THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Audited Financial Statements (and Other Information)

Years Ended June 30, 2011 and 2010

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THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Audited Financial Statements (and Other Information)

Years Ended June 30, 2011 and 2010

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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, 2011 and 2010 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, 2011 and 2010, 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 22, 2011 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 financial statements as a whole. The accompanying detail of statement of financial position and detail of statement of activities and changes in net assets are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
December 22, 2011

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Statements of Financial Position

	June 30,	
	2011	***2010***
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 12,437,233**	$ 7,010,673
Short-term investments	**-**	5,000,000
Interest receivable	**-**	8,424
Accounts receivable	**196,679**	240,968
Prepaid insurance and deposits	**34,093**	44,361
TOTAL CURRENT ASSETS	**12,668,005**	12,304,426
PROPERTY AND EQUIPMENT		
Office equipment	**54,657**	56,145
Computer hardware and software	**32,076**	32,211
Other equipment	**599**	599
Leased equipment	**13,274**	13,274
	100,606	102,229
Less accumulated depreciation	**(85,916)**	(81,492)
	14,690	20,737
OTHER ASSETS		
Land held for resale - Notes C and M	**20,682,255**	23,925,853
TOTAL ASSETS	**$ 33,364,950**	$ 36,251,016

	June 30, 2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 278,682**	$ 417,320
Current portion of capital lease obligation	**4,822**	3,867
TOTAL CURRENT LIABILITIES	**283,504**	421,187
CAPITAL LEASE OBLIGATION, net of current portion	**-**	4,822
TOTAL LIABILITIES	**283,504**	426,009
NET ASSETS		
Unrestricted net assets	**33,048,989**	35,810,606
Temporarily restricted net assets	**32,457**	14,401
	33,081,446	35,825,007
TOTAL LIABILITIES AND NET ASSETS	**$ 33,364,950**	$ 36,251,016

See notes to financial statements.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Statements of Activities and Changes in Net Assets

	Year Ended June 30,	
	2011	***2010***
UNRESTRICTED REVENUE AND OTHER SUPPORT		
Sale of land, net of commissions	**$ -**	$ 175,000
Land sale incentive forfeiture revenue - Note I	**332,338**	-
Cost of land sold and related incentives	**-**	(100,543)
GROSS MARGIN	**332,338**	74,457
Rental and management income - Notes C and J	**91,308**	87,827
Temporarily restricted net assets released from restrictions	**4,713**	6,539
Revenue from City of Knoxville and Knox County - Note D	**794,925**	886,300
TOTAL REVENUE AND OTHER SUPPORT	**1,223,284**	1,055,123
EXPENSES		
General, administrative and other	**786,334**	828,068
Depreciation	**9,266**	32,116
Estimated impairment loss related to Midway property - Note M	**3,245,245**	-
TOTAL EXPENSES	**4,040,845**	860,184
OPERATING INCOME (LOSS)	**(2,817,561)**	194,939
OTHER GAINS		
Investment income	**55,944**	188,036
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	**(2,761,617)**	382,975
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Restricted contract payments	**22,769**	1,131
Temporarily restricted net assets released from restrictions	**(4,713)**	(6,539)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	**18,056**	(5,408)
INCREASE (DECREASE) IN TOTAL NET ASSETS	**(2,743,561)**	377,567
NET ASSETS, beginning of year	**35,825,007**	35,447,440
NET ASSETS, end of year	**$ 33,081,446**	$ 35,825,007

See notes to financial statements.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Statements of Cash Flows

	Year Ended June 30,	
	2011	***2010***
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from land sales, incentive forfeitures, State grants, Knox County, City of Knoxville, and other sources	**$ 1,285,629**	$ 1,162,442
Cash paid to suppliers, employees, and for incentives	**(914,624)**	(785,537)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**371,005**	376,905
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	**64,368**	311,618
Capital improvements and property and equipment additions, net	**(4,946)**	(16,779)
Purchase of investments	**-**	(5,000,000)
Maturity of investments	**5,000,000**	6,700,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	**5,059,422**	1,994,839
CASH USED IN FINANCING ACTIVITIES:		
Cash paid for capital lease	**(3,867)**	(3,742)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**5,426,560**	2,368,002
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**7,010,673**	4,642,671
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 12,437,233**	$ 7,010,673

	Year Ended June 30, 2011	2010
RECONCILIATION OF INCREASE (DECREASE) IN TOTAL NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase (decrease) in total net assets	**$ (2,743,561)**	$ 377,567
Adjustments to reconcile increase (decrease) in total net assets to net cash provided by operating activities:		
Depreciation	**9,266**	32,116
Cost of land sold and related incentives	**-**	100,543
Non-cash estimated impairment loss related to Midway Property	**3,245,245**	-
Investment income	**(55,944)**	(188,036)
Loss on disposal of property and equipment	**80**	-
Decrease in:		
Accounts receivable	**44,289**	14,484
Prepaid insurance and deposits	**10,268**	943
Increase (decrease) in:		
Accounts payable and accrued expenses	**(138,638)**	39,288
Net adjustments	**3,114,566**	(662)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 371,005**	$ 376,905

See notes to financial statements.

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.

Prior to June 30, 2010, the Corporation had an eleven member Board of Directors. The Board was composed of four designated Knox County members, five who were appointed by the Corporation's Board of Directors, the Mayor of Knoxville, Tennessee and an appointee of the Mayor. The County had the right to reject the first two nominations to vacant seats on the Board of Directors. The third nomination by the Corporation was not subject to County approval.

During 2011, the Corporation adopted 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.

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

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

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.

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 less estimated selling costs and includes infrastructure and other improvements to such land. Management's estimated market values are subject to change in the near term although the amount of change, if any, is not known.

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 whenever events or changes in circumstances indicate that the carrying amount of land held for resale may not be recoverable. When it is determined that a test for recoverability is necessary, such cost is evaluated by management for impairment based upon third-party appraisals utilizing future estimated cash flows (undiscounted) 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. During 2011, the Corporation recorded an estimated impairment loss of approximately $3,245,000 on land held for resale (see Note M).

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.

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, 2011 or 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, 2011 or 2010.

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

Net Assets: Net assets include both unrestricted net assets and temporarily restricted net assets. Temporarily restricted net assets are 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: The Corporation defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and has included applicable disclosures about fair value measurement in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures* (Note L).

Subsequent Events: The Corporation evaluated all events or transactions that occurred after June 30, 2011, through December 22, 2011, the date the financial statements were available to be issued. Except as disclosed in Notes C and D, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2011 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 Accounting Standards Update (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 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 2011, 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 future impact on the Corporation's financial statements.

NOTE B--INVESTMENTS AND OTHER ASSETS

As of June 30, 2010, the Corporation had invested funds in certificates of deposits which matured during fiscal year 2011. At maturity these certificates of deposits were not renewed and as of June 30, 2011, all of the Corporation's funds were held in bank checking and money market accounts.

The Board of Directors has designated certain assets totaling $200,000 held by the Corporation for waterfront planning. The designated assets consist of cash deposited in a bank checking account 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:

	2011	*2010*
WestBridge Business Park	$ 326,583	$ 324,936
Eastbridge Business Park	1,964,302	1,964,302
Hardin Business Park	8,489,374	8,489,374
Pellissippi Corporate Center	2,464,936	2,464,936
Midway Property - Note M	7,039,998	10,285,243
Centerpoint Business Park	397,062	397,062
	$ 20,682,255	$ 23,925,853

The Corporation leases land and certain other structures on the Midway Property to third parties, generally on a month-to-month basis. Rental income for years ended June 30, 2011 and 2010 was approximately $53,000 and $52,000, respectively.

Subsequent to June 30, 2011, the Corporation entered into an agreement with the Tennessee Valley Authority (TVA) to exchange easement rights, previously held by TVA, for other rights on the Midway Property. The Corporation also received approximately $32,000 for this transaction. The Corporation also entered into an option with TVA for the sale of approximately 35 of the 381 acres of the Midway Property. TVA has 30 months to exercise the option. As of December 22, 2011, the date the Corporation's financial statements were available to be issued, TVA had not exercised the option.

NOTE D--RELATED PARTY TRANSACTIONS

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

2011 and 2010, the Corporation recognized $700,000 and $775,000, respectively, in support payments from the County. During 2011 and 2010, the Corporation recognized revenue of $94,925 and $111,300, respectively, from the City for the Corporation's operating budget. Subsequent to June 30, 2011, the Corporation received notice from the County suggesting that support payments in fiscal year 2012 will be significantly less than those of previous years. The Corporation has taken the decreases into consideration in the 2012 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, the Corporation received from the County approximately $125,000 for the scholarship program. In 2011, there were no funds received. As of June 30, 2011, $222,666 of funds were yet to be distributed and are included in accounts payable and accrued expenses in the accompanying Statement of Financial Position. Approximately $150,218 of such amounts were committed to businesses for identified scholarships as of June 30, 2011.

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 100% of 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 2011 and 2010 was approximately $17,300 and $17,000, respectively.

NOTE F--CONCENTRATIONS OF RISK

The Corporation routinely deposits funds in money market funds, certificate of deposits and demand deposit bank accounts classified as cash and cash equivalents. Management believes the credit risk related to these funds is minimal, and at June 30, 2011 all funds were either within the FDIC insurance limits or guaranteed by the U.S government.

During 2011 and 2010, 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.

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:

Year Ending June 30,		
2012	$	4,908
Total minimum lease payments		4,908
Less amount representing interest		(86)
Present value of net future minimum lease payments	$	4,822

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 each of the years 2011 and 2010 was approximately $15,400.

NOTE H--COMMITMENTS AND CONTINGENCIES

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. 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 lease 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 $610,985 and $606,694 as of June 30, 2011 and June 30, 2010, respectively.

NOTE I--INCENTIVE AGREEMENTS

In connection with the sale of land held for resale, the Corporation may include certain incentives for the purchaser. These incentives are often contingent upon property investment, property

NOTE I--INCENTIVE AGREEMENTS - Continued

development, and job creation. In the event these targets 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 from 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 additional sales proceeds when it is determined such amounts are due to the Corporation. During 2011, the Corporation received an additional payment of $332,338 for a previous land sale, as the purchaser did not meet specified targets for job creation and construction.

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, 2011 and 2010, $36,000 of revenue was recognized as a result of these agreements.

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, 2011 and 2010, 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.

NOTE L --FAIR VALUE MEASUREMENT - Continued

- 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 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 short-term investments and cash equivalents are measured at fair value on a recurring basis as of June 30, 2011 and 2010 and are classified as Level 1 in the following table. On a non-recurring basis, the Corporation estimates the fair value of land held for resale as described in Note A when circumstances change. At June 30, 2011, both the Midway Property and the Eastbridge Property are carried at estimated fair value, less estimated cost to sell.

The following tables present assets reported at fair value as of June 30, 2011 and 2010 and their respective classification under the FASB ASC 820 valuation hierarchy:

Assets Measured at Fair Value on a Nonrecurring Basis as of June 30, 2011

	Total	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Land held for resale carried at estimated market value	$ 9,004,300	$ -	$ 9,004,300	$ -

Assets Measured at Fair Value on a Recurring Basis as of June 30, 2010

	Total	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Short-term investments	$ 5,000,000		$ 5,000,000	$ -

NOTE L --FAIR VALUE MEASUREMENT - Continued

Assets Measured at Fair Value on a Nonrecurring Basis as of June 30, 2010

	Total	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Land held for resale carried at estimated market value	$ 1,964,302	$ -	$ 1,964,302	$ -

NOTE M --WRITE-DOWN OF MIDWAY PROPERTY

The Corporation purchased the Midway Property in fiscal year 2007 in anticipation of developing a business park. Subsequently, a law suit was filed by nearby property owners contesting the sector plan update and rezoning of the subject property. The Court overturned the sector plan change. In fiscal year 2011, after a two year long East Knox County Sector Plan update process, Knox County Commission approved a revised East Knox County Sector Plan that designated the subject property as Low Density Residential and Medium Density Residential/Office. Management considered this a change in circumstances (described in Note A), and a formal appraisal was obtained for the property which utilized the comparable sales approach, as the property is generally vacant and does not generate any significant cash flows. The appraisal, along with management's evaluation, resulted in a write-down of approximately $3,245,000 to record the Midway Property at the lower of cost or estimated market value, less estimated cost to sell.

Management currently intends to hold the subject property in inventory as it evaluates changes in the local economy, political climate and business park property inventory in order to make the best possible decision on the future use of the property.

Other Information

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Detail of Statement of Financial Position

June 30, 2011

	General Fund	*Property Investment Fund*	*Eliminations*	*Total*
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ -	$ 12,014,567	$ -	$ 12,014,567
Cash and cash equivalents - designated	422,666	-	-	422,666
Accounts receivable	196,679	-	-	196,679
Interfund receivable	-	1,971,405	(1,971,405)	-
Prepaid insurance and deposits	34,093	-	-	34,093
TOTAL CURRENT ASSETS	653,438	13,985,972	(1,971,405)	12,668,005
PROPERTY AND EQUIPMENT				
Office equipment	54,657	-	-	54,657
Computer hardware and software	32,076	-	-	32,076
Other equipment	599	-	-	599
Leased equipment	13,274	-	-	13,274
	100,606	-	-	100,606
Less accumulated depreciation	(85,916)	-	-	(85,916)
	14,690	-	-	14,690
OTHER ASSETS				
Land held for resale	-	20,682,255	-	20,682,255
TOTAL ASSETS (DEFICIENCY)	$ 668,128	$ 34,668,227	$ (1,971,405)	$ 33,364,950

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Detail of Statement of Financial Position - Continued

June 30, 2011

	General Fund	*Property Investment Fund*	*Eliminations*	*Total*
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$ 56,016	$ -	$ -	$ 56,016
Scholarship program	222,666	-	-	222,666
Current portion of capital lease obligation	4,822	-	-	4,822
Interfund payable	1,971,405	-	(1,971,405)	-
TOTAL CURRENT LIABILITIES	2,254,909	-	(1,971,405)	283,504
NET ASSETS (DEFICIENCY)				
Unrestricted net assets (deficiency)	(1,619,238)	34,668,227	-	33,048,989
Temporarily restricted net assets	32,457	-	-	32,457
TOTAL NET ASSETS (DEFICIENCY)	(1,586,781)	34,668,227	-	33,081,446
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	$ 668,128	$ 34,668,227	$ (1,971,405)	$ 33,364,950

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Detail of Statement of Activities and Changes in Net Assets

Year Ended June 30, 2011

	General Fund	*Property Investment Fund*	*Total*
UNRESTRICTED REVENUE AND OTHER SUPPORT			
Land sale incentive forfeiture revenue	$ -	$ 332,338	$ 332,338
GROSS MARGIN	-	332,338	332,338
Rental and management income	91,308	-	91,308
Temporarily restricted net assets released from restrictions	4,713	-	4,713
Revenue from City of Knoxville and Knox County	794,925	-	794,925
TOTAL REVENUE AND OTHER SUPPORT	890,946	332,338	1,223,284
EXPENSES			
General, administrative and other	786,334	-	786,334
Depreciation	9,266	-	9,266
Estimated impairment loss related to Midway Property	-	3,245,245	3,245,245
TOTAL EXPENSES	795,600	3,245,245	4,040,845
OPERATING INCOME	95,346	(2,912,907)	(2,817,561)
OTHER GAINS AND LOSSES			
Investment income	2,797	53,147	55,944
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	98,143	(2,859,760)	(2,761,617)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Restricted contract payments	22,769	-	22,769
Temporarily restricted net assets released from restrictions	(4,713)	-	(4,713)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	18,056	-	18,056
INCREASE (DECREASE) IN TOTAL NET ASSETS	116,199	(2,859,760)	(2,743,561)
NET ASSETS (DEFICIENCY), beginning of year	(1,702,980)	37,527,987	35,825,007
NET ASSETS (DEFICIENCY), end of year	$ (1,586,781)	$ 34,668,227	$ 33,081,446

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Note to Other Information

Year Ended June 30, 2011

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 any 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.

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.

PERSHING YOAKLEY & ASSOCIATES

PERSHING YOAKLEY & ASSOCIATES, P.C.
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, 2011 and have issued our report thereon dated December 22, 2011. 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.

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.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
December 22, 2011