

THE DEVELOPMENT CORPORATION
OF KNOX COUNTY

Financial Statements and Supplementary Information

Years Ended June 30, 2012 and 2011



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OF KNOX COUNTY
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THE DEVELOPMENT CORPORATION
OF KNOX COUNTY
Officers and Board Members
Year Ended June 30, 2012

OFFICERS

| | |
|--------------|--------------------------------------|
| Mike Edwards | President & CEO |
| Todd Napier | Executive Vice President |
| Robin Holt | Director, Finance and Administration |

Board Members

| | |
|---------------|---------------------|
| Roger Osborne | Chairman |
| Martha Wallen | Vice Chairman |
| Jim Nichols | Secretary Treasurer |

Other Board Members

| | |
|-------------------|-----------------|
| Richard Briggs | Tony Norman |
| Tim Burchett | Madeline Rogero |
| Anthony L. Spezia | R. Larry Smith |

Non-Voting Member

Ralph McGill

Independent Auditors' Report

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

We have audited the accompanying statements of net assets of The Development Corporation of Knox County ("TDC") as of June 30, 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 TDC as of and for the year ended June 30, 2011, were audited by other auditors whose report dated December 22, 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 TDC as of June 30, 2012, and the changes in its net assets and its cash flows for the year 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 5, 2012 on our consideration of TDC'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying detail of statement of net assets and detail of statement of revenues, expenses 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 subjected to the auditing procedures applied in the audit of 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.

Roddefon Moss & Co, PLLC

Knoxville, Tennessee

December 5, 2012



THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Management's Discussion and Analysis
Years Ended June 30, 2012, 2011 and 2010

This section of The Development Corporation of Knox County's ("TDC") annual financial report presents a discussion and analysis of TDC's financial performance during the fiscal year ended June 30, 2012. Please read it in conjunction with TDC's financial statements following this section. The 2011 and 2010 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 \$33,183,185 (net assets). Net assets in the amount of \$33,183,185 at June 30, 2012 included \$18,160 in temporarily restricted net assets for use at Fairview Technology Center.
- The Board's net assets increased by \$101,739 in 2012 and decreased by \$2,743,561 in 2011. The increase from 2011 to 2012 is due primarily to the increase in cash and cash equivalents due to collections of accounts receivable. The decrease from 2010 to 2011 was due primarily to the estimated impairment loss related to the Midway property.
- The Board's total liabilities decreased by \$74,172 in 2012 and decreased by \$142,496 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 TDC's basic financial statements.

The *statements of net assets* present information on all the TDC'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 TDC include rental and management income, land sales revenue/incentive forfeitures, and contributions from the City of Knoxville and Knox County. Operating expenses include the cost of the land sold, land maintenance costs, contractual services, and professional fees.

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 TDC's assets exceeded liabilities by \$33,183,185. At the close of the 2011 fiscal year, the TDC's assets exceeded liabilities by \$33,081,446. The table on the following page provides a summary of the TDC's net assets as of June 30, 2012.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Management's Discussion and Analysis (Continued)

Financial Analysis (continued)

Statements of Net Assets

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 12,531,481 | \$ 12,437,233 | \$ 7,010,673 |
| Short-term investments | - | - | 5,000,000 |
| Interest receivable | - | - | 8,424 |
| Accounts receivable | 121,231 | 196,679 | 240,968 |
| Prepaid expenses | <u>33,655</u> | <u>34,091</u> | <u>44,361</u> |
| Total current assets | <u>12,686,367</u> | <u>12,668,003</u> | <u>12,304,426</u> |
| Property and Equipment | | | |
| Office equipment | 54,657 | 54,657 | 56,145 |
| Computer equipment | 45,350 | 32,076 | 32,211 |
| Other equipment | 599 | 599 | 599 |
| Leasehold Improvements | 21,996 | - | - |
| Equipment under capital lease obligations | <u>-</u> | <u>13,274</u> | <u>13,274</u> |
| | 122,602 | 100,606 | 102,229 |
| Less accumulated depreciation | <u>(98,709)</u> | <u>(85,916)</u> | <u>(81,492)</u> |
| Property and equipment, net | 23,893 | 14,690 | 20,737 |
| Land held for resale | <u>20,682,257</u> | <u>20,682,257</u> | <u>23,925,853</u> |
| Total assets | <u>\$ 33,392,517</u> | <u>\$ 33,364,950</u> | <u>\$ 36,251,016</u> |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities | | | |
| Accounts payable and accrued expenses | \$ 209,332 | \$ 278,682 | \$ 417,320 |
| Capital lease obligations, due within one year | <u>-</u> | <u>4,822</u> | <u>3,867</u> |
| Total current liabilities | <u>209,332</u> | <u>283,504</u> | <u>421,187</u> |
| Capital lease obligation, net of current portion | <u>-</u> | <u>-</u> | <u>4,822</u> |
| Total liabilities | <u>209,332</u> | <u>283,504</u> | <u>426,009</u> |
| Net Assets | | | |
| Unrestricted | 32,965,025 | 33,048,989 | 35,810,606 |
| Temporarily restricted | <u>18,160</u> | <u>32,457</u> | <u>14,401</u> |
| Total net assets | <u>32,983,185</u> | <u>33,081,446</u> | <u>35,825,007</u> |
| Total liabilities and net assets | <u>\$ 33,192,517</u> | <u>\$ 33,364,950</u> | <u>\$ 36,251,016</u> |

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Management's Discussion and Analysis (Continued)

Financial Analysis (continued)

The following table provides a summary of the changes in net assets for fiscal year 2012, 2011, and 2010.

Statements of Revenues, Expenses and Changes in Net Assets

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|----------------------|
| Unrestricted Revenue and Other Support | | | |
| Sale of land, net of commissions and cost of land sold | \$ 31,796 | \$ - | \$ 74,457 |
| Land sale incentive forfeiture revenue | - | 332,338 | - |
| Rental and management income | 87,716 | 91,308 | 87,827 |
| Revenue from City of Knoxville and Knox County | 679,100 | 794,925 | 886,300 |
| Temporarily restricted net assets released from restrictions | <u>21,996</u> | <u>4,713</u> | <u>6,539</u> |
| Total unrestricted revenue and other support | 820,608 | 1,223,284 | 1,055,123 |
| Expenses | | | |
| General and administrative expenses | 719,395 | 795,600 | 860,184 |
| Estimated impairment loss related to Midway property | <u>-</u> | <u>3,245,245</u> | <u>-</u> |
| Total expenses | 719,395 | 4,040,845 | 860,184 |
| Income (loss) from operations | 101,213 | (2,817,561) | 194,939 |
| Investment income | <u>14,824</u> | <u>55,944</u> | <u>188,036</u> |
| Change in unrestricted net assets | <u>116,037</u> | <u>(2,761,617)</u> | <u>382,975</u> |
| Changes in Temporarily Restricted Net Assets | | | |
| Restricted contract payments | 7,698 | 22,769 | 1,131 |
| Temporarily restricted net assets released from restrictions | <u>(21,996)</u> | <u>(4,713)</u> | <u>(6,539)</u> |
| Change in temporarily restricted net assets | <u>(14,298)</u> | <u>18,056</u> | <u>(5,408)</u> |
| Change in net assets | 101,739 | (2,743,561) | 377,567 |
| Net assets at the beginning of the year | <u>33,081,446</u> | <u>35,825,007</u> | <u>35,447,440</u> |
| Net assets at the end of the year | <u>\$ 33,183,185</u> | <u>\$ 33,081,446</u> | <u>\$ 35,825,007</u> |

TDC's net assets as of March 31, 2012 totaled \$33,183,185 of which \$18,160 are restricted net assets. The unrestricted balance may be used to meet the TDC's ongoing objectives and obligations of promoting economic development in Knox County.

The TDC's operating revenue continues to come from primarily two sources: land sales and contributions from the City of Knoxville and Knox County. TDC typically has a carryover from the prior year.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Management's Discussion and Analysis (Continued)

Financial Analysis (continued)

The following table provides a summary of cash receipts and disbursements for the fiscal year 2012, 2011, and 2010.

Statements of Cash Flows

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|---------------------|
| Cash Flows From Operating Activities | | | |
| Cash received from land sales, incentive forfeitures, State grants, Knox County, City of Knoxville, and other sources | \$ 892,688 | \$ 1,285,629 | \$ 1,162,442 |
| Cash paid to suppliers and employees | <u>(771,622)</u> | <u>(914,624)</u> | <u>(785,537)</u> |
| Net cash flows from operating activities | <u>121,066</u> | <u>371,005</u> | <u>376,905</u> |
| Cash Flows From Investing Activities | | | |
| Interest received | - | 64,368 | 311,618 |
| Acquisition of property and equipment | (21,996) | (4,946) | (16,779) |
| Purchase of investments | | | (5,000,000) |
| Maturity of investments | <u>-</u> | <u>5,000,000</u> | <u>6,700,000</u> |
| Net cash flows from investing activities | <u>(21,996)</u> | <u>5,059,422</u> | <u>1,994,839</u> |
| Cash Flows From Capital and Related Financing Activities | | | |
| Principal payments on capital lease obligations | <u>(4,822)</u> | <u>(3,867)</u> | <u>(3,742)</u> |
| Net cash flows from financing activities | <u>(4,822)</u> | <u>(3,867)</u> | <u>(3,742)</u> |
| Net change in cash and cash equivalents | 94,248 | 5,426,560 | 2,368,002 |
| Cash and cash equivalents at the beginning of the year | <u>12,437,233</u> | <u>7,010,673</u> | <u>4,642,671</u> |
| Cash and cash equivalents at the end of the year | <u>\$ 12,531,481</u> | <u>\$ 12,437,233</u> | <u>\$ 7,010,673</u> |

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 TDC'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 Development Corporation of Knox County, 17 Market Square, #201, Knoxville, Tennessee 37902-1405.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY

Statements of Net Assets

June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 12,531,481 | \$ 12,437,233 |
| Accounts receivable | 121,231 | 196,679 |
| Prepaid expenses | <u>33,655</u> | <u>34,091</u> |
| Total current assets | <u>12,686,367</u> | <u>12,668,003</u> |
| Property and Equipment | | |
| Office equipment | 54,657 | 54,657 |
| Computer equipment | 45,350 | 32,076 |
| Other equipment | 599 | 599 |
| Leasehold Improvements | 21,996 | - |
| Equipment under capital lease obligations | <u>-</u> | <u>13,274</u> |
| | 122,602 | 100,606 |
| Less accumulated depreciation | <u>(98,709)</u> | <u>(85,916)</u> |
| Property and equipment, net | 23,893 | 14,690 |
| Land held for resale | <u>20,682,257</u> | <u>20,682,257</u> |
| Total assets | <u>\$ 33,392,517</u> | <u>\$ 33,364,950</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 209,332 | \$ 278,682 |
| Capital lease obligations, due within one year | <u>-</u> | <u>4,822</u> |
| Total current liabilities | <u>209,332</u> | <u>283,504</u> |
| Net Assets | | |
| Unrestricted | 32,965,025 | 32,848,989 |
| Unrestricted - board designated | 200,000 | 200,000 |
| Temporarily restricted | <u>18,160</u> | <u>32,457</u> |
| Total net assets | <u>33,183,185</u> | <u>33,081,446</u> |
| Total liabilities and net assets | <u>\$ 33,392,517</u> | <u>\$ 33,364,950</u> |

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
 Statements of Revenues, Expenses and Changes in Net Assets
 Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Unrestricted Revenue and Other Support | | |
| Sale of land, net of commissions | \$ 31,796 | \$ - |
| Land sale incentive forfeiture revenue | - | 332,338 |
| Rental and management income | 87,716 | 91,308 |
| Revenue from City of Knoxville and Knox County | 679,100 | 794,925 |
| Temporarily restricted net assets released from restrictions | <u>21,996</u> | <u>4,713</u> |
| Total unrestricted revenue and other support | 820,608 | 1,223,284 |
| Expenses | | |
| General and administrative expenses | 719,395 | 795,600 |
| Estimated impairment loss related to Midway property | <u>-</u> | <u>3,245,245</u> |
| Total expenses | 719,395 | 4,040,845 |
| Income (loss) from operations | 101,213 | (2,817,561) |
| Investment income | <u>14,824</u> | <u>55,944</u> |
| Change in unrestricted net assets | <u>116,037</u> | <u>(2,761,617)</u> |
| Changes in Temporarily Restricted Net Assets | | |
| Restricted contract payments | 7,698 | 22,769 |
| Temporarily restricted net assets released from restrictions | <u>(21,996)</u> | <u>(4,713)</u> |
| Change in temporarily restricted net assets | <u>(14,298)</u> | <u>18,056</u> |
| Change in net assets | 101,739 | (2,743,561) |
| Net assets at the beginning of the year | <u>33,081,446</u> | <u>35,825,007</u> |
| Net assets at the end of the year | <u>\$ 33,183,185</u> | <u>\$ 33,081,446</u> |

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
 Statements of Cash Flows
 Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Cash Flows From Operating Activities | | |
| Cash received from land sales | \$ 31,796 | \$ 332,338 |
| Cash received from Knox County | 600,000 | 700,000 |
| Cash received from City of Knoxville | 79,100 | 94,925 |
| Cash received from other sources | 175,131 | 158,366 |
| Cash paid to suppliers and employees | <u>(764,961)</u> | <u>(914,624)</u> |
| Net cash flows from operating activities | <u>121,066</u> | <u>371,005</u> |
| Cash Flows From Investing Activities | | |
| Interest received | - | 64,368 |
| Acquisition of property and equipment | (21,996) | (4,946) |
| Maturity of investments | <u>-</u> | <u>5,000,000</u> |
| Net cash flows from investing activities | <u>(21,996)</u> | <u>5,059,422</u> |
| Cash Flows From Capital and Related Financing Activities | | |
| Principal payments on capital lease obligations | <u>(4,822)</u> | <u>(3,867)</u> |
| Net cash flows from financing activities | <u>(4,822)</u> | <u>(3,867)</u> |
| Net change in cash and cash equivalents | 94,248 | 5,426,560 |
| Cash and cash equivalents at the beginning of the year | <u>12,437,233</u> | <u>7,010,673</u> |
| Cash and cash equivalents at the end of the year | <u>\$ 12,531,481</u> | <u>\$ 12,437,233</u> |

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Statements of Cash Flows (Continued)

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Reconciliation of operating income (loss) to net cash flows from operating activities | | |
| Operating income (loss) | \$ 101,213 | \$ (2,817,561) |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation | 12,793 | 9,266 |
| Bad debt expense | 10,555 | - |
| Non-cash estimated impairment loss related to Midway Property | - | 3,245,245 |
| Changes in temporarily restricted net assets | 526 | 18,056 |
| Loss on disposal of property and equipment | - | 80 |
| Decrease in assets: | | |
| Accounts receivable | 64,893 | 44,289 |
| Prepaid insurance and deposits | 436 | 10,268 |
| Decrease in liabilities: | | |
| Accounts payable and accrued expenses | <u>(69,350)</u> | <u>(138,638)</u> |
| Net cash flows from operating activities | <u>\$ 121,066</u> | <u>\$ 371,005</u> |

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Notes to Financial Statements
June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Development Corporation of Knox County ("TDC") 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). TDC's primary operations are land acquisition and development, and staff services to the County and City of Knoxville Industrial Development Boards.

TDC's 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 TDC, TDC is designated to act as the Joint Economic and Community Development Board. The City of Knoxville agreed to fund TDC'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 TDC'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.

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.

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

Land Held for Resale and Cost of Land Sold - 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 relative value of parcels and specific improvements associated with each parcel. Such cost is evaluated whenever events or changes in circumstances indicate 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, TDC recorded an estimated impairment loss of approximately \$3,245,000 on land held for resale. No impairment was recorded during 2012.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. Estimated useful lives on fixed assets are as follows:

| | |
|------------------------|---------|
| Office equipment | 7 years |
| Computer equipment | 3 years |
| Other equipment | 5 years |
| Leasehold improvements | 5 years |

Income Taxes - TDC 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. TDC did not identify any significant uncertain tax positions resulting in any unrecognized tax benefits as of and for the fiscal years ended, June 30, 2012 or 2011. Generally, three years remain open for inspection. In addition, TDC was not assessed and did not recognize any interest or penalties related to taxes for the fiscal years ended June 30, 2012 or 2011.

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

- Temporarily restricted net assets - This component of net assets consists of 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 related in the same year, they are classified as unrestricted contributions for financial statement purposes.
- Unrestricted net assets - This component of net assets consists of net assets that do meet the definition of "temporarily restricted". These net assets are available for current use by TDC.

Fair Value Measurement - TDC 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 Measurement and Disclosures*.

Reclassification - Certain reclassifications have been made to the 2011 balances in order to conform to the 2012 presentation with no effect on previously reported net income or net assets.

Date of Managements Review - Management has evaluated subsequent events for recognition or disclosure through December 5, 2012, which is the date the financial statements were issued.

TDC's CEO and President, resigned subsequent to year end. A new CEO and President was appointed by an unanimous vote of the Board of Directors. Although the event does not have a financial statement impact, due to the change in the structure of TDC, a disclosure is reported.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Notes to Financial Statements (Continued)

NOTE 2 - INVESTMENTS AND OTHER ASSETS

The Board of Directors has designated certain assets totaling \$200,000 held by TDC 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 Statement of Net Assets.

NOTE 3 - LAND HELD FOR RESALE

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

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|----------------------|----------------------|
| Hardin Business Park | \$ 8,489,374 | \$ 8,489,374 |
| Midway Property | 7,040,000 | 7,040,000 |
| Pellissippi Business Park | 2,464,936 | 2,464,936 |
| Eastbridge Business Park | 1,964,302 | 1,964,302 |
| Centerpoint Business Park | 397,062 | 397,062 |
| WestBridge Business Park | <u>326,583</u> | <u>326,583</u> |
| Total Land Available for Resale | <u>\$ 20,682,257</u> | <u>\$ 20,682,257</u> |

TDC 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, 2012 and 2011 was approximately \$50,000 and \$53,000, respectively.

During 2012, TDC 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. TDC also received approximately \$32,000 for this transaction. TDC 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 5, 2012, the date TDC’s financial statements were available to be issued, TVA had not exercised the option.

NOTE 4 - RELATED PARTY TRANSACTIONS

TDC 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, 2012 and 2011, TDC recognized \$600,000 and \$700,000, respectively, in support payments from the County. During 2012 and 2011, TDC recognized revenue of \$79,100 and \$94,925, respectively, from the City for TDC’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.

TDC receives funds from the County for the sole purpose of awarding educational scholarships. Under this arrangement, TDC acts as an intermediary for these funds and does not recognize any revenue or related expense. In 2012 and 2011, there were no funds received. As of June 30, 2012, \$169,231 of funds were yet to be distributed and are included in accounts payable and accrued expenses in the accompanying Statement of Net Assets. Approximately \$39,726 of such amounts were committed to businesses for identified scholarships as of June 30, 2012.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Notes to Financial Statements (Continued)

NOTE 5 - RETIREMENT PLAN

TDC 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 2012 and 2011 was approximately \$14,300 and \$17,300, respectively.

NOTE 6 - CONCENTRATIONS OF RISK

Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits. TDC has never experienced any losses related to these balances. All of the TDC's non-interest bearing cash balances were fully insured at June 30, 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 back to \$250,000 per depositor at each financial institution unless the federal program is extended.

During 2012 and 2011, TDC received significant revenue from the County and the City of Knoxville. Such amounts subject TDC to a concentration of risk.

NOTE 7 - LEASES

Capital Lease - During 2010, TDC 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. TDC exercised the option to purchase the equipment during 2012.

Operating Lease - TDC 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 2012 and 2011 was approximately \$17,000 and \$15,400, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

During 2006, the TDC 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. TDC 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 TDC, TDC can request the property be reconveyed to TDC 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 TDC or used for economic development purposes upon written direction from TDC. It is the intent of TDC 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 \$6,142,195 and \$6,123,041 as of June 30, 2012 and June 30, 2011, respectively.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Notes to Financial Statements (Continued)

NOTE 9 - INCENTIVE AGREEMENTS

In connection with the sale of its land held for resale, TDC may include certain incentives for the purchaser. These incentives are often contingent upon property investment, property development, and job creation. In the event these targets are not met by the purchaser, TDC 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, TDC records any additional sales proceeds when determined such amounts are due to TDC. During 2011, TDC 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. No incentive payments were received during 2012.

NOTE 10 - MANAGEMENT AGREEMENTS

TDC 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 TDC to these entities. For each of the years ended June 30, 2012 and 2011, \$36,000 of revenue was recognized as a result of these agreements.

NOTE 11 - STATE OF TENNESSEE GRANTS

TDC enters into grant agreements with the State of Tennessee related to the FastTrack Infrastructure Development Program on behalf of various businesses. TDC 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 TDC is providing a required funding match. During the years ended June 30, 2012 and 2011, TDC did not receive grant proceeds. As a party to agreements in prior years, TDC has certain continuing reporting requirements.

NOTE 12 - WRITE-DOWN OF MIDWAY PROPERTY

TDC 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 updating 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 property. Management considered this a change in circumstances (described in Note 1), 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.

SUPPLEMENTARY INFORMATION



THE DEVELOPMENT CORPORATION OF KNOX COUNTY
 Detail of Statement of Net Assets
 June 30, 2012

| | General Fund | Property Investment Fund | Total |
|---|--------------|--------------------------------|---------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ - | \$ 12,531,481 | \$ 12,531,481 |
| Accounts receivable | 121,231 | - | 121,231 |
| Prepaid expenses | 33,655 | - | 33,655 |
| Total current assets | 154,886 | 12,531,481 | 12,686,367 |
| Property and Equipment | | | |
| Office equipment | 54,657 | - | 54,657 |
| Computer equipment | 45,350 | - | 45,350 |
| Other equipment | 599 | - | 599 |
| Leasehold Improvements | 21,996 | - | 21,996 |
| Equipment under capital lease obligations | - | - | - |
| | 122,602 | - | 122,602 |
| Less accumulated depreciation | (98,709) | - | (98,709) |
| Property and equipment, net | 23,893 | - | 23,893 |
| Land held for resale | - | 20,682,257 | 20,682,257 |
| Total assets | \$ 178,779 | \$ 33,213,738 | \$ 33,392,517 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities | | | |
| Accounts payable and accrued expenses | \$ 209,332 | \$ - | \$ 209,332 |
| Net Assets | | | |
| Unrestricted | (48,713) | 33,013,738 | 32,965,025 |
| Unrestricted - board designated | - | 200,000 | 200,000 |
| Temporarily restricted | 18,160 | - | 18,160 |
| Total net assets | (30,553) | 33,213,738 | 33,183,185 |
| Total liabilities and net assets | \$ 178,779 | \$ 33,213,738 | \$ 33,392,517 |

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
 Detail of Statement of Revenues, Expenses and Changes in Net Assets
 Year Ended June 30, 2012

| | General Fund | Property Investment Fund | Total |
|---|-----------------------|--------------------------------|----------------------|
| Unrestricted Revenue and Support | | | |
| Sale of land, net of commissions | \$ - | \$ 31,796 | \$ 31,796 |
| Rental and management income | 87,716 | - | 87,716 |
| Revenue from City of Knoxville and Knox County | 679,100 | - | 679,100 |
| Temporarily restricted net assets released from restrictions | <u>21,996</u> | <u>-</u> | <u>21,996</u> |
| Total unrestricted revenue and support | 788,812 | 31,796 | 820,608 |
| General and Administrative Expenses | <u>719,395</u> | <u>-</u> | <u>719,395</u> |
| Income from operations | 69,417 | 31,796 | 101,213 |
| Investment income | <u>741</u> | <u>14,083</u> | <u>14,824</u> |
| Change in unrestricted net assets | <u>70,158</u> | <u>45,879</u> | <u>116,037</u> |
| Changes in Temporarily Restricted Net Assets | | | |
| Restricted contract payments | 7,698 | - | 7,698 |
| Temporarily restricted net assets released from restrictions | <u>(21,996)</u> | <u>-</u> | <u>(21,996)</u> |
| Change in temporarily restricted net assets | <u>(14,298)</u> | <u>-</u> | <u>(14,298)</u> |
| Change in net assets | 55,860 | 45,879 | 101,739 |
| Net assets at the beginning of the year | <u>(1,586,781)</u> | <u>34,668,227</u> | <u>33,081,446</u> |
| Net assets at the end of the year | <u>\$ (1,530,921)</u> | <u>\$ 34,714,106</u> | <u>\$ 33,183,185</u> |

THE DEVELOPMENT CORPORATION OF KNOX COUNTY
Notes to Supplementary Information
Year Ended June 30, 2012

NOTE 1- PROPERTY INVESTMENT FUND

In accordance with a resolution by the Board of Directors, TDC 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.



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 (“TDC”) (a non-profit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 5, 2012. 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

Management of TDC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the TDC’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 TDC’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TDC’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 a 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.

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 TDC’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 management and the 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
December 5, 2012