Assets	$107,755,223	$2,418,874	$30,812	$241,300	$16,521,057	$0	$3,541,707	$282,290	$198,652	$5,801,317	$136,791,232	$0	$136,791,232
311 Bank Overdraft									$0				
312 Accounts Payable <= 90 Days	$310,628	$23,582			$5,049		$2,325	$6,098	$0	$46,726	$394,408		$394,408
313 Accounts Payable >90 Days Past Due									$0				
321 Accrued Wage/Payroll Taxes Payable	$139,505	$21,197					$715	$2,047	$0	$105,435	$268,899		$268,899
322 Accrued Compensated Absences - Current Portion	$248,224	$26,532					$2,597	$11,204	$0	$277,527	$566,084		$566,084
324 Accrued Contingency Liability									$0				
325 Accrued Interest Payable	$405,609				$16,977				$0		$422,586		$422,586
331 Accounts Payable - HUD PHA Programs		$13,271	$7,991						$9,591		$30,853		$30,853
332 Account Payable - PHA Projects									$0				
333 Accounts Payable - Other Government	$117,536								$0		$117,536		$117,536
341 Tenant Security Deposits									$0				
342 Deferred Revenues	$607,594	$6,860					$488,586		$0		$1,103,040		$1,103,040
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	$1,671,552				$2,628,991				$0		$4,300,543		$4,300,543
344 Current Portion of Long-term Debt - Operating Borrowings									$0				
345 Other Current Liabilities	$6,192	$92,347					$1,100		$0		$99,639		$99,639
346 Accrued Liabilities - Other	$220,076				$877		$348,896		$0		$569,849		$569,849
347 Inter Program - Due To									$0				
348 Loan Liability - Current									$0				
310 Total Current Liabilities	$3,726,916	$183,789	$7,991	$0	$2,651,894	$0	$844,219	$19,349	$9,591	$429,688	$7,873,437	$0	$7,873,437
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	$23,565,435				$4,673,425				$0		$28,238,860		$28,238,860
352 Long-term Debt, Net of Current - Operating Borrowings									$0				
353 Non-current Liabilities - Other		$99,775							$0		$99,775		$99,775
354 Accrued Compensated Absences - Non Current	$579,190	$61,907					$6,060	$26,142	$0	$647,562	$1,320,861		$1,320,861
355 Loan Liability - Non Current									$0				
356 FASB 5 Liabilities									$0				
357 Accrued Pension and OPEB Liabilities									$0				
350 Total Non-Current Liabilities	$24,144,625	$161,682	$0	$0	$4,673,425	$0	$6,060	$26,142	$0	$647,562	$29,659,496	$0	$29,659,496
300 Total Liabilities	$27,871,541	$345,471	$7,991	$0	$7,325,319	$0	$850,279	$45,491	$9,591	$1,077,250	$37,532,933	$0	$37,532,933
508.1 Invested In Capital Assets, Net of Related Debt	$52,973,868			$241,300	-$1,305,224		$451,286		$0	$55,443	$52,416,673		$52,416,673
509.2 Fund Balance Reserved									$0				

511.2 Unreserved, Designated Fund Balance									$0				
511.1 Restricted Net Assets		$1,590,524							$0		$1,590,524		$1,590,524
512.1 Unrestricted Net Assets	$26,909,814	$482,879	$22,821	$0	$10,500,962	$0	$2,240,142	$236,799	$189,061	$4,668,624	$45,251,102		$45,251,102
512.2 Unreserved, Undesignated Fund Balance									$0				
513 Total Equity/Net Assets	$79,883,682	$2,073,403	$22,821	$241,300	$9,195,738	$0	$2,691,428	$236,799	$189,061	$4,724,067	$99,258,299	$0	$99,258,299
600 Total Liabilities and Equity/Net Assets	$107,755,223	$2,418,874	$30,812	$241,300	$16,521,057	$0	$3,541,707	$282,290	$198,652	$5,801,317	$136,791,232	$0	$136,791,232

Knoxville's Community Development Corp. (TN003)
KNOXVILLE, TN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133 Fiscal Year End: 06/30/2013

	Project Total	14.871 Housing Choice Vouchers	14.181 Supportive Housing for Persons with Disabilities	14.256 Neighborhood Stabilization Program (Recovery Act Funded)	6 Component Units	14.218 Community Development Block Grants/ Entitlement Grants	2 State/Local	1 Business Activities	14.856 Lower Income Housing Assistance Program_ Section 8 Moderate	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	$4,160,498								$0		$4,160,498		$4,160,498
70400 Tenant Revenue - Other	$187,151								$0		$187,151		$187,151
70500 Total Tenant Revenue	$4,347,649	$0	$0	$0	$0	$0	$0	$0	$0	$0	$4,347,649	$0	$4,347,649
70600 HUD PHA Operating Grants	$13,582,242	$21,948,948	$523,105						$512,694		$36,566,989		$36,566,989
70610 Capital Grants	$5,869,281								$0		$5,869,281		$5,869,281
70710 Management Fee									$0	$2,959,001	$2,959,001	-$2,959,001	$0
70720 Asset Management Fee									$0	$394,780	$394,780	-$394,780	$0
70730 Book Keeping Fee									$0	$645,699	$645,699	-$645,699	$0
70740 Front Line Service Fee									$0	$1,156,047	$1,156,047	-$1,156,047	$0
70750 Other Fees									$0				
70700 Total Fee Revenue									$0	$5,155,527	$5,155,527	-$5,155,527	$0
70800 Other Government Grants				$241,300	$307,532	$75,254			$0		$624,086		$624,086
71100 Investment Income - Unrestricted	$100,756	$2,949	$223		$42,210		$1,849	$1,429	$896	$23,587	$173,899		$173,899
71200 Mortgage Interest Income									$0				
71300 Proceeds from Disposition of Assets Held for Sale									$0				
71310 Cost of Sale of Assets							-$490,101		$0		-$490,101		-$490,101
71400 Fraud Recovery	$42,305	$78,511							$15		$120,831		$120,831
71500 Other Revenue	$430,806	$16,162			$693,727		$1,339,174	$247,805	$0	$251,894	$2,979,568	-$242,362	$2,737,206
71600 Gain or Loss on Sale of Capital Assets	$25,931								$0	$26,821	$52,752		$52,752
72000 Investment Income - Restricted	$92,778	$0			$0				$0		$92,778		$92,778
70000 Total Revenue	$24,491,748	$22,046,570	$523,328	$241,300	$1,043,469	$75,254	$850,922	$249,234	$513,605	$5,457,829	$55,493,259	-$5,397,889	$50,095,370
91100 Administrative Salaries	$1,898,552	$357,982	$43,801		$707		$24,260	$6,811	$37,025	$1,970,036	$4,339,174		$4,339,174
91200 Auditing Fees	$35,750	$24,785	$1,500		$760		$1,160		$4,000	$3,970	$71,925		$71,925
91300 Management Fee	$2,361,953	$503,652	$14,388				$62,580	$5,796	$10,632		$2,959,001	-$2,959,001	$0
91310 Book-keeping Fee	$311,655	$314,782	$8,993					$3,623	$6,646		$645,699	-$645,699	$0
91400 Advertising and Marketing	$9,161	$105			$50			$286	$0	$2,305	$11,907		$11,907
91500 Employee Benefit contributions - Administrative	$751,741	$182,709			$140		$12,771	$1,044	$0	$646,433	$1,594,838		$1,594,838
91600 Office Expenses	$224,709	$91,417			$5,101		$2,837	$3,552	$22	$356,442	$684,080		$684,080
91700 Legal Expense	$109,294	$263			$4,400		$4,293		$0	$22,610	$140,860		$140,860
91800 Travel	$15,911	$7,016					$970	$682	$0	$78,028	$102,607		$102,607
91810 Allocated Overhead									$0				
91900 Other	$279,136	$257,152			$89,532		$103,926	$145	$5	$129,460	$859,356	-$54,698	$804,658
91000 Total Operating - Administrative	$5,997,862	$1,739,863	$68,682	$0	$100,690	$0	$212,797	$21,939	$58,330	$3,209,284	$11,409,447	-$3,659,398	$7,750,049
92000 Asset Management Fee	$394,780								$0		$394,780	-$394,780	$0

92100 Tenant Services - Salaries	$85,040	$70,147						$71,598	$0		$226,785		$226,785
92200 Relocation Costs	$18,750				$9,360		$25,254		$0		$53,364		$53,364
92300 Employee Benefit Contributions - Tenant Services	$34,469	$32,428						$27,050	$0		$93,947		$93,947
92400 Tenant Services - Other	$311,295							$166,588	$0	$325	$478,208		$478,208
92500 Total Tenant Services	$449,554	$102,575	$0	$0	$9,360	$0	$25,254	$265,236	$0	$325	$852,304	$0	$852,304
93100 Water	$423,217				$1,203		$123		$0	$6,941	$431,484		$431,484
93200 Electricity	$1,477,560				$6,024		$1,165		$0	$45,854	$1,530,603		$1,530,603
93300 Gas	$16,169				$2,240				$0	$14,850	$33,259		$33,259
93400 Fuel									$0				
93500 Labor									$0				
93600 Sewer	$1,070,332				$431		$66		$0	$3,578	$1,074,407		$1,074,407
93700 Employee Benefit Contributions - Utilities									$0				
93800 Other Utilities Expense									$0				
93000 Total Utilities	$2,987,278	$0	$0	$0	$9,898	$0	$1,354	$0	$0	$71,223	$3,069,753	$0	$3,069,753
94100 Ordinary Maintenance and Operations - Labor	$1,408,449								$0	$526,781	$1,935,230		$1,935,230
94200 Ordinary Maintenance and Operations - Materials and Other	$792,503	$359			$512	$59,535		$657	$0	$60,032	$913,598		$913,598
94300 Ordinary Maintenance and Operations Contracts	$4,485,712	$4,803			$59,937		$629,388	$38	$0	$216,963	$5,396,841	-$1,156,047	$4,240,794
94500 Employee Benefit Contributions - Ordinary Maintenance	$669,219								$0	$260,861	$930,080		$930,080
94000 Total Maintenance	$7,355,883	$5,162	$0	$0	$60,449	$59,535	$629,388	$695	$0	$1,064,637	$9,175,749	-$1,156,047	$8,019,702
95100 Protective Services - Labor									$0				
95200 Protective Services - Other Contract Costs	$500,445						$21,923		$0		$522,368		$522,368
95300 Protective Services - Other									$0				
95500 Employee Benefit Contributions - Protective Services									$0				
95000 Total Protective Services	$500,445	$0	$0	$0	$0	$0	$21,923	$0	$0	$0	$522,368	$0	$522,368
96110 Property Insurance	$262,716	$15			$7,157		$4		$0	$5,979	$275,871		$275,871
96120 Liability Insurance	$109,016	$13,837			$1,058		$529		$0	$124	$124,564		$124,564
96130 Workmen's Compensation	$72,717	$1,757					$218	$275	$0	$30,945	$105,912		$105,912
96140 All Other Insurance	$27,105	$5,912			$183		$510	$110	$0	$14,374	$48,194		$48,194
96100 Total insurance Premiums	$471,554	$21,521	$0	$0	$8,398	$0	$1,261	$385	$0	$51,422	$554,541	$0	$554,541
96200 Other General Expenses	$491,886	$12,603			$56,049				$175		$560,713	-$187,664	$373,049
96210 Compensated Absences	$360,248	$60,741					$6,378	$20,106	$0	$294,701	$742,174		$742,174
96300 Payments in Lieu of Taxes	$117,536								$0		$117,536		$117,536
96400 Bad debt - Tenant Rents	$219,080	$39,594							-$284		$258,390		$258,390
96500 Bad debt - Mortgages									$0				
96600 Bad debt - Other					$7,138				$0		$7,138		$7,138
96800 Severance Expense	$484								$0		$484		$484
96000 Total Other General Expenses	$1,189,234	$112,938	$0	$0	$63,187	$0	$6,378	$20,106	-$109	$294,701	$1,686,435	-$187,664	$1,498,771
96710 Interest of Mortgage (or Bonds) Payable	$766,410								$0		$766,410		$766,410
96720 Interest on Notes Payable (Short and Long Term)	$392,380				$233,870				$0		$626,250		$626,250
96730 Amortization of Bond Issue Costs	$6,828				$3,287				$0		$10,115		$10,115

96700 Total Interest Expense and Amortization Cost	$1,165,618	$0	$0	$0	$237,157	$0	$0	$0	$0	$0	$1,402,775	$0	$1,402,775
96900 Total Operating Expenses	$20,512,208	$1,982,059	$68,682	$0	$489,139	$59,535	$898,355	$308,361	$58,221	$4,691,592	$29,068,152	-$5,397,889	$23,670,263
97000 Excess of Operating Revenue over Operating Expenses	$3,979,540	$20,064,511	$454,646	$241,300	$554,330	$15,719	-$47,433	-$59,127	$455,384	$766,237	$26,425,107	$0	$26,425,107
97100 Extraordinary Maintenance	$93,201				$800				$0		$94,001		$94,001
97200 Casualty Losses - Non-capitalized	$15,926								$0	$3,092	$19,018		$19,018
97300 Housing Assistance Payments		$20,030,462	$454,462						$453,651		$20,938,575		$20,938,575
97350 HAP Portability-In									$0				
97400 Depreciation Expense	$10,048,932				$227,955				$0	$5,443	$10,282,330		$10,282,330
97500 Fraud Losses									$0				
97600 Capital Outlays - Governmental Funds									$0				
97700 Debt Principal Payment - Governmental Funds									$0				
97800 Dwelling Units Rent Expense									$0				
90000 Total Expenses	$30,670,267	$22,012,521	$523,144	$0	$717,894	$59,535	$898,355	$308,361	$511,872	$4,700,127	$60,402,076	-$5,397,889	$55,004,187
10010 Operating Transfer In	$1,039,829								$0		$1,039,829	-$1,039,829	$0
10020 Operating transfer Out	-$1,039,829								$0		-$1,039,829	$1,039,829	$0
10030 Operating Transfers from/to Primary Government									$0				
10040 Operating Transfers from/to Component Unit									$0				
10050 Proceeds from Notes, Loans and Bonds									$0				
10060 Proceeds from Property Sales									$0				
10070 Extraordinary Items, Net Gain/Loss									$0				
10080 Special Items (Net Gain/Loss)									$0				
10091 Inter Project Excess Cash Transfer In	$1,949,610								$0		$1,949,610	-$1,949,610	$0
10092 Inter Project Excess Cash Transfer Out	-$1,949,610								$0		-$1,949,610	$1,949,610	$0
10093 Transfers between Program and Project - In	$15,719				$446				$1,020		$17,185	-$17,185	$0
10094 Transfers between Project and Program - Out				-$446		-$15,719			-$1,020		-$17,185	$17,185	$0
10100 Total Other financing Sources (Uses)	$15,719	$0	$0	-$446	$446	-$15,719	$0	$0	$0	$0	$0	$0	$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-$6,162,800	$34,049	$184	$240,854	$326,021	$0	-$47,433	-$59,127	$1,733	$757,702	-$4,908,817	$0	-$4,908,817
11020 Required Annual Debt Principal Payments	$1,374,133	$0	$0	$0	$241,518	$0	$0	$0	$0	$0	$1,615,651		$1,615,651
11030 Beginning Equity	$84,225,226	$2,039,354	$22,637	$446	$10,690,973	$0	$2,738,861	$295,926	$187,328	$3,966,365	$104,167,116		$104,167,116
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	$1,821,256	$0			-$1,821,256				$0		$0		$0
11050 Changes in Compensated Absence Balance									$0				
11060 Changes in Contingent Liability Balance									$0				
11070 Changes in Unrecognized Pension Transition Liability									$0				
11080 Changes in Special Term/Severance Benefits Liability									$0				
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents									$0				
11100 Changes in Allowance for Doubtful Accounts - Other									$0				
11170 Administrative Fee Equity		$482,879							$0		$482,879		$482,879
11180 Housing Assistance Payments Equity		$1,590,524							$0		$1,590,524		$1,590,524
11190 Unit Months Available	40093	43597	1200						984		85874		85874

11210 Number of Unit Months Leased	39562	41971	1199						886		83618		83618
11270 Excess Cash	$15,365,275								$0		$15,365,275		$15,365,275
11610 Land Purchases	$0								$0	$0	$0		$0
11620 Building Purchases	$7,064,416								$0	$0	$7,064,416		$7,064,416
11630 Furniture & Equipment - Dwelling Purchases	$0								$0	$0	$0		$0
11640 Furniture & Equipment - Administrative Purchases	$193,704								$0	$44,572	$238,276		$238,276
11650 Leasehold Improvements Purchases	$0								$0	$0	$0		$0
11660 Infrastructure Purchases	$0								$0	$0	$0		$0
13510 CFFP Debt Service Payments	$1,710,483								$0	$0	$1,710,483		$1,710,483
13901 Replacement Housing Factor Funds	$1,282,287								$0	$0	$1,282,287		$1,282,287

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

CERTIFICATION OF ACTUAL CAPITAL FUND MODERNIZATION COSTS
JUNE 30, 2013

PROGRAM	TN37P003 501-07	TN37R003 501-08	TN37R003 502-08	TN37S003 501-09	TN37S111 501-09
Funds approved	$ 5,095,426	$ 400,400	$ 102,055	$ 5,741,332	$ 344,932
Funds expended	5,095,426	400,400	102,055	5,741,332	344,932
Excess of funds approved	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Funds advanced	$ 5,095,426	$ 400,400	$ 102,055	$ 5,741,332	$ 344,932
Funds expended	5,095,426	400,400	102,055	5,741,332	344,932
Excess of funds advanced	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

The distribution of costs as shown on the Actual Modernization Cost Certificate submitted to HUD for approval is in agreement with the PHA's records.

All modernization costs have been paid and all related liabilities have been discharged through payment.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor:

CFDA Number	Program Title	Pass Through Entity	Federal Expenditures
U.S. Department of Housing and Urban Development			
14.850	Low Rent Public Housing	NA	$ 12,148,602
14.872	Capital Fund Program	NA	7,302,921
14.871	Housing Choice Voucher Program	NA	21,948,948
14.181	Supportive Housing for Persons with Disabilities	NA	523,105
14.228	Neighborhood Stabilization (Non-ARRA)	City of Knoxville	241,300
14.856	Section 8 Housing Assistance Payments - Moderate Rehabilitation	NA	512,694
14.256	Community Development Block Grant	NA	75,254
Total U.S. Department of HUD			**42,752,824**
Total Federal Awards Expenditures			**$ 42,752,824**

Notes to the Schedule of Expenditures of Federal Awards

A. Basis of Accounting

This schedule is prepared on the accrual basis of accounting.

B. Basis of Presentation

The accompanying Schedule of Federal Awards (the Schedule) includes the federal grant activity of the Authority under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Goernments and Non-Profit Organizations". Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

C. Reconciliation of Total Federal Awards Expenditures to Financial Data Schedule

FDS line 706	HUD PHA Grants	$ 36,566,989
FDS line 706.1	Capital Grants	5,869,281
FDS line 708	Other government grants	624,086
	Less: Local TIF proceeds	(307,532)
		$ 42,752,824

SINGLE AUDIT SECTION

MALCOLM JOHNSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 530848
DeBary, Florida 32753-0848

Phone (386) 668-6464 Fax (386) 668-6463
malcolmjohnson@mpinet.net

INDEPENDENT AUDITOR'S 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, 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, the basic financial statements of Knoxville's Community Development Corporation (KCDC), which include the statement of net position as of June 30, 2013, and the related statements of revenue, expenses and changes in net position, cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon February 21, 2014.

Internal Control Over Financial Reporting
In planning and performing our audit of the basic financial statements, we considered KCDC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KCDC's internal control. Accordingly, we do not express an opinion on the effectiveness of KCDC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of KCDC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Purpose of this Report

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

Malcolm Johnson & Company, P.A.

Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
February 21, 2014

MALCOLM JOHNSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 530848
DeBary, Florida 32753-0848

Phone (386) 668-6464 Fax (386) 668-6463
malcolmjohnson@mpinet.net

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM 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

Report on Compliance for Each Major Program
We have audited Knoxville's Community Development Corporation's (KCDC) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement,* that could have a direct and material effect on each of KCDC's major federal programs for the year ended June 30, 2013. KCDC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of KCDC's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133).* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KCDC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major program. However, our audit does not provide a legal determination of KCDC's compliance.

Opinion on Each Major Program
In our opinion, KCDC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance
Management of KCDC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered KCDC's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KCDC's internal control over compliance.

A *deficiency in 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 and correct, noncompliance with a type of compliance requirements of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention by those charged with governance.

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

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

Report on Schedule of Expenditures of Federal Awards Required By OMB Circular A-133
We have audited the financial statements of KCDC as of and for the year ended June 30, 2013 and have issued our report thereon dated February 21, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Malcolm Johnson & Company, P.A.
Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
February 21, 2014

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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 Reported
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 Reported
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
14.850	Low Rent Public Housing
14.856	Moderate Rehabilitation

Dollar threshold used to distinguish between type A and type B programs:	$1,282,585
Auditee qualified as low-risk auditee?	Yes

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013
(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.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

There were no Prior Audit Findings.