

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

*Audited Financial Statements
(and Other Information)*

Years Ended June 30, 2008 and 2007

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Audited Financial Statements (and Other Information)

Years Ended June 30, 2008 and 2007

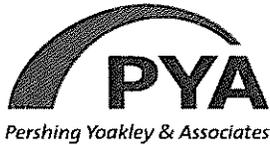
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Development Corporation of Knox County:

We have audited the accompanying statements of financial position of The Development Corporation of Knox County (the Corporation) as of June 30, 2008 and 2007 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Development Corporation of Knox County as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008 on our consideration of The Development Corporation of Knox County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of The Development Corporation of Knox County taken as a whole. The accompanying detail of statement of financial position, detail of statement of activities and changes in net assets, and the schedule of expenditures of federal and state awards are presented for purposes of additional analysis as required by management and the State of Tennessee Comptroller of the Treasury, respectively, and are not a required part of the financial statements of the Corporation. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Reeshing Yearley : Accountant PC

Knoxville, Tennessee
September 29, 2008

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Statements of Financial Position

	<i>June 30,</i>	
	<i>2008</i>	<i>2007</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,023,123	\$ 10,159,470
Receivables	280,396	17,921
Prepaid insurance and deposits	40,375	35,985
TOTAL CURRENT ASSETS	<u>8,343,894</u>	<u>10,213,376</u>
PROPERTY AND EQUIPMENT		
Office equipment	51,347	46,877
Computer hardware and software	65,403	61,375
Other equipment	29,367	28,769
	<u>146,117</u>	<u>137,021</u>
Less accumulated depreciation	<u>(109,282)</u>	<u>(101,056)</u>
	36,835	35,965
OTHER ASSETS		
Land held for resale - Note C	23,464,332	22,375,644
	<u>\$ 31,845,061</u>	<u>\$ 32,624,985</u>

	<i>June 30,</i>	
	<i>2008</i>	<i>2007</i>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 526,442	\$ 1,832,342
Deferred revenue	-	3,750,000
TOTAL LIABILITIES	526,442	5,582,342
COMMITMENTS AND CONTINGENCIES - Note H		
NET ASSETS		
Unrestricted net assets	31,299,128	27,022,397
Temporarily restricted net assets	19,491	20,246
	31,318,619	27,042,643
	\$ 31,845,061	\$ 32,624,985

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Statements of Activities and Changes in Net Assets

	<i>Year Ended June 30,</i>	
	<i>2008</i>	<i>2007</i>
UNRESTRICTED REVENUE AND OTHER SUPPORT		
Sales of land, net of commissions	\$ -	\$ 587,502
Cost of land sold and related incentives	-	(417,291)
GROSS MARGIN	-	170,211
Rental and management income	115,429	94,661
Temporarily restricted net assets released from restrictions	2,198	6,576
Revenue from City of Knoxville and Knox County	4,643,830	6,395,030
TOTAL REVENUE AND OTHER SUPPORT	4,761,457	6,666,478
EXPENSES		
General and administrative and other	828,468	938,551
Depreciation	8,226	7,748
TOTAL EXPENSES	836,694	946,299
OPERATING INCOME	3,924,763	5,720,179
OTHER GAINS AND LOSSES		
Investment income	351,968	307,013
INCREASE IN UNRESTRICTED NET ASSETS	4,276,731	6,027,192
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Restricted contract payments	1,443	9,342
Temporarily restricted net assets released from restrictions	(2,198)	(6,576)
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(755)	2,766
INCREASE IN TOTAL NET ASSETS	4,275,976	6,029,958
NET ASSETS, beginning of year	27,042,643	21,012,685
NET ASSETS, end of year	\$ 31,318,619	\$ 27,042,643

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Statements of Cash Flows

	<i>Year Ended June 30,</i>	
	<i>2008</i>	<i>2007</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from land sales, State grants, Knox County, City of Knoxville and other sources	\$ 748,227	\$ 11,010,145
Cash paid to suppliers, employees, and for incentives	<u>(2,138,758)</u>	<u>(903,510)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(1,390,531)	10,106,635
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land held for resale and land options	-	(9,636,531)
Repayment from others - Note B	-	1,700,000
Interest received	351,968	307,013
Capital improvements and property and equipment additions, net	<u>(1,097,784)</u>	<u>(1,690,635)</u>
NET CASH USED IN INVESTING ACTIVITIES	(745,816)	(9,320,153)
CASH USED IN FINANCING ACTIVITIES:		
Cash paid on note payable to related party	<u>-</u>	<u>(300,000)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,136,347)	486,482
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>10,159,470</u>	<u>9,672,988</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,023,123</u>	<u>\$ 10,159,470</u>

	<i>Year Ended June 30,</i>	
	<i>2008</i>	<i>2007</i>
RECONCILIATION OF INCREASE IN NET ASSETS		
TO NET CASH (USED IN) PROVIDED BY OPERATING		
ACTIVITIES:		
Increase in net assets	\$ 4,275,976	\$ 6,029,958
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	8,226	7,748
Cost of land sold, excluding incentives	-	346,991
Investment income	(351,968)	(307,013)
Loss on disposal of fixed assets	-	5,121
Decrease (increase) in:		
Receivables	(262,475)	214,562
Prepaid insurance and deposits	(4,390)	(5,876)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,305,900)	65,144
Deferred revenue	(3,750,000)	3,750,000
Net adjustments	(5,666,507)	4,076,677
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (1,390,531)	\$ 10,106,635

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements

Years Ended June 30, 2008 and 2007

NOTE A--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Development Corporation of Knox County (the Corporation) is a non-profit Tennessee corporation organized on January 23, 1991 for the primary purpose of promoting and encouraging community and economic development within the boundaries of Knox County, Tennessee (the County). The Corporation's primary operations are land acquisition and development.

The Corporation has an eleven member Board of Directors. The Board is currently composed of four designated Knox County members, five who are appointed by the Corporation's Board of Directors, the Mayor of Knoxville, and an appointee of the Mayor. The County has the right to reject the first two nominations to vacant seats on the Board of Directors. The third nomination by the Corporation is not subject to County approval.

An agreement dated March 13, 2001, between the County, the City of Knoxville, and the Corporation designated the Corporation to act as the Joint Economic and Community Development Board. The City of Knoxville also agreed to fund the Corporation's operating budget for its performance of the functions of the Joint Economic and Community Development Board at no less than 10% of the operating budget. In addition, the County agreed to fund the Corporation's operating budget for its performance of the functions of the Joint Economic and Community Development Board up to 90% of the operating budget.

Use of Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates are primarily the estimated value of land held for resale.

Cash and Cash Equivalents: Cash and cash equivalents include amounts on-hand as well as amounts on deposit in bank accounts. Certificates of deposit with original maturities of less than 90 days when purchased are included as cash and cash equivalents.

Receivables: Receivables include various amounts due under incentive grants from the State of Tennessee (Note K), amounts due under agreements with Knox County and the City of Knoxville, and other agreements.

Land Held for Resale: Land held for resale is stated at the lower of cost or estimated market value and includes infrastructure and other improvements to such land. Management's estimated market values are subject to change in the near term.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE A--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

As discussed in Note E, the Corporation had a note payable to the County for land acquired in 1992. The difference between the original \$3,000,000 note and the value of the acquired land was accounted for as a donation. This land acquired from the County is stated at the County's cost basis plus any additional capitalized costs incurred by the Corporation.

The cost of land held for resale (and improvements) is allocated to specific parcels within each development based on acreage, management's estimates of the relative value of parcels and specific improvements associated with each parcel. Such cost is evaluated annually by management for impairment based upon future estimated cash flows from each parcel (primarily sales proceeds). In the event future estimated cash flows are less than the carrying value, a parcel is designated as impaired. A discounted cash flow analysis or market appraisal is utilized to recognize the amount of any impairment. No impairment losses were recognized in the years ended June 30, 2008 and 2007.

Property and Equipment: Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Expenditures for maintenance and repairs are charged to expense as incurred, whereas major betterments are capitalized.

Income Taxes: The Corporation is classified as an exempt entity (other than a private foundation) under Federal income tax regulations and Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, there is no provision for income taxes in the accompanying financial statements.

Net Assets: Net assets include both unrestricted net assets and temporarily restricted net assets. Temporarily restricted net assets are amounts designated by donors for development efforts in a defined geographical area or amounts earned under contract related to management of Fairview Technology Center and restricted to maintenance and repair of the Fairview Technology Center. Net assets are released from restrictions by incurring expenses satisfying the restricted purpose. If temporarily restricted net assets are received and released in the same year they are classified as unrestricted contributions for financial statement purposes.

NOTE B--INVESTMENTS AND OTHER ASSETS

The Board of Directors has designated certain assets totaling \$200,000 held by the Corporation in the General Fund for waterfront planning. The designated assets consist of cash deposited in bank checking and savings accounts and are included in cash and cash equivalents in the Statements of Financial Position.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE B--INVESTMENTS AND OTHER ASSETS - Continued

During 2006, the Corporation loaned \$1,700,000 to the Industrial Development Board of the City of Knoxville (City IDB) to acquire property for development. The note bore no interest and was payable out of any sales from the acquired property. The City IDB repaid the note in full in 2007.

NOTE C--LAND HELD FOR RESALE

Effective January 1, 1992, the County transferred land developments commonly known as Westbridge Business Park, Eastbridge Business Park (Eastbridge), Agri-Business Park and Centerpoint Business Park to the Corporation in exchange for a note payable to the County of \$3,000,000 (Note E). The land was recorded at the lower of the County's cost, excluding costs related to roads, utilities, sewage and other improvements paid for by the County, or market value.

Land held for resale, including capitalized improvements, consists of the following at June 30:

	<u>2008</u>	<u>2007</u>
Westbridge Business Park	\$ 321,390	\$ 321,390
Eastbridge Business Park	2,064,302	2,064,302
Hardin Business Park	8,428,080	7,425,802
Pellissippi Business Park	2,390,315	2,382,815
Midway Business Park	10,260,245	10,181,335
	<u>\$ 23,464,332</u>	<u>\$ 22,375,644</u>

During 2008, certain residents of the area surrounding the Midway Business Park filed three separate lawsuits regarding the rezoning that was approved by the County to accommodate the business park. Management believes that an unfavorable outcome is unlikely and it is not currently possible to estimate the amount or range of a potential loss.

NOTE D--OPERATING LEASE

The Corporation leases office space on a monthly basis from the Knoxville Area Chamber Partnership. The lease is renewable annually with an annual rent of \$16,770. Total operating lease expense was approximately \$16,770 in both 2008 and 2007.

NOTE E--RELATED PARTY TRANSACTIONS

The Corporation provides certain services to the County and is paid for those services by the County on a performance basis. During the years ended June 30, 2008 and 2007, the Corporation

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE E--RELATED PARTY TRANSACTIONS - Continued

recognized \$4,516,750 and \$6,266,750, respectively, in support payments from the County. Included in the 2008 and 2007 totals are approximately \$3,750,000 and \$5,500,000, respectively, of payments from the County for long-term economic development. Such payments may be made to the Corporation in the future based upon continued performance as determined by the County. No receivable has been recorded for these future potential payments as there is no guarantee any such future payment will be made.

During 2007, the Corporation received \$3,750,000 from the County for services to be provided in 2008. The Corporation recorded this amount as deferred revenue in the accompanying 2007 Statement of Financial Position. No such amounts were received in advance during 2008.

In order to encourage and facilitate community and economic development activities in downtown Knoxville, the City of Knoxville agreed to provide funds to the Corporation to be used for economic development in the Central Business Improvement District. During 2004, the Corporation received \$75,000 from the City for this purpose. Of this amount, \$2,198 remained unspent and was included as a part of temporarily restricted net assets at June 30, 2007. This amount was spent during 2008. Also during 2008 and 2007, the Corporation recognized revenue of \$127,080 and \$128,280, respectively, from the City for the Corporation's operating budget.

The Chief Executive Officer of the Corporation is also the Chief Executive Officer of the Chamber of Commerce. His salary and benefits are paid by the Chamber of Commerce and the Corporation pays \$10 annually to the Chamber of Commerce for his services. The organization has not recognized the fair value of his services as an in-kind contribution as it is not practicable to do so.

The Corporation receives funds from the County for the sole purpose of awarding educational scholarships. Under this arrangement, the Corporation acts as an intermediary for these funds and does not recognize any revenue or related expense. The Corporation received approximately \$300,000 from the County in 2008 and 2007 for the scholarship program. As of June 30, 2008, \$382,369 of funds were yet to be distributed and are included in accounts payable and accrued expenses. Approximately \$217,841 of such amounts were committed to businesses for identified scholarships. Uncommitted funds are due primarily to grant forfeitures. Management plans to use these funds to offset the County's proposed decrease in funding for this program in fiscal year 2009.

In prior years, the Corporation owed the County under a note payable related to land held for resale (Note C). The note was interest free and was payable in ten equal annual installments of \$300,000. No interest related to the note was imputed. The note was paid in full during 2007.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE F--RETIREMENT PLAN

The Corporation offers employees a 401(k) plan under which employees may elect to contribute up to 15% of their compensation. The Corporation will match employees' contributions up to a maximum of 6% of their salary. Employees must complete three months of service to become eligible and are immediately vested upon achieving eligibility. The expense for the 401(k) plan during 2008 and 2007 was approximately \$12,900 and \$10,500, respectively.

NOTE G--CONCENTRATIONS OF RISK

Cash balances of \$7,763,201 and \$9,839,131 at June 30, 2008 and 2007, respectively, were held at a local financial institution in excess of Federal Deposit Insurance Corporation (FDIC) limits.

During 2008 and 2007, the Corporation received significant revenue from the County and the City of Knoxville (Note E). Such amounts subject the Corporation to a concentration of risk.

NOTE H--COMMITMENTS AND CONTINGENCIES

In connection with an agreement with the City of Knoxville (the City) to provide assistance in development of a parcel of land, allegations were made by a number of private parties and state and federal agencies that hazardous or toxic materials were inappropriately disposed of by the City's subcontractor. The Corporation was named as a co-defendant by several private parties in claims totaling a substantial amount of actual and punitive damages. The Corporation has been dismissed from all lawsuits. In addition, these claims were settled in August 2007 with no financial impact on the Corporation.

The Corporation is subject to other claims or potential claims arising in the normal course of business. All such claims and potential claims are either in early stages of litigation or no litigation has yet been filed. The Corporation is unable to determine the likelihood of an unfavorable outcome and, as such, no accrual has been made for any such claims or potential claims.

The Corporation has committed to the County Industrial Development Board (IDB) a grant of \$1,000,000 over a four year period for specific improvements related to air quality. This commitment is contingent upon execution of a grant agreement which had not occurred at June 30, 2008.

During 2006, the Corporation transferred approximately 50 acres of land at Pellissippi Business Park with a book value of approximately \$2,700,000 to the County IDB. The County IDB entered into a ground lease with a third party for which it received lease payments in the amount of \$550,000. The third party planned to construct their corporate headquarters on the leased land. Subsequent to June 30, 2008, the third party terminated the ground lease with the County IDB. Under certain agreements

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE H--COMMITMENTS AND CONTINGENCIES - Continued

between the County IDB and the Corporation, the Corporation can request the return of the approximately \$550,000 in lease payments, less the County IDB's expenses, and the return of the approximately 50 acres of land or it can authorize the County IDB to use both the proceeds and the land for economic development purposes. Management has not yet reached a decision on the future of this property.

NOTE I--INCENTIVE AGREEMENTS

During 2002, the Corporation executed an agreement with Brunswick Boat Group (the Group) to provide up to \$2,450,000 to reimburse expenses of relocating the Group's corporate offices from the then existing location to Knoxville. The agreement contained certain capital investment and job creation covenants on the part of the Group that must be performed within six months from the date of the agreement. Payments have been made totaling \$2,250,000 and the remaining \$200,000 was included in accounts payable and accrued expenses in prior years. As the timeframe had expired and the remaining \$200,000 was unavailable for payment to the Group, the Corporation recognized a reduction of incentive expense, which is included in general and administrative and other expenses in the accompanying 2007 Statement of Activities and Changes in Net Assets.

Effective December 4, 2002, the Corporation executed an agreement with Daikin Drivetrain Components Corporation (Exedy) to provide up to \$1,585,000 for the reimbursement of expenses related to expanding Exedy's facilities in the Knoxville area. The agreement contains certain capital investment and job creation covenants that must be performed in order to receive the incentive payments. During 2007, management's assessment of the maximum liability changed and an additional \$150,000 was recognized as general and administrative and other expenses. Accounts payable and accrued expenses at June 30, 2007 include \$450,000 related to this agreement and modifications or extensions thereof. During 2008, such amounts were paid to Exedy.

NOTE J--MANAGEMENT AGREEMENTS

The Corporation maintains Administrative Services Agreements with the County IDB and the City IDB. These agreements stipulate that the Corporation shall provide administrative services. For each of the years ended June 30, 2008 and 2007, \$36,000 of revenue was recognized as a result of these agreements. At June 30, 2008, \$3,000 was due to the Corporation from the City IDB and County IDB. At June 30, 2007, no such amounts were due to the Corporation.

The Corporation also maintains a Property Management and Development Agreement with the City IDB under which the Corporation manages properties and pays expenses in connection with development. For each of the years ended June 30, 2008 and 2007, \$18,000 has been recognized as

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE J--MANAGEMENT AGREEMENTS - Continued

revenue under this agreement. At June 30, 2008, \$1,500 was due to the Corporation from the City IDB as a result of this agreement. At June 30, 2007, no such amounts were due to the Corporation.

NOTE K--STATE OF TENNESSEE GRANTS

The Corporation enters into grant agreements with the State of Tennessee related to the FastTrack Infrastructure Development Program on behalf of various businesses. The Corporation acts as an intermediary between the State and the businesses and, as a result, typically does not recognize any revenue or expense related to these grants unless the Corporation is providing a required funding match. During the years ended June 30, 2008 and 2007, the Corporation received \$113,213 and \$266,239, respectively, in grant proceeds. No amounts related to these grants were receivable at June 30, 2008. \$8,006 was receivable at June 30, 2007.

Other Information

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Detail of Statement of Financial Position

June 30, 2008

	<i>General Fund</i>	<i>Property Investment Fund</i>	<i>Eliminations</i>	<i>Total</i>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ (1,305,926)	\$ 9,329,049	\$ -	\$ 8,023,123
Receivables	280,396	-	-	280,396
Interfund receivable	-	559,961	(559,961)	-
Prepaid insurance and deposits	40,375	-	-	40,375
TOTAL CURRENT ASSETS	(985,155)	9,889,010	(559,961)	8,343,894
PROPERTY AND EQUIPMENT				
Office equipment	51,347	-	-	51,347
Computer hardware and software	65,403	-	-	65,403
Other equipment	29,367	-	-	29,367
	146,117	-	-	146,117
Less accumulated depreciation	(109,282)	-	-	(109,282)
	36,835	-	-	36,835
OTHER ASSETS				
Land held for resale	-	23,464,332	-	23,464,332
	\$ (948,320)	\$ 33,353,342	\$ (559,961)	\$ 31,845,061
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 526,442	\$ -	\$ -	\$ 526,442
Interfund payable	559,961	-	(559,961)	-
TOTAL CURRENT LIABILITIES	1,086,403	-	(559,961)	526,442
NET ASSETS (DEFICIENCY)				
Unrestricted net assets (deficiency)	(2,054,214)	33,353,342	-	31,299,128
Temporarily restricted net assets	19,491	-	-	19,491
	(2,034,723)	33,353,342	-	31,318,619
	\$ (948,320)	\$ 33,353,342	\$ (559,961)	\$ 31,845,061

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Detail of Statement of Activities and Change in Net Assets

Year Ended June 30, 2008

	<i>General Fund</i>	<i>Property Investment Fund</i>	<i>Total</i>
UNRESTRICTED REVENUE AND OTHER SUPPORT			
Sales of land, net of commissions	\$ -	\$ -	\$ -
Cost of land sold and related incentives	-	-	-
GROSS MARGIN			
Rental and management income	115,429	-	115,429
Temporarily restricted net assets released from restrictions	2,198	-	2,198
Revenue from City of Knoxville and Knox County	893,830	3,750,000	4,643,830
TOTAL REVENUE AND OTHER SUPPORT	1,011,457	3,750,000	4,761,457
EXPENSES			
General and administrative and other	820,656	7,812	828,468
Depreciation	8,226	-	8,226
TOTAL EXPENSES	828,882	7,812	836,694
OPERATING INCOME	182,575	3,742,188	3,924,763
OTHER GAINS AND LOSSES			
Investment income	44,410	307,558	351,968
INCREASE IN UNRESTRICTED NET ASSETS	226,985	4,049,746	4,276,731
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Restricted contract payments	1,443	-	1,443
Temporarily restricted net assets released from restrictions	(2,198)	-	(2,198)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(755)	-	(755)
INCREASE IN TOTAL NET ASSETS	226,230	4,049,746	4,275,976
NET ASSETS (DEFICIENCY), beginning of year	(2,260,953)	29,303,596	27,042,643
NET ASSETS (DEFICIENCY), end of year	\$ (2,034,723)	\$ 33,353,342	\$ 31,318,619

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Note to Other Information

Year Ended June 30, 2008

NOTE A--PROPERTY INVESTMENT FUND

In accordance with a resolution by the Board of Directors, the Corporation has established a Property Investment Fund in which all land held for resale and the associated debt and contributed capital are recorded. Proceeds from sales or other dispositions of land, and the related gains and losses, are retained and reported in this fund. An allocation of investment income between the General Fund and the Property Investment Fund is based on an estimate of the relative investment balances in the funds during the year. Certain payments from Knox County, primarily related to development and recruiting activities, are also included in the Property Investment Fund (Note E).

Transfers to or from this fund shall be effected by a majority vote of the Board of Directors. However, in accordance with accounting principles generally accepted in the United States of America, such fund is unrestricted.



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

To the Board of Directors of
The Development Corporation of Knox County:

We have audited the financial statements of The Development Corporation of Knox County (the Corporation) as of and for the year ended June 30, 2008 and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to the Board of Directors of the Corporation in a separate letter dated September 29, 2008.

This report is intended solely for the information and use of the Board of Directors, management and the State of Tennessee, Comptroller of the Treasury, Department of Audit, and is not intended to be and should not be used by anyone other than these specified parties.

Pershing Gookley: Associate PC

Knoxville, Tennessee
September 29, 2008

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2008

<i>CFDA Number</i>	<i>State Grant Number</i>	<i>Program Name</i>	<i>Grantor</i>	<i>Grant Period</i>	<i>Receivable Balance at July 1, 2007</i>	<i>Receipts</i>	<i>Amounts Disbursed</i>	<i>Receivable Balance at June 30, 2008</i>
FEDERAL AWARDS:								
None								
STATE AWARDS:								
N/A	GG-06-12057-00	FastTrack Infrastructure Development Program	Tennessee Department of Economic and Community Development	8/11/05-6/30/10	\$ -	\$ 43,752	\$ 43,752	\$ -
N/A	GG-08-23530-00	FastTrack Infrastructure Development Program	Tennessee Department of Economic and Community Development	11/13/07-8/31/12	8,006	69,461	61,455	-
TOTAL STATE AWARDS					\$ 8,006	\$ 113,213	\$ 105,207	\$ -

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of The Development Corporation of Knox County and is presented on the accrual basis of accounting.