THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX

Financial Statements and Supplementary Information

Years Ended March 31, 2012 and 2011

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Independent Auditor's Report

The Board of Directors and Senior Management
The Industrial Development Board of the County of Knox
Knoxville, Tennessee

We have audited the accompanying statement of net assets of The Industrial Development Board of the County of Knox (the "Board") as of March 31, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Board as of and for the year ended March 31, 2011, were audited by other auditors whose report dated July 12, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 audit provides 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 Board as of March 31, 2012, and the changes in its financial position 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 June 12, 2012 on our consideration of the Board'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 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.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
June 12, 2012

This section of The Industrial Development Board of the County of Knox's (the "Board") annual financial report presents a discussion and analysis of the Board's financial performance during the fiscal year ended March 31, 2012. Please read it in conjunction with the Board's financial statements following this section. The 2011 information is provided for comparative purposes.

Financial Highlights

- The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by $8,922,027 (net assets). Net assets amounted to $8,933,689 at March 31, 2011, of which $6,123,041 are temporarily restricted net assets and require approval by The Development Corporation of Knox County for their use.
- The Board's net assets decreased by $11,662 in 2012 and by $2,431 in 2011. The decrease from 2011 to 2012 is due primarily to decreased interest income.
- The Board's total liabilities decreased by $18,168 in 2012 and increased by $21,760 in 2011. The changes in total liabilities were due to fluctuations in ending trade accounts payable levels at the end of the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements.

The *Statements of net assets* present information on all the Board's assets and liabilities, with the difference between the two reported as net assets.

The *Statements of revenues, expenses and changes in net assets* present information showing how net assets changed during the most recent fiscal year. Revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The principal operating revenues of the Board include fee income associated with the programs, contributions, and sale of land. Operating expenses include the cost of the land sold, land maintenance costs, contractual services, and professional fees. Revenues and expenses also include lease payments under the Knox County Property Tax Incentive Program (also referred to as the payments in lieu of property taxes or PILOT program). Previously, lease payments were made directly to the taxing authority but are now collected by the Board to ensure compliance with the lease agreement.

The *Statements of cash flows* present cash receipts and cash payments for the fiscal year.

Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements and the Management's Discussion and Analysis.

Financial Analysis

At the close of the 2012 fiscal year, the Board's assets exceeded liabilities by $8,922,027. At the close of the 2011 fiscal year, the Board's assets exceeded liabilities by $8,933,689. The table below provides a summary of the Board's net assets as of March 31, 2012.

Statements of Net Assets

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 87,638	$ 125,932
Restricted cash	5,542,709	6,123,041
Restricted investments	600,000	-
Interest receivable	954	9,168
Accounts receivable	3,500	6,490
Total current assets	6,234,801	6,264,631
Land held for resale	2,690,964	2,690,964
Total assets	8,925,765	8,955,595
LIABILITIES		
Current Liabilities		
Accounts payable	3,738	21,906
NET ASSETS		
Temporarily restricted	6,142,709	6,123,041
Unrestricted	2,779,318	2,810,648
Total net assets	$ 8,922,027	$ 8,933,689

The Board's net assets decreased by $11,662 in 2012 and by $2,431 in 2011 due primarily to the ongoing operations of the Board.

Financial Analysis (continued)

The following table provides a summary of the changes in net assets for fiscal year 2012 and 2011.

Statements of Revenues, Expenses and Changes in Net Assets

	2012	2011
Operating Revenue		
PILOT income	$ 582,482	$ 582,482
Reimbursable expenditures	29,266	6,490
Fee income	-	20,000
Total operating revenue	611,748	608,972
Operating Expenses		
Administrative services	18,000	18,000
Operating expenses	2,570	2,658
PILOT expense	582,282	582,282
Advertising	1,127	5,156
Professional services	57,040	54,772
Total operating expenses	661,019	662,868
Operating loss	(49,271)	(53,896)
Non-operating Revenue		
Interest income	37,609	51,465
Change in net assets	(11,662)	(2,431)
Net assets at the beginning of the year	8,933,689	8,936,120
Net assets at the end of the year	$ 8,922,027	$ 8,933,689

The Board's net assets as of March 31, 2012 totaled $8,922,027 of which $6,142,709 are restricted net assets. The unrestricted balance may be used to meet the Board's ongoing objectives and obligations of promoting economic development in Knox County.

The Board's operating revenue continues to come from two sources: fee income and interest on investments. The Board typically has a carry over from the prior year.

Financial Analysis (continued)

The following table provides a summary of cash receipts and disbursements for the fiscal year 2012 and 2011.

Statements of Cash Flows

	2012	2011
Cash Flows from Operating Activities		
Receipts from PILOT program	$ 582,482	$ 582,482
Receipts from application fees	-	17,510
Payments to vendors	(46,649)	(34,336)
Payments for PILOT program	(582,282)	(582,282)
Payments to administrator	(18,000)	(18,000)
Interest received	45,823	46,221
Net cash flows from operating activities	(18,626)	11,595
Cash Flows from Financing Activities		
Purchase of investments	(600,000)	-
Net change in cash and cash equivalents	(618,626)	11,595
Cash and cash equivalents at the beginning of the year	6,248,973	6,237,378
Cash and cash equivalents at the end of the year	$ 5,630,347	$ 6,248,973

Requests for Information

This financial report is designed to provide a general overview of the Board's finances for all of those with an interest in the Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chair, The Industrial Development of the County of Knox, 17 Market Square, #201, Knoxville, Tennessee 37902-1405.

THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX
Statements of Net Assets
March 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 87,638	$ 125,932
Restricted cash	5,542,709	6,123,041
Restricted investments	600,000	-
Interest receivable	954	9,168
Accounts receivable	3,500	6,490
Total current assets	6,234,801	6,264,631
Land held for resale	2,690,964	2,690,964
Total assets	8,925,765	8,955,595
LIABILITIES		
Current Liabilities		
Accounts payable	3,738	21,906
NET ASSETS		
Temporarily restricted	6,142,709	6,123,041
Unrestricted	2,779,318	2,810,648
Total net assets	$ 8,922,027	$ 8,933,689

See notes to financial statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended March 31, 2012 and 2011

	2012	2011
Operating Revenue		
PILOT income	$ 582,482	$ 582,482
Reimbursable expenditures	29,266	6,490
Fee income	-	20,000
Total operating revenue	611,748	608,972
Operating Expenses		
Administrative services	18,000	18,000
Operating expenses	2,570	2,658
PILOT expense	582,282	582,282
Advertising	1,127	5,156
Professional services	57,040	54,772
Total operating expenses	661,019	662,868
Operating loss	(49,271)	(53,896)
Non-operating Revenue		
Interest income	37,609	51,465
Change in net assets	(11,662)	(2,431)
Net assets at the beginning of the year	8,933,689	8,936,120
Net assets at the end of the year	$ 8,922,027	$ 8,933,689

See notes to financial statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX
Statements of Cash Flows
Years Ended March 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Receipts from PILOT program	$ 582,482	$ 582,482
Receipts from application fees	-	17,510
Payments to vendors	(46,649)	(34,336)
Payments for PILOT program	(582,282)	(582,282)
Payments to administrator	(18,000)	(18,000)
Interest received	45,823	46,221
Net cash flows from operating activities	(18,626)	11,595
Cash Flows from Financing Activities		
Purchase of investments	(600,000)	-
Net change in cash and cash equivalents	(618,626)	11,595
Cash and cash equivalents at the beginning of the year	6,248,973	6,237,378
Cash and cash equivalents at the end of the year	$ 5,630,347	$ 6,248,973
Reconciliation of change in net assets to net cash flows from operating activities		
Changes in net assets	$ (11,662)	$ (2,431)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Decrease (increase) in assets:		
Accounts receivable	2,990	(2,490)
Interest receivable	8,214	(5,244)
Increase (decrease) in liabilities:		
Accounts payable	(18,168)	21,760
Net cash flows by operating activities	$ (18,626)	$ 11,595

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity - The Industrial Development Board of the County of Knox (the "Board") is a non-profit corporation formed pursuant to the specific authority granted at Tennessee Code Annotated Section 7-53-101 et seq. The Board performs public functions on behalf of Knox County (the "County") and its purpose is to undertake the financing and development of projects deemed by the Act to promote industry, trade, commerce, tourism and recreation, and housing construction. The Board participates in economic development activities by serving as a non-recourse conduit for taxable or tax-free financing for industrial projects. Some projects are structured as lease transactions, with the Board holding title to the property and leasing the property to the tenant. The lease may then be pledged to a lender to secure project financing. In other cases, title of the property remains in the leasing business entity, and the Board serves as a conduit lender, with the real estate project pledged as collateral.

The Board periodically issues tax exempt revenue bonds in accordance with the Board's enabling legislation. The bonds are payable solely from the revenues of the projects and the assets of the applicable borrower.

Financial Reporting Entity - The Board is not considered to be a component unit of the County because the County does not exercise significant influence over operations or have accountability for the Board. However, the Board was created to carry out functions for the County government and the Knox County Commission appoints the Board members. Therefore the entities are considered to be related parties.

In evaluating how to define the Board for financial reporting purposes, management has determined there are no entities over which the Board exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the Board. Therefore, the Board has no component units.

Basis of Accounting - The Board's operations are accounted for as a proprietary fund. The financial statements are presented on the accrual basis of accounting, using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board include fee income associated with the programs, contributions, remittance of property tax, property leasing income, and sale of land. Operating expenses include the cost of the land sold, land maintenance costs, contractual services, remittance of property tax and professional fees. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Net Asset Classification - Net assets are classified into two components as defined below:

- Temporarily restricted net assets - This component of net assets consists of restrictions placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations or other governments or restrictions imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "temporarily restricted". These net assets are available for current use by the Board.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, proprietary fund types may follow all applicable GASB pronouncements as well as only those Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989. Under paragraph 7 of GASB Statement No. 20, the Board has elected not to apply FASB pronouncements issued after November 20, 1989.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Board considers certificates of deposit and highly liquid instruments with original maturities of three months or less when purchased to be cash equivalents.

Investments - Any certificate of deposit with an original maturity date greater than ninety days is classified as an investment, and is stated at cost, which approximates fair value. According to the investment policy adopted by the Board, funds may be invested in U.S. Treasury Obligations, commercial paper with certain requirements, and certificates of deposit in Tennessee State chartered banks and savings and loan associations.

Land Held for Resale and Cost of Land Sold - Land held for resale is stated at acquisition cost plus improvements but not in excess of net realizable value. As land is sold, all costs associated with the land are charged to cost of land sold.

Conduit Debt Obligations - From time to time, the Board has issued tax exempt revenue bonds in accordance with the Board's enabling legislation to provide financial assistance to private-sector entities for acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity serviced by the bond issuance. The Board is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Date of Managements Review - The Board has evaluated subsequent events for recognition or disclosure through June 12, 2012, which is the date the financial statements were issued. No events have occurred that would affect the financial statements or footnote disclosures through that date.

NOTE 2 - CONCENTRATIONS OF CREDIT RISKS

As of March 31, 2012, the Board has a balance of $43,235 with Regions Bank and $6,187,112 with First State Bank. The First State Bank balance represents more than 99 % of the total balance.

Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits. The Board has never experienced any losses related to these balances. All of the Board's non-interest bearing cash balances were fully insured at March 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is currently no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage will revert to $250,000 per depositor at each financial institution. The remaining balances were collateralized by securities held by the State of Tennessee's collateral pool.

NOTE 3 - LAND HELD FOR RESALE

In February 2006, The Development Corporation of Knox County transferred property located in the Pellissippi Corporate Center to the Board. The property was transferred to the Board at cost as recorded on The Development Corporation's financial statements as of the transfer date. Upon written request by The Development Corporation, the Board will reconvey the property to the Development Corporation within a period of ten days after the date of the request. The Board is currently seeking a suitable buyer for the property.

NOTE 4 - ADMINISTRATIVE SERVICES AGREEMENT

The Board has an administrative services agreement with The Development Corporation. The Development Corporation provides administrative services to the Board for a fee of $1,500 per month ($18,000 per year). These services include clerical and personnel services and other ordinary, necessary services for the Board, including the retention and maintenance of records. The fee will be paid from the proceeds from the sale or lease of all or any part of the Board's properties or as a result of any agreement entered into. The fees will be payable at such time as the Board and The Development Corporation shall agree and only to the extent that the Board has received proceeds from such properties sufficient to pay the same, and after payment of any expenses incurred by the Board in connection with such properties. From such proceeds, the Board shall repay any other expenses advanced or incurred by The Development Corporation in connection with the administrative services rendered.

NOTE 5 - KNOX COUNTY PROPERTY TAX INCENTIVE PROGRAM

In January 2003, Knox County, Tennessee approved policies related to the establishment of a Property Tax Incentive Program (the "Program"), to be administered by the Board. The Program is an economic development incentive that can be provided to industrial, pollution control, distribution, office and service projects based on the potential economic benefit to the City/County. The primary role the Board serves for the County is to determine whether a project is in the public interest, according to objective criteria based upon the economic and physical development policies of the County, and to determine the term of the tax incentive transaction for each project. Under the Program, City and County property values are normally frozen at the pre-development level for a period of time (up to 15 years). During the freeze period, "payments in lieu of property taxes" ("PILOT") are made to the Board, which then transfers the payments to the City of Knoxville (the "City") and the County. The Board serves as a pass-through agent for these payments, which are due on or before the last day of February immediately following the tax year with respect to which the payments relate. Title to the property is transferred to the Board for the period of the tax freeze, and is then returned to the business at the end of the period for a nominal fee. The Board does not record the property as an asset on its balance sheet, since there would be an offsetting liability back to the business in a like amount.

The property is leased to the business under a triple net lease during the freeze period for a base rent of a nominal amount, plus additional payments consisting of expenses paid and/or obligations incurred by the Board related to the premises or requirements of the lease.

The Board receives fees from the Program's applicants for the various stages of the administration. During the fiscal year 2012, there were no closings and a total of three current projects. During the fiscal year 2011, there were no closings and one project expired for a total of three current projects.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

As part of an agreement with The Development Corporation, the use of the proceeds received from the ground lease with America's Collectibles Network, Inc. is temporarily restricted. The Board must pay any remaining proceeds after cost reimbursement plus interest to The Development Corporation or disburse the proceeds for economic development in Knox County in accordance with the written direction of The Development Corporation. As of March 31, 2012, the amount of temporarily restricted lease payments and interest was $530,807 and $60,682, respectively, using an average rate of 2.86% in 2012. As of March 31, 2011, the amount of temporarily restricted lease payments and interest was $530,807 and $57,532, respectively, using an average interest rate of 3.27% in 2011.

As part of an agreement with The Development Corporation, the use of proceeds received from the sale of property used for the Knox County Regional Farmers' Market is temporarily restricted. The Board must pay any remaining proceeds after reimbursement plus interest to The Development Corporation or disburse the proceeds for economic development in Knox County in accordance with the written direction of The Development Corporation. As of March 31, 2012 and 2011, the amount of temporarily restricted proceeds and interest was $5,551,220 and $5,534,702, respectively.

As of March 31, 2012 total temporarily restricted net assets were $6,142,709. As of March 31, 2011 total temporarily restricted net assets were $6,123,041.

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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 Industrial Development Board of the County of Knox

In planning and performing our audit of the financial statements of The Industrial Development Board of the County of Knox (the "Board") as of and for the year ended March 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) 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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Board's internal control to be significant deficiencies:

> Due to the limited number of personnel within the Board, there is a lack of segregation of duties between the functions of authorization, custody, and record keeping. This is not unusual in organizations that are the size of the Board; management and those charged with governance are constantly aware of this condition and realize that a concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting perspective and makes the Board more susceptible to override of controls. Those charged with governance and management are aware of the limited number of accounting personnel, however, believe that the costs of hiring additional resources outweigh the benefits of those additional resources and instead mitigate this risk by a high level of involvement from the board of directors in the operations and activities of the Board.

This communication is intended solely for the information and use of management and Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Rodefer Moss & Co, PLLC

Rodefer Moss & Co, PLLC
June 12, 2012