

**THE DEVELOPMENT CORPORATION OF KNOX COUNTY**

*Audited Financial Statements  
(and Other Information)*

*Years Ended June 30, 2010 and 2009*



THE DEVELOPMENT CORPORATION OF KNOX COUNTY

*Audited Financial Statements (and Other Information)*

*Years Ended June 30, 2010 and 2009*

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*Audited Financial Statements*

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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, 2010 and 2009 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, 2010 and 2009, 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 November 30, 2010 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 conducted 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.

*Peushing Yearby - Accountant PC*

Knoxville, Tennessee  
November 30, 2010

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

*Statements of Financial Position*

	<i>June 30,</i>	
	<i>2010</i>	<i>2009</i>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 7,010,673	\$ 4,642,671
Short-term investments	5,000,000	6,222,250
Interest receivable	8,424	132,006
Accounts receivable	240,968	255,452
Prepaid insurance and deposits	44,361	45,304
TOTAL CURRENT ASSETS	<b>12,304,426</b>	11,297,683
<b>INVESTMENTS</b>	-	477,750
<b>PROPERTY AND EQUIPMENT</b>		
Office equipment	56,145	56,145
Computer hardware and software	32,211	29,740
Other equipment	599	599
Leased equipment	13,274	13,274
	<b>102,229</b>	99,758
Less accumulated depreciation	<b>(81,492)</b>	(52,318)
	<b>20,737</b>	47,440
<b>OTHER ASSETS</b>		
Land held for resale - Notes C and H	<b>23,925,853</b>	24,015,030
<b>TOTAL ASSETS</b>	<b>\$ 36,251,016</b>	<b>\$ 35,837,903</b>

	<i>June 30,</i>	
	<i>2010</i>	<i>2009</i>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 415,720	\$ 374,132
Unearned revenue	1,600	3,900
Current portion of capital lease obligation	3,867	4,276
TOTAL CURRENT LIABILITIES	421,187	382,308
CAPITAL LEASE OBLIGATION, net of current portion	4,822	8,155
TOTAL LIABILITIES	426,009	390,463
<b>NET ASSETS</b>		
Unrestricted net assets	35,810,606	35,427,631
Temporarily restricted net assets	14,401	19,809
	35,825,007	35,447,440
TOTAL LIABILITIES AND NET ASSETS	<b>\$ 36,251,016</b>	<b>\$ 35,837,903</b>

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

*Statements of Activities and Changes in Net Assets*

	<i>Year Ended June 30,</i>	
	<i>2010</i>	<i>2009</i>
<b>UNRESTRICTED REVENUE AND OTHER SUPPORT</b>		
Sale of land, net of commissions	\$ 175,000	\$ -
Cost of land sold and related incentives	(100,543)	-
GROSS MARGIN	<u>74,457</u>	<u>-</u>
Rental and management income - Notes C and J	87,827	88,588
Temporarily restricted net assets released from restrictions	6,539	2,854
Revenue from City of Knoxville and Knox County - Note D	886,300	4,650,786
TOTAL REVENUE AND OTHER SUPPORT	<u>1,055,123</u>	<u>4,742,228</u>
<b>EXPENSES</b>		
General, administrative and other	828,068	825,574
Depreciation	32,116	9,206
TOTAL EXPENSES	<u>860,184</u>	<u>834,780</u>
OPERATING INCOME	194,939	3,907,448
<b>OTHER GAINS AND LOSSES</b>		
Investment income	188,036	221,055
INCREASE IN UNRESTRICTED NET ASSETS	<u>382,975</u>	<u>4,128,503</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Restricted contract payments	1,131	3,172
Temporarily restricted net assets released from restrictions	(6,539)	(2,854)
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(5,408)</u>	<u>318</u>
INCREASE IN TOTAL NET ASSETS	377,567	4,128,821
NET ASSETS, beginning of year	35,447,440	31,318,619
NET ASSETS, end of year	<u>\$ 35,825,007</u>	<u>\$ 35,447,440</u>

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

*Statements of Cash Flows*

	<i>Year Ended June 30,</i>	
	<i>2010</i>	<i>2009</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from land sales, State grants, Knox County, City of Knoxville and other sources	\$ 1,162,442	\$ 4,771,390
Cash paid to suppliers, employees, and for incentives	(785,537)	(982,813)
NET CASH PROVIDED BY OPERATING ACTIVITIES	376,905	3,788,577
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of land held for resale and land options	-	(397,062)
Interest received	311,618	89,049
Capital improvements and property and equipment additions, net	(16,779)	(160,173)
Purchase of investments	(5,000,000)	(6,700,000)
Maturity of investments	6,700,000	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,994,839	(7,168,186)
<b>CASH USED IN FINANCING ACTIVITIES:</b>		
Cash paid under capital lease	(3,742)	(843)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,368,002	(3,380,452)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,642,671	8,023,123
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 7,010,673	\$ 4,642,671

	<i>Year Ended June 30,</i>	
	<i>2010</i>	<i>2009</i>
<b>RECONCILIATION OF INCREASE IN NET ASSETS</b>		
<b>TO NET CASH PROVIDED BY</b>		
<b>OPERATING ACTIVITIES:</b>		
Increase in total net assets	\$ 377,567	\$ 4,128,821
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	32,116	9,206
Cost of land sold and related incentives	100,543	-
Investment income	(188,036)	(221,055)
Decrease (increase) in:		
Accounts receivable	14,484	24,944
Prepaid insurance and deposits	943	(4,929)
Increase (decrease) in:		
Accounts payable and accrued expenses	41,588	(152,310)
Unearned revenue	(2,300)	3,900
Net adjustments	<u>(662)</u>	<u>(340,244)</u>
<b>NET CASH PROVIDED</b>		
<b>BY OPERATING ACTIVITIES</b>	<u>\$ 376,905</u>	<u>\$ 3,788,577</u>

## THE DEVELOPMENT CORPORATION OF KNOX COUNTY

### *Notes to Financial Statements*

#### *Years Ended June 30, 2010 and 2009*

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#### 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, and staff services to the County and City of Knoxville Industrial Development Boards.

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.

Subsequent to June 30, 2010, the Corporation amended its Second Amended and Restated Charter. Pursuant to the amendment, the Board is composed of four designated Knox County members and seven appointed members. The designated members serve by virtue of elected office: Mayor of Knox County, Mayor of the City of Knoxville, Chair of the Knox County Commission, and Vice Chair of the Knox County Commission. The seven appointed members are composed of five citizens of Knox County, one member of the Knox County Commission as appointed by the Knox County Commission and one citizen of the City of Knoxville.

By amended agreement dated March 13, 2001 between the County, the City of Knoxville, and the Corporation, the Corporation is designated 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.

*Accounting Standards Codification:* In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) – a replacement of FASB Statement No. 162*. This Statement modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective September 2009, the FASB Accounting Standards Codification (ASC) is considered the single source of authoritative accounting and reporting standards in the United States. FASB ASC 105-10, *Generally Accepted Accounting Principles*, became applicable during fiscal year 2010. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references.

## THE DEVELOPMENT CORPORATION OF KNOX COUNTY

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2010 and 2009*

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

*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 and money market accounts. Certificates of deposit with contractual maturities of less than ninety days when purchased are included as cash and cash equivalents.

*Investments:* Short-term investments include certificates of deposit with contractual maturities greater than ninety days when purchased, but with less than one year remaining maturity. 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 other various agreements. An allowance for uncollectible accounts is recorded, when necessary, based on management's evaluation of the 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 related 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, 2010 and 2009.

*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. The amortization of leased assets is included in depreciation expense.

## THE DEVELOPMENT CORPORATION OF KNOX COUNTY

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2010 and 2009*

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

*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 did not identify any significant uncertain tax positions resulting in any unrecognized tax benefits as of and for the fiscal year ended June 30, 2010. In addition, the Corporation was not assessed and did not recognize any interest or penalties related to taxes for the fiscal year ended June 30, 2010.

*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 the management of Fairview Technology Center and restricted to its maintenance and repair. 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.

*Fair Value Measurement:* In 2009, the Corporation adopted FASB ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosure about fair value measurements. There was no significant impact on the financial statements as a result of adopting this standard (Note L).

*Subsequent Events:* The Corporation evaluated all events or transactions that occurred after June 30, 2010, through November 30, 2010, 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, 2010 financial statements.

*Newly Adopted Accounting Pronouncements:* The Corporation adopted the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*, during the fiscal year ended June 30, 2010. There was no significant impact on the financial statements as a result of adopting this standard.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 requires new disclosures regarding significant transfers in and out of Levels 1 and 2, as well as information about activity in Level 3 fair value measurements, including presenting information about purchases, sales, issuances and settlements on a gross versus a net basis in the Level 3 activity

## THE DEVELOPMENT CORPORATION OF KNOX COUNTY

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2010 and 2009*

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

roll forward. In addition, ASU 2010-06 clarifies existing disclosures regarding input and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities. The Corporation adopted ASU 2010-06 in 2010, except for the disclosures related to purchases, sales, issuance and settlements, which will be effective for the Corporation beginning July 1, 2011. The adoption of ASU 2010-06 had no current impact and is expected to have no subsequent impact on the Corporation's 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.

#### NOTE C--LAND HELD FOR RESALE

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

	<u>2010</u>	<u>2009</u>
WestBridge Business Park	\$ 324,936	\$ 321,390
Eastbridge Business Park	1,964,302	2,064,302
Hardin Business Park	8,489,374	8,489,374
Pellissippi Corporate Center	2,464,936	2,464,936
Midway Business Park - Note H	10,285,243	10,277,966
Centerpoint Business Park	397,062	397,062
	<u>\$ 23,925,853</u>	<u>\$ 24,015,030</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, 2010 and 2009 was approximately \$52,000 and \$36,000, respectively.

#### 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, 2010 and 2009, the Corporation recognized \$775,000 and \$4,535,000, respectively, in support payments from the County. Included in the 2009 total is approximately \$3,750,000 of payments from the County for long-term economic

## THE DEVELOPMENT CORPORATION OF KNOX COUNTY

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2010 and 2009*

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#### NOTE D--RELATED PARTY TRANSACTIONS - Continued

development. Such payments were not made during 2010. The remaining payments from the County in 2010 and 2009 of \$775,000 and \$785,000, respectively, relate to economic development and other support services rendered by the Corporation to the County.

During 2010 and 2009, the Corporation recognized revenue of \$111,300 and \$115,786, 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 2010 and 2009, the Corporation received from the County approximately \$125,000 and \$115,000, respectively, for the scholarship program. As of June 30, 2010, \$354,172 of funds were yet to be distributed and are included in accounts payable and accrued expenses. Approximately \$191,853 of such amounts were committed to businesses for identified scholarships.

#### 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 2010 and 2009 was approximately \$17,000 and \$14,100, respectively.

#### NOTE F--CONCENTRATIONS OF RISK

The Corporation routinely invests in money market funds classified as cash and cash equivalents which are not insured or guaranteed by the U.S. government. Management believes that credit risk related to these funds, totaling \$6,196,000 and \$0 at June 30, 2010 and 2009, is minimal. Other cash balances held at June 30, 2010 and 2009 were not in excess of FDIC limits.

## THE DEVELOPMENT CORPORATION OF KNOX COUNTY

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2010 and 2009*

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#### NOTE F--CONCENTRATIONS OF RISK - Continued

During 2010 and 2009, 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 2010 and 2009.

#### NOTE G--LEASES

*Capital Lease:* During 2010, 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>	
2011	\$ 4,096
2012	4,908
Total minimum lease payments	9,004
Less amount representing interest	(315)
Present value of net future minimum lease payments	8,689
Less current portion	(3,867)
Present value of future minimum lease payments - long term	<u>\$ 4,822</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 2010 and 2009 was approximately \$15,400 and \$15,600, respectively.

#### NOTE H--COMMITMENTS AND CONTINGENCIES

In a prior year, 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 realization of the amounts recorded in the accompanying financial statements related to the 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.

## THE DEVELOPMENT CORPORATION OF KNOX COUNTY

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2010 and 2009*

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#### NOTE H--COMMITMENTS AND CONTINGENCIES - Continued

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. During 2010, the grant was cancelled and terminated by the Corporation without any funding.

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. During 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 amounts not recorded by the Corporation related to proceeds and accumulated interest totaled \$606,694 and \$598,405 as of June 30, 2010 and June 30, 2009, respectively.

#### NOTE I--INCENTIVE AGREEMENTS

In connection with the sale of its land held for resale, the Corporation may include certain incentives for the purchaser. These incentives are often contingent upon property investment, property development, and job creation. In the event these incentives are not met by the purchaser, the Corporation may repurchase property previously sold at a discount, extend the timeframes for the incentives within the agreements, or receive additional consideration for the sale of the property, as outlined in the specific agreement. As these incentives are contingent upon the action of the purchaser and cannot be predicted, the Corporation records any resulting gains or losses as a result of these transactions as incurred.

#### 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

## THE DEVELOPMENT CORPORATION OF KNOX COUNTY

### *Notes to Financial Statements - Continued*

#### *Years Ended June 30, 2010 and 2009*

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#### NOTE J--MANAGEMENT AGREEMENTS - Continued

administrative services by the Corporation to these entities. For each of the years ended June 30, 2010 and 2009, \$36,000 of revenue was recognized as a result of these agreements.

Until 2009, 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 year ended June 30, 2009, the Corporation recognized \$1,500 in revenue under this agreement. No revenue was recognized under this agreement during 2010.

#### 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, 2010 and 2009, the Corporation did not receive grant proceeds. As a party to agreements in prior years, the Corporation has certain continuing reporting requirements.

#### NOTE L --FAIR VALUE MEASUREMENT

FASB ASC 820 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 – Inputs based on quoted market prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument’s valuation.

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

**THE DEVELOPMENT CORPORATION OF KNOX COUNTY**

*Notes to Financial Statements - Continued*

*Years Ended June 30, 2010 and 2009*

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NOTE L --FAIR VALUE MEASUREMENT - Continued

value measurement in its entirety. The Corporation's assessment of the significance of a particular 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, 2010 and 2009 and are classified as Level 1. On a non-recurring basis, the Corporation estimates the fair value of land held for resale as described in Note A when circumstances change. In a prior year, the Eastbridge Business Park was revalued and recorded at an estimated fair value of \$2,064,302. At June 30, 2010, management estimated the fair value of Eastbridge Business Park to be \$1,964,302. The change in the fair value of Eastbridge Business Park between 2009 and 2010 is related to the sale of one parcel of land during 2010. The parcel of land sold had a book value of \$100,000, and was sold for \$175,000, before the consideration of the cost of the sale.

## *Other Information*

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

*Detail of Statement of Financial Position*

*June 30, 2010*

	<i>General Fund</i>	<i>Property Investment Fund</i>	<i>Eliminations</i>	<i>Total</i>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ (1,577,669)	\$ 8,034,170	\$ -	\$ 6,456,501
Cash and cash equivalents - designated	554,172	-	-	554,172
Short-term investments	-	5,000,000	-	5,000,000
Interest receivable	421	8,003	-	8,424
Accounts receivable	240,968	-	-	240,968
Interfund receivable	-	559,961	(559,961)	-
Prepaid insurance and deposits	44,361	-	-	44,361
TOTAL CURRENT ASSETS	(737,747)	13,602,134	(559,961)	12,304,426
<b>PROPERTY AND EQUIPMENT</b>				
Office equipment	56,145	-	-	56,145
Computer hardware and software	32,211	-	-	32,211
Other equipment	599	-	-	599
Leased equipment	13,274	-	-	13,274
	102,229	-	-	102,229
Less accumulated depreciation	(81,492)	-	-	(81,492)
	20,737	-	-	20,737
<b>OTHER ASSETS</b>				
Land held for resale	-	23,925,853	-	23,925,853
TOTAL ASSETS	\$ (717,010)	\$ 37,527,987	\$ (559,961)	\$ 36,251,016

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

*Detail of Statement of Financial Position - Continued*

*June 30, 2010*

	<i>General Fund</i>	<i>Property Investment Fund</i>	<i>Eliminations</i>	<i>Total</i>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 61,548	\$ -	\$ -	\$ 61,548
Scholarship program	354,172	-	-	354,172
Unearned revenue	1,600	-	-	1,600
Current portion of capital lease obligation	3,867	-	-	3,867
Interfund payable	559,961	-	(559,961)	-
TOTAL CURRENT LIABILITIES	981,148	-	(559,961)	421,187
CAPITAL LEASE OBLIGATION, net of current portion	4,822	-	-	4,822
TOTAL LIABILITIES	985,970	-	(559,961)	426,009
<b>NET ASSETS (DEFICIENCY)</b>				
Unrestricted net assets (deficiency)	(1,717,381)	37,527,987	-	35,810,606
Temporarily restricted net assets	14,401	-	-	14,401
TOTAL NET ASSETS (DEFICIENCY)	(1,702,980)	37,527,987	-	35,825,007
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	\$ (717,010)	\$ 37,527,987	\$ (559,961)	\$ 36,251,016

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

*Detail of Statement of Activities and Changes in Net Assets*

*Year Ended June 30, 2010*

	<i>General Fund</i>	<i>Property Investment Fund</i>	<i>Total</i>
UNRESTRICTED REVENUE AND OTHER SUPPORT			
Sale of land, net of commissions	\$ -	\$ 175,000	\$ 175,000
Cost of land sold and related incentives	-	(100,543)	(100,543)
GROSS MARGIN	-	74,457	74,457
Rental and management income	87,827	-	87,827
Temporarily restricted net assets released from restrictions	6,539	-	6,539
Revenue from City of Knoxville and Knox County	886,300	-	886,300
TOTAL REVENUE AND OTHER SUPPORT	980,666	74,457	1,055,123
EXPENSES			
General, administrative and other	828,068	-	828,068
Depreciation	32,116	-	32,116
TOTAL EXPENSES	860,184	-	860,184
OPERATING INCOME	120,482	74,457	194,939
OTHER GAINS AND LOSSES			
Investment income	9,402	178,634	188,036
INCREASE IN UNRESTRICTED NET ASSETS	129,884	253,091	382,975
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Restricted contract payments	1,131	-	1,131
Temporarily restricted net assets released from restrictions	(6,539)	-	(6,539)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(5,408)	-	(5,408)
INCREASE IN TOTAL NET ASSETS	124,476	253,091	377,567
NET ASSETS (DEFICIENCY), beginning of year	(1,827,456)	37,274,896	35,447,440
NET ASSETS (DEFICIENCY), end of year	\$ (1,702,980)	\$ 37,527,987	\$ 35,825,007

*See note to other information.*

**THE DEVELOPMENT CORPORATION OF KNOX COUNTY**

*Note to Other Information*

*Year Ended June 30, 2010*

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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, 2010 and have issued our report thereon dated November 30, 2010. 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 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 the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, 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 November 30, 2010.

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.

*Pushing Gently: Annals 10*

Knoxville, Tennessee  
November 30, 2010

**THE DEVELOPMENT CORPORATION OF KNOX COUNTY**

*Schedule of Expenditures of Federal and State Awards*

*Year Ended June 30, 2010 and 2009*

<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, 2009</i>	<i>Receipts</i>	<i>Amounts Disbursed</i>	<i>Receivable Balance at June 30, 2010</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	\$ -	\$ -	\$ -	\$ -
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.