THE INDUSTRIAL DEVELOPMENT BOARD
OF THE COUNTY OF KNOX

Financial Statements and Supplementary Information

Years Ended March 31, 2013 and 2012

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THE INDUSTRIAL DEVELOPMENT BOARD
OF THE COUNTY OF KNOX
Officers and Board Members
Years Ended March 31, 2013 and 2012

Board Members

Greg Meadows	Chairman
Trey Coleman	Vice Chairman
Nicki Dawson	Secretary Treasurer
Alvin J. Nance	Asst. Secretary Treasurer

Other Board Members

Paul Fortunato	Clifford C. Renfro, Jr.
Louise R. Frazier	Doug White
Greg McWhorter	F. Carl Tindell
Dwaine Setzer	

Ex-Officio Member

R. Christopher Trump	Legal Counsel to the Board

• Certified Public Accountants
• Business Advisors

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RODEFER MOSS & CO, PLLC

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Industrial Development Board of the County of Knox (the "Board"), which comprise the statements of net position as of March 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Board as of March 31, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 the 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 our 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2013, on our consideration of the Board's internal control over financial reporting and on 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 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 in considering the Board's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
July 9, 2013

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, 2013. Please read it in conjunction with the Board's financial statements following this section. The 2012 and 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 $8,229,125 (net position), of which $5,591,000 are temporarily restricted net position and require approval by The Development Corporation of Knox County for their use. Net position amounted to $8,922,027 and $8,933,689 at March 31, 2012 and 2011, respectively, of which $6,142,709 and $6,123,041 are temporarily restricted net position and require approval by The Development Corporation of Knox County for their use.
- The Board's net position decreased by $692,902, $11,662, and $2,431 in 2013, 2012, and 2011. The increase from 2012 to 2013 is due primarily to expenses on the Oakwood Senior Living Project.
- The Board's total liabilities increased by $178,834 in 2013 and decreased by $18,168 in 2012. The changes in total liabilities were due to fluctuations in ending trade accounts payable levels at the end of the year and funds held for the Northshore Town Center Project.

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 position* presents information on all the Board's assets and liabilities, with the difference between the two reported as net position.

The *Statements of revenues, expenses and changes in net position* presents information showing how net position 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* presents 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 2013 fiscal year, the Board's assets exceeded liabilities by $8,229,125. At the close of the 2012 and 2011 fiscal years, the Board's assets exceeded liabilities by $8,922,027 and $8,933,689, respectively. The table below provides a summary of the Board's net position as of March 31, 2013, 2012 and 2011:

Statements of Net Position

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 42,742	$ 87,638
Restricted cash	-	5,542,709
Funds held for others, restricted	159,821	-
Restricted investments	5,431,179	600,000
Investments	58,426	-
Accounts receivable	22,789	3,500
Interest receivable	5,776	954
Total current assets	5,720,733	6,234,801
Land held for resale	2,690,964	2,690,964
Total assets	$ 8,411,697	$ 8,925,765
LIABILITIES		
Current Liabilities		
Accounts payable	$ 22,751	$ 3,738
Other liabilities	159,821	-
Total current liabilities	182,572	3,738
NET POSITION		
Temporarily restricted	5,431,179	6,142,709
Assigned	159,821	-
Unrestricted	2,638,125	2,779,318
Total net position	$ 8,229,125	$ 8,922,027

The Board's net position decreased by $692,902 and $11,662 in 2013 and 2012, respectively, due primarily to the Board's involvement in the Oakwood Senior Living Project.

Financial Analysis - (continued)

The following table provides a summary of the changes in net position for fiscal year 2013, 2012 and 2011:

Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating Revenues			
PILOT	$ 584,482	$ 582,482	$ 582,482
Closings	45,594	-	-
Reimbursable expenditures	22,142	29,266	6,490
Fees	8,000	-	20,000
Other operating	5,000	-	-
Total operating revenue	665,218	611,748	608,972
Operating Expenses			
PILOT	582,282	582,282	582,282
Professional services	62,282	57,040	54,772
Operating	1,330	2,570	2,658
Advertising	909	1,127	5,156
Total operating expenses	646,803	643,019	644,868
Operating income (loss)	18,415	(31,271)	(35,896)
Nonoperating Income			
Interest	213	17,941	18,000
Change in unrestricted net position	18,628	(13,330)	(17,896)
Changes in Temporarily Restricted Net Position			
Interest	19,380	19,668	33,465
Oakwood senior living	(712,910)	-	-
Administrative services	(18,000)	(18,000)	(18,000)
Change in temporarily restricted net position	(711,530)	1,668	15,465
Change in net position	(692,902)	(11,662)	(2,431)
Net position at the beginning of the year	8,922,027	8,933,689	8,936,120
Net position at the end of the year	$ 8,229,125	$ 8,922,027	$ 8,933,689

Financial Analysis - (continued)

The Board's net position as of March 31, 2013 totaled $8,229,125 of which $5,591,000 are restricted net position. 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.

The following table provides a summary of cash receipts and disbursements for fiscal years 2013, 2012 and 2011:

Statements of Cash Flows

	2013	2012	2011
Cash Flows from Operating Activities			
Receipts from PILOT program	$ 561,693	$ 582,482	$ 582,482
Receipts from closing fee	45,594	-	-
Receipt from application fee	8,000	-	17,510
Receipts from meeting revenue	5,000	-	-
Payments to vendors	(19,866)	(46,649)	(34,336)
Payments for PILOT program	(582,282)	(582,282)	(582,282)
Net cash flows from operating activities	18,139	(46,449)	(16,626)
Cash Flows from Investing Activities			
Payment for third party building renovations	(712,910)	-	-
Payments to administrator	(18,000)	(18,000)	(18,000)
Interest received	14,771	45,823	46,221
Net cash flows from investing activities	(716,139)	27,823	28,221
Cash Flows from Captial and Related Financing Activities			
Purchase of investments	(4,889,605)	(600,000)	-
Net change in cash and cash equivalents	$ (5,587,605)	$ (618,626)	$ 11,595

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 Position
March 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 42,742	$ 87,638
Restricted cash	-	5,542,709
Funds held for others, restricted	159,821	-
Restricted investments	5,431,179	600,000
Investments	58,426	-
Accounts receivable	22,789	3,500
Interest receivable	5,776	954
Total current assets	5,720,733	6,234,801
Land held for resale	2,690,964	2,690,964
Total assets	$ 8,411,697	$ 8,925,765
LIABILITIES		
Current Liabilities		
Accounts payable	$ 22,751	$ 3,738
Other liabilities	159,821	-
Total current liabilities	182,572	3,738
NET POSITION		
Temporarily restricted	5,431,179	6,142,709
Assigned	159,821	-
Unrestricted	2,638,125	2,779,318
Total net position	$ 8,229,125	$ 8,922,027

See notes to financial statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX
Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2013 and 2012

	2013	2012
Unrestricted Operating Revenues		
PILOT	$ 584,482	$ 582,482
Closings	45,594	-
Reimbursable expenditures	22,142	29,266
Fees	8,000	-
Other operating revenue	5,000	-
Total unrestricted operating revenue	665,218	611,748
Operating Expenses		
PILOT	582,282	582,282
Professional services	62,282	57,040
Operating	1,330	2,570
Advertising	909	1,127
Total operating expenses	646,803	643,019
Operating income (loss)	18,415	(31,271)
Nonoperating Income		
Interest	213	17,941
Change in unrestricted net position	18,628	(13,330)
Changes in Temporarily Restricted Net Position		
Interest	19,380	19,668
Oakwood senior living	(712,910)	-
Administrative expenses	(18,000)	(18,000)
Change in temporarily restricted net position	(711,530)	1,668
Change in net position	(692,902)	(11,662)
Net postion at the beginning of the year	8,922,027	8,933,689
Net position at the end of the year	$ 8,229,125	$ 8,922,027

See notes to financial statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX
Statements of Cash Flows
Years Ended March 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Receipts from PILOT program	$ 561,693	$ 582,482
Receipts from closing fee	45,594	-
Receipt from application fee	8,000	-
Receipts from meeting revenue	5,000	-
Payments to vendors	(19,866)	(46,649)
Payments for PILOT program	(582,282)	(582,282)
Net cash flows from operating activities	18,139	(46,449)
Cash Flows from Investing Activities		
Payment for third party building renovations	(712,910)	-
Payments to administrator	(18,000)	(18,000)
Interest received	14,771	45,823
Net cash flows from investing activities	(716,139)	27,823
Cash Flows Capital and Related Financing Activities		
Purchase of investments	(4,889,605)	(600,000)
Net change in cash and cash equivalents	(5,587,605)	(618,626)
Cash and cash equivalents at the beginning of the year	5,630,347	6,248,973
Cash and cash equivalents at the end of the year	$ 42,742	$ 5,630,347
Reconciliation of operating loss to net cash flows from operating activities		
Operating income (loss)	$ 18,415	$ (31,271)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Decrease (increase) in assets:		
Accounts receivable	(19,289)	2,990
Increase (decrease) in liabilities:		
Accounts payable	19,013	(18,168)
Net cash flows from operating activities	$ 18,139	$ (46,449)

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 non-operating 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 Position Classification - Net position is classified into three components as defined below:

- Assigned net position - This component of net position consists of net position designated by the board of directors for specific purposes. During 2013, $159,821 of tax increment financing ("TIF") funds was received by the Board for Northshore Market Investors, LLC. The funds will be remitted to the investors after construction is complete on the Northshore Town Center project. There is a corresponding liability for the assigned funds.

- Temporarily restricted net position - This component of net position consists of restrictions placed on net position used 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 position - This component of net position consists of net position that does not meet the definition of "temporarily restricted." These net positions are available for current use by the Board.

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 2989 FASB and AICA Pronouncements*, was issued in December 2010 and superseded GASB Statement No. 20. This statement incorporates FASB, APB and ARB pronouncements, not conflicting with GASB pronouncements, and issued on or before November 30, 1989, into the GASB authoritative literature.

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

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 entered into conduit debt arrangements 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 conduit debt obligations are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the debts, ownership of the acquired facilities transfers to the private-sector entity serviced by the conduit debt issuance. The Board is not obligated in any manner for repayment of the obligations. Accordingly, the obligations are not reported as liabilities in the accompanying financial statements. At March 31, 2013, the Board had the following conduit debt arrangements:

In September 2011, the Board approved a tax increment financing for Northshore Market Investors, LLC for the Northshore Town Center Project. The notes are to be paid from the increase in tax revenue in the plan area. The Board will receive, as a conduit, $6,000,000 from the County and $3,000,000 from the City in tax increment revenue. The tax increment notes mature October 5, 2027. The Board has no obligation to pay if they do not receive the monies from the City and County.

In August 2011, the Board entered into an Interlocal Cooperation Agreement with Knox County and the Knox County Board of Education to take title to a piece of property from the Knox County Board of Education and construct the new Carter Elementary School. The Board has a contract with a third party developer to construct the school. Upon completion, Knox County will provide funds to pay the developer the guaranteed maximum price of up to $13,900,000 and the title to the property will be conveyed back to the Knox County Board of Education.

In October 2012, the Board approved a tax exempt revenue bond for ProVision Center for the Proton Therapy Project in connection with the acquisition, construction and equipping of a facility to be utilized to provide proton therapy treatments . The face amount of the debt obligation is $110,000,000. The Board is not responsible for any of this amount.

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.

New Accounting Pronouncements - For fiscal year 2012, the Board implemented GASB Statements No. 63 and 65. Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statements No. 4, Elements of Financial Statements, as a consumption of net position applicable to future reporting period and an acquisition of net position applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

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

Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements:

- Deferred outflows of resources
- Outflows of resources
- Deferred inflows of resources
- Inflows of resources

Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

Reclassifications - Certain reclassifications have been made to the 2012 balances to conform to the 2013 presentation with no effect on previously reported change in net position or net position.

Date of Managements Review - Management has evaluated subsequent events for recognition or disclosure through July 9, 2013, 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, 2013, the Board has a balance of $42,742 with Regions Bank. The Regions Bank balance represents 100% of the total balance.

At March 31, 2013 and 2012, all of the Board's bank accounts were fully insured either by the FDIC or by the banks' participation in 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 - TEMPORARILY RESTRICTED NET POSITION

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, 2013, the amount of temporarily restricted lease payments and interest was $530,807 and $62,129, respectively, using an average rate of 2.54% in 2013. As of March 31, 2012, the amount of temporarily restricted lease payments and interest was $530,807 and $60,682, respectively, using an average interest rate of 2.86% in 2012.

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, 2013 and 2012, the amount of temporarily restricted proceeds and interest was $4,838,243 and $5,551,220, respectively.

As of March 31, 2013 total temporarily restricted net position was $5,431,179. As of March 31, 2012 total temporarily restricted net position was $6,142,709.

NOTE 6 - 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 2013, there were two closings and a total of four current projects. During the fiscal year 2012, there were no closings on a total of three projects.

• Certified Public Accountants
• Business Advisors

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RODEFER MOSS & CO, PLLC

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Industrial Development Board of the County of Knox (the "Board"), which comprise the statements of net position as of and for the year ended March 31, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Board's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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.

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. 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.

Our consideration of 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 material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodefer Moss & Co, PLLC

Rodefer Moss & Co, PLLC
July 9, 2013