

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

*Audited Financial Statements
(and Other Information)*

Years Ended June 30, 2009 and 2008

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Audited Financial Statements (and Other Information)

Years Ended June 30, 2009 and 2008

Independent Auditor's Report1

Audited Financial Statements

Statements of Financial Position.....3
Statements of Activities and Changes in Net Assets5
Statements of Cash Flows.....6
Notes to Financial Statements.....8

Other Information

Detail of Statement of Financial Position.....17
Detail of Statement of Activities and Changes in Net Assets.....19
Note to Other Information20
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*21
Schedule of Expenditures of Federal and State Awards.....23



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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, 2009 and 2008 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 control 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, 2009 and 2008, 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 December 1, 2009 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.

Peishang Yeung: Accountant PC

Knoxville, Tennessee
December 1, 2009

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Statements of Financial Position

	<i>June 30,</i>	
	<i>2009</i>	<i>2008</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,642,671	\$ 8,023,123
Short-term investments	6,222,250	-
Interest receivable	132,006	-
Accounts receivable	255,452	280,396
Prepaid insurance and deposits	45,304	40,375
TOTAL CURRENT ASSETS	11,297,683	8,343,894
INVESTMENTS	477,750	-
PROPERTY AND EQUIPMENT		
Office equipment	56,145	51,347
Computer hardware and software	29,740	65,403
Other equipment	599	29,368
Leased equipment	13,274	-
	99,758	146,118
Less accumulated depreciation	(52,318)	(109,283)
	47,440	36,835
OTHER ASSETS		
Land held for resale - Note C	24,015,030	23,464,332
TOTAL ASSETS	\$ 35,837,903	\$ 31,845,061

	<i>June 30,</i>	
	<i>2009</i>	<i>2008</i>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 374,132	\$ 526,442
Unearned revenue	3,900	-
Current portion of capital lease obligation	4,276	-
TOTAL CURRENT LIABILITIES	<u>382,308</u>	526,442
CAPITAL LEASE OBLIGATION, net of current portion	8,155	-
COMMITMENTS AND CONTINGENCIES - Note H	-	-
TOTAL LIABILITIES	<u>390,463</u>	526,442
NET ASSETS		
Unrestricted net assets	35,427,631	31,299,128
Temporarily restricted net assets	19,809	19,491
	<u>35,447,440</u>	<u>31,318,619</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,837,903</u>	<u>\$ 31,845,061</u>

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Statements of Activities and Changes in Net Assets

	<i>Year Ended June 30,</i>	
	<i>2009</i>	<i>2008</i>
UNRESTRICTED REVENUE AND OTHER SUPPORT		
Rental and management income - Notes C and J	\$ 88,588	\$ 115,429
Temporarily restricted net assets released from restrictions	2,854	2,198
Revenue from City of Knoxville and Knox County - Note	4,650,786	4,643,830
TOTAL REVENUE AND OTHER SUPPORT	4,742,228	4,761,457
EXPENSES		
General and administrative and other	825,574	828,468
Depreciation	9,206	8,226
TOTAL EXPENSES	834,780	836,694
OPERATING INCOME	3,907,448	3,924,763
OTHER GAINS AND LOSSES		
Investment income	221,055	351,968
INCREASE IN UNRESTRICTED NET ASSETS	4,128,503	4,276,731
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Restricted contract payments	3,172	1,443
Temporarily restricted net assets released from restrictions	(2,854)	(2,198)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	318	(755)
INCREASE IN TOTAL NET ASSETS	4,128,821	4,275,976
NET ASSETS, beginning of year	31,318,619	27,042,643
NET ASSETS, end of year	\$ 35,447,440	\$ 31,318,619

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Statements of Cash Flows

	<i>Year Ended June 30,</i>	
	<i>2009</i>	<i>2008</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from land sales, State grants, Knox County, City of Knoxville and other sources	\$ 4,771,390	\$ 748,227
Cash paid to suppliers, employees, and for incentives	(982,813)	(2,138,758)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,788,577	(1,390,531)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land held for resale and land options	(397,062)	-
Interest received	89,049	351,968
Capital improvements and property and equipment additions, net	(160,173)	(1,097,784)
Purchase of investments	(6,700,000)	-
NET CASH USED IN INVESTING ACTIVITIES	(7,168,186)	(745,816)
CASH USED IN FINANCING ACTIVITIES:		
Cash paid under capital lease	(843)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,380,452)	(2,136,347)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,023,123	10,159,470
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,642,671	\$ 8,023,123

	<i>Year Ended June 30,</i>	
	<i>2009</i>	<i>2008</i>
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Increase in net assets	\$ 4,128,821	\$ 4,275,976
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,206	8,226
Investment income	(221,055)	(351,968)
Decrease (increase) in:		
Accounts receivable	24,944	(262,475)
Prepaid insurance and deposits	(4,929)	(4,390)
Increase (decrease) in:		
Accounts payable and accrued expenses	(152,310)	(1,305,900)
Unearned revenue	3,900	(3,750,000)
	<u>(340,244)</u>	<u>(5,666,507)</u>
Net adjustments		
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 3,788,577</u>	<u>\$ (1,390,531)</u>

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements

Years Ended June 30, 2009 and 2008

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, Tennessee 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 (as amended), 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 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 include 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 contractual maturities of less than ninety days are included as cash and cash equivalents.

Investments: Short-term investments include certificates of deposit with contractual maturities greater than ninety days and less than one year. Investments include certificates of deposits with contractual maturities greater than one year.

Accounts Receivable: Accounts receivable primarily include amounts due under agreements with Knox County and the City of Knoxville, and other various agreements. An allowance for uncollectible accounts is recorded, when necessary, based on management's evaluation of the

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2009 and 2008

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

receivables. The Corporation's policies do not require collateral for receivables. Receivables are due when billed and are generally settled within 30 days.

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 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 third-party appraisals or 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, 2009 and 2008.

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.

The Corporation has deferred the application of accounting for uncertainty in income taxes as permitted by Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, until the presentation of its annual financial statements for the year ended June 30, 2010. However, the Corporation has not identified any significant uncertain tax positions at June 30, 2009.

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

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2009 and 2008

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

temporarily restricted net assets are received and released in the same year, they are classified as unrestricted contributions for financial statement purposes.

New Accounting Pronouncements: In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies only to fair value measurements that are already required, or permitted, by other accounting standards. The Corporation adopted the applicable portions of SFAS No. 157 during 2009. There was no significant impact on the financial statements as a result of adopting this standard (Note L).

The Corporation adopted the provisions of SFAS No. 165, *Subsequent Events* (SFAS No. 165), during the fiscal year ended June 30, 2009. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the financial statements are issued. The Corporation evaluated all events or transactions that occurred after June 30, 2009 through December 1, 2009, the issuance date of the financial statements. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2009 financial statements.

In July 2009, the Financial Accounting Standards Board issued Statement No. 168, *The FASB Accounting Standards CodificationTM (the Codification) and the Hierarchy of Generally Accepted Accounting Principles (GAAP) – a replacement of FASB Statement No. 162* (SFAS No. 168). The Codification will supersede all existing accounting and reporting standards and will become the source of authoritative U.S. generally accepted accounting principles. All non-grandfathered accounting literature not included in the Codification will become non-authoritative. SFAS No. 168 is effective for fiscal years ending after September 15, 2009. Management of the Corporation does not believe the statement will have a material impact on the financial statements.

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 money market 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, 2009 and 2008

NOTE C--LAND HELD FOR RESALE

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

	<u>2009</u>	<u>2008</u>
WestBridge Business Park	\$ 321,390	\$ 321,390
Eastbridge Business Park	2,064,302	2,064,302
Hardin Business Park	8,489,374	8,428,080
Pellissippi Corporate Center	2,464,936	2,390,315
Midway Business Park - Note H	10,277,966	10,260,245
Centerpoint Business Park	397,062	-
	<u>\$ 24,015,030</u>	<u>\$ 23,464,332</u>

The Corporation leases land and certain other structures on the Midway Business Park property to third parties, generally on a month-to-month basis. Rental income for years ended June 30, 2009 and 2008 was approximately \$36,000 and \$21,000, respectively.

In July 2006, the Corporation sold a parcel within Centerpoint Business Park to a third party for the purpose of constructing a corporate headquarters on the property. Per an agreement between the Corporation and the third party, if the proposed development of the property did not proceed within a specified time frame, the Corporation held the right to repurchase the property at the original sale price. During 2009, the Corporation repurchased the property for \$397,000.

NOTE D--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, 2009 and 2008, the Corporation recognized \$4,535,000 and \$4,516,750, respectively, in support payments from the County. Included in each of the 2009 and 2008 totals is approximately \$3,750,000 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. The remaining payments from the County in 2009 and 2008 of \$785,000 and \$766,750, respectively, relate to economic development and other support services rendered by the Corporation to the County.

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. The final balance of \$2,198 was spent during 2008 and released from temporarily restricted net assets. Also during 2009 and 2008, the Corporation

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE D--RELATED PARTY TRANSACTIONS - Continued

recognized revenue of \$115,786 and \$127,080, 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 Knoxville Chamber of Commerce. His salary and benefits are paid by the Chamber of Commerce and the Corporation pays \$10 annually to the Knoxville 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. In 2009 and 2008, the Corporation received from the County approximately \$115,000 and \$300,000, respectively, for the scholarship program. As of June 30, 2009, \$322,224 of funds were yet to be distributed and are included in accounts payable and accrued expenses. Approximately \$282,445 of such amounts were committed to businesses for identified scholarships. Uncommitted funds are due primarily to forfeitures. Management plans to use these funds to offset the County's proposed decrease in funding for this program in fiscal year 2010.

NOTE E--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 2009 and 2008 was approximately \$14,100 and \$12,900, respectively.

NOTE F--CONCENTRATIONS OF RISK

Cash balances held at June 30, 2009 were not in excess of Federal Deposit Insurance Corporation limits.

During 2009 and 2008, the Corporation received significant revenue from the County and the City of Knoxville (Note D). Such amounts subject the Corporation to a concentration of risk in 2009 and 2008.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE G--LEASES

Capital Lease: During 2009, the Corporation entered into a non-cancelable agreement to lease certain computer equipment and related software. The agreement is for a term of thirty-nine months with an option to purchase the equipment at the end of the lease term for \$1,842. Future minimum lease payments under the capital lease are as follows:

	<u>Year Ending June 30,</u>	
	2010	\$ 4,630
	2011	4,096
	2012	<u>4,374</u>
Total minimum lease payments		13,100
Less amount representing interest		<u>(669)</u>
Present value of net future minimum lease payments		12,431
Less current portion		<u>(4,276)</u>
Present value of future minimum lease payments - long term		<u><u>\$ 8,155</u></u>

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 \$15,393. Total operating lease expense for 2009 and 2008 was approximately \$15,600 and \$16,800, respectively.

NOTE H--COMMITMENTS AND CONTINGENCIES

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 development of a business park. One lawsuit was resolved during 2009 in a manner that was not favorable to the position of the Corporation. The ultimate outcome of such litigation could impact the asset realization of Midway Business Park. However, for the two lawsuits still pending, management believes that an ultimate unfavorable outcome is unlikely. As such, management has not estimated an amount or range of impairment on the related assets. The Corporation is not aware of any other claims or potential claims arising in the normal course of business.

In a prior year, the Corporation committed to the Industrial Development Board of the County of Knox (County IDB) a grant of \$1,000,000 over a four year period for specific improvements related to air quality. This commitment was contingent upon the execution of a grant agreement. Subsequent to June 30, 2009, the grant was cancelled and terminated by the Corporation without any funding.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE H--COMMITMENTS AND CONTINGENCIES - Continued

During 2006, the Corporation transferred approximately 50 acres of land at Pellissippi Corporate Center 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. In August 2008, the third party terminated the ground lease with the County IDB. The Corporation provided funds to the County IDB to buy back the property in 2009 for the difference between the agreed value and amortized agreed value. This amount totaled \$37,278, and is included in general and administrative expenses and other in the accompanying 2009 Statement of Activities and Changes in Net Assets. Under certain agreements between the County IDB and the Corporation, the Corporation can request the property be reconveyed to the Corporation or authorize the County IDB to use the land for economic development purposes. Regarding the proceeds and accumulated interest thereon, the County IDB is authorized to be reimbursed for any expenses it incurred related to the project, and any remaining proceeds are to be returned to the Corporation or used for economic development purposes upon written direction from the Corporation. It is the intent of the Corporation to allow the County IDB to hold the land and proceeds, including any accumulated interest thereon, for economic development purposes. The proceeds and accumulated interest totaled \$598,405 as of June 30, 2009.

NOTE I--INCENTIVE AGREEMENTS

In a prior year, 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 contained certain capital investment and job creation covenants that must be performed in order to receive the incentive payments. During 2008, the final \$450,000 due under this agreement was paid to Exedy.

NOTE J--MANAGEMENT AGREEMENTS

The Corporation maintains Administrative Services Agreements with the County IDB and the Industrial Development Board of the City of Knoxville (City IDB) that stipulate the provision of administrative services by the Corporation to these entities. For each of the years ended June 30, 2009 and 2008, \$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, 2009, no such amounts were due to the Corporation.

Through July 2008, the Corporation maintained a Property Management and Development Agreement with the City IDB under which the Corporation managed properties and paid expenses in connection with development. During the years ended June 30, 2009 and 2008, the Corporation recognized \$1,500 and \$18,000, respectively, in revenue under this agreement. At June 30, 2008,

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE J--MANAGEMENT AGREEMENTS - Continued

\$1,500 was due to the Corporation from the City IDB as a result of this agreement. At June 30, 2009, 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 year ended June 30, 2009, the Corporation did not receive grant proceeds. The Corporation received \$113,213 in 2008.

NOTE L --FAIR VALUE MEASUREMENT

The Corporation adopted SFAS No. 157 during 2009 (Note A). SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy.

Valuation Hierarchy: SFAS No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Corporation's own assumptions.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Notes to Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE L --FAIR VALUE MEASUREMENT - Continued

input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

All investments are measured at fair value on a recurring basis as of June 30, 2009 and are classified as Level 1.

Other Information

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Detail of Statement of Financial Position

June 30, 2009

	<i>General Fund</i>	<i>Property Investment Fund</i>	<i>Eliminations</i>	<i>Total</i>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ (1,231,826)	\$ 5,874,498	\$ -	\$ 4,642,672
Short-term investments	-	6,222,250	-	6,222,250
Interest receivable	6,600	125,406	-	132,006
Accounts receivable	255,452	-	-	255,452
Interfund receivable	-	559,961	(559,961)	-
Prepaid insurance and deposits	45,304	-	-	45,304
TOTAL CURRENT ASSETS	(924,470)	12,782,115	(559,961)	11,297,684
INVESTMENTS	-	477,750	-	477,750
PROPERTY AND EQUIPMENT				
Office equipment	56,145	-	-	56,145
Computer hardware and software	29,741	-	-	29,741
Other equipment	598	-	-	598
Leased equipment	13,274	-	-	13,274
	99,758	-	-	99,758
Less accumulated depreciation	(52,318)	-	-	(52,318)
	47,440	-	-	47,440
OTHER ASSETS				
Land held for resale	-	24,015,031	-	24,015,031
TOTAL ASSETS	\$ (877,030)	\$ 37,274,896	\$ (559,961)	\$ 35,837,905

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Detail of Statement of Financial Position - Continued

June 30, 2009

	<i>General Fund</i>	<i>Property Investment Fund</i>	<i>Eliminations</i>	<i>Total</i>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 374,133	\$ -	\$ -	\$ 374,133
Unearned revenue	3,900	-	-	3,900
Current portion of capital lease obligation	4,276	-	-	4,276
Interfund payable	559,961	-	(559,961)	-
TOTAL CURRENT LIABILITIES	942,270	-	(559,961)	382,309
CAPITAL LEASE OBLIGATION, net of current portion	8,155	-	-	8,155
TOTAL LIABILITIES	950,425	-	(559,961)	390,464
NET ASSETS (DEFICIENCY)				
Unrestricted net assets (deficiency)	(1,847,264)	37,274,896	-	35,427,632
Temporarily restricted net assets	19,809	-	-	19,809
TOTAL NET ASSETS (DEFICIENCY)	(1,827,455)	37,274,896	-	35,447,441
TOTAL LIABILITIES AND NET ASSETS	\$ (877,030)	\$37,274,896	\$ (559,961)	\$35,837,905

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Detail of Statement of Activities and Change in Net Assets

Year Ended June 30, 2009

	<i>General Fund</i>	<i>Property Investment Fund</i>	<i>Total</i>
UNRESTRICTED REVENUE AND OTHER SUPPORT			
Rental and management income	\$ 88,589	\$ -	\$ 88,589
Temporarily restricted net assets released from restrictions	2,854	-	2,854
Revenue from City of Knoxville and Knox County	900,786	3,750,000	4,650,786
TOTAL REVENUE AND OTHER SUPPORT	992,229	3,750,000	4,742,229
EXPENSES			
General and administrative and other	787,126	38,448	825,574
Depreciation	9,206	-	9,206
TOTAL EXPENSES	796,332	38,448	834,780
OPERATING INCOME	195,897	3,711,552	3,907,449
OTHER GAINS AND LOSSES			
Investment income	11,053	210,002	221,055
INCREASE IN UNRESTRICTED NET ASSETS	206,950	3,921,554	4,128,504
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Restricted contract payments	3,172	-	3,172
Temporarily restricted net assets released from restrictions	(2,854)	-	(2,854)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	318	-	318
INCREASE IN TOTAL NET ASSETS	207,268	3,921,554	4,128,822
NET ASSETS (DEFICIENCY), beginning of year	(2,034,723)	33,353,342	31,318,619
NET ASSETS (DEFICIENCY), end of year	\$ (1,827,455)	\$ 37,274,896	\$ 35,447,441

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Note to Other Information

Year Ended June 30, 2009

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 long-term economic development and recruiting activities, are also included in the Property Investment Fund (Note D to the basic financial statements).

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.



CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF 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, 2009 and have issued our report thereon dated December 1, 2009. 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.

We noted certain matters that we reported to the Board of Directors of the Corporation in a separate letter dated December 1, 2009.

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*.

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.

Peeling Youdey & Associates PC

Knoxville, Tennessee
December 1, 2009

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2009 and 2008

CFDA Number	State Grant Number	Program Name	Grantor	Grant Period	Receivable Balance at July 1, 2008	Receipts	Amounts Disbursed	Receivable Balance at June 30, 2009
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	\$ -	\$ -	\$ -	\$ -
N/A	GG-08-23530-00	FastTrack Infrastructure Development Program	Tennessee Department of Economic and Community Development	11/13/07-8/31/12	-	-	-	-
					TOTAL STATE AWARDS	\$ -	\$ -	\$ -

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.