

THE DEVELOPMENT CORPORATION  
OF KNOX COUNTY

Financial Statements and Supplementary Information

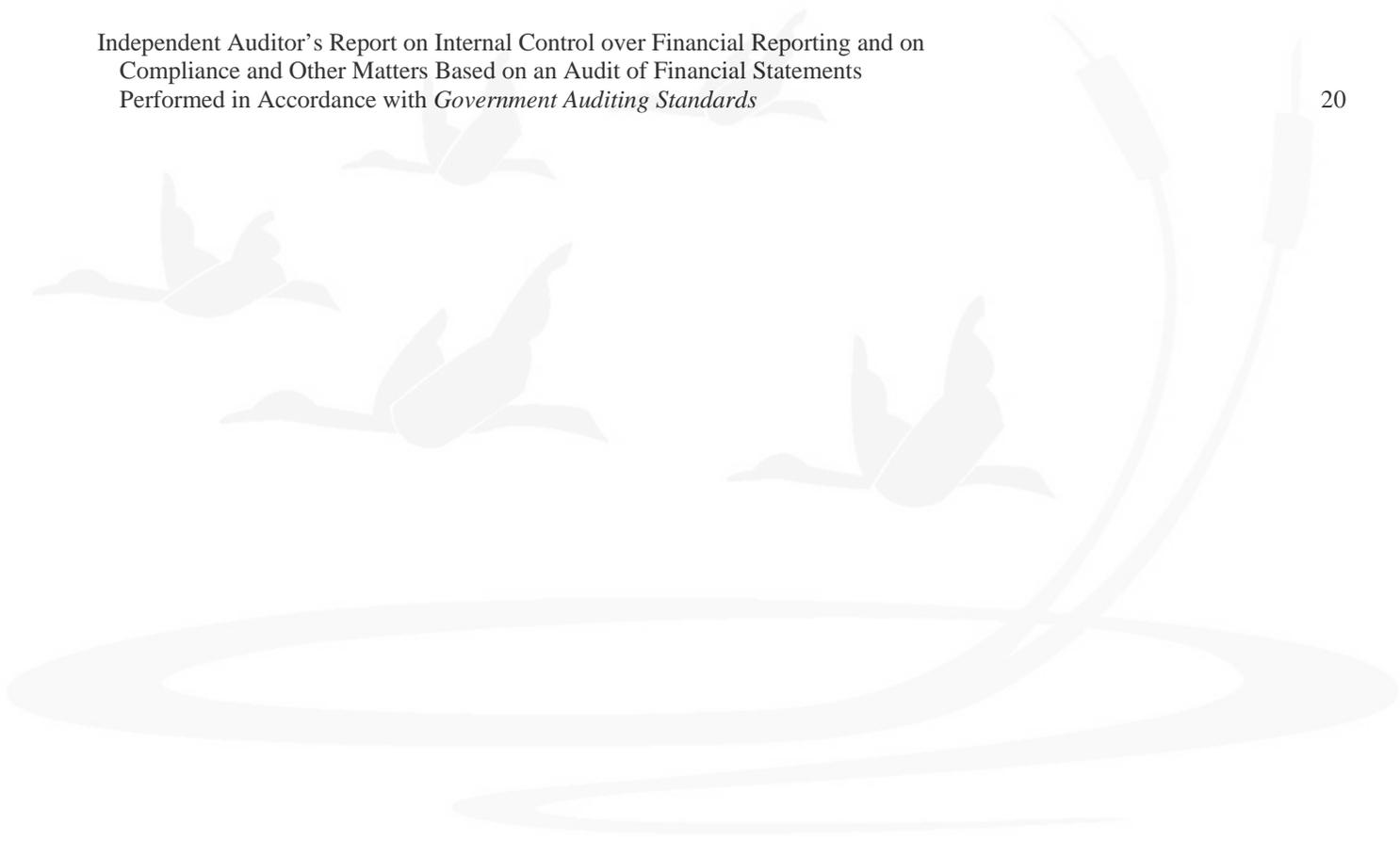
Years Ended June 30, 2013 and 2012



THE DEVELOPMENT CORPORATION  
OF KNOX COUNTY  
Financial Statements and Supplementary Information  
Years Ended June 30, 2013 and 2012

Table of Contents

	<u>Page</u>
Officers and Board Members	1
Independent Auditors' Report	2
Management's Discussion and Analysis	4
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Supplementary Information	
Detail of Statement of Net Position	17
Detail of Statement of Revenues, Expenses and Changes in Net Position	18
Notes to Supplementary Information	19
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20



THE DEVELOPMENT CORPORATION  
OF KNOX COUNTY  
Officers and Board Members  
Year Ended June 30, 2013

OFFICERS

Todd Napier

President & CEO

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

Michael Edwards

Gwendolyn Brown

NON-VOTING MEMBER

Ralph McGill

## Independent Auditors' Report

The Board of Directors of  
The Development Corporation of Knox County  
Knoxville, Tennessee

We have audited the accompanying financial statements of The Development Corporation of Knox County ("TDC"), which comprise the statements of net position as of June 30, 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, which collectively comprise TDC's basic financial statements as listed in the table of contents.

### 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *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 TDC'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 TDC'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 financial position of TDC as of June 30, 2013 and 2012, and the respective changes in net position and 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 audits 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 October 10, 2013, on our consideration of TDC'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.

*Rodehorst Moss & Co, PLLC*

Knoxville, Tennessee  
October 10, 2013



THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
Management's Discussion and Analysis  
June 30, 2013

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, 2013. Please read it in conjunction with TDC's financial statements following this section. The 2012 and 2011 information is provided for comparative purposes.

**Financial Highlights**

- The assets of TDC exceeded its liabilities at the close of the most recent fiscal year by \$33,555,283 (net position). Net position in the amount of \$33,555,283 at June 30, 2013 included \$22,458 in temporarily restricted net position for use at Fairview Technology Center.
- The TDC's net position increased by \$372,098 in 2013 and increased by \$101,739 in 2012. The increase from 2012 to 2013 is due primarily to the increase in cash due to land sales and additional funds from Knox County for services. The increase from 2011 to 2012 was due primarily to the increase in cash and cash equivalents due to collections of accounts receivable.
- The TDC's total liabilities increased by \$17,143 in 2013 and decreased by \$74,172 in 2012. 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 position present information on all the TDC's assets and liabilities, with the difference between the two reported as net position.

The statements of revenues, expenses and changes in net position present 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 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 2013 fiscal year, TDC's assets exceeded liabilities by \$33,555,283. At the close of the 2012 fiscal year, TDC's assets exceeded liabilities by \$33,183,185. The table on the following page provides a summary of TDC's net position as of June 30, 2013.

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

**Financial Analysis (continued)**

**Statements of Net Position**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 14,021,968	\$ 12,531,481	\$ 12,437,233
Accounts receivable	197,272	121,231	196,679
Prepaid expenses	<u>22,312</u>	<u>33,655</u>	<u>34,091</u>
Total current assets	<u>14,241,552</u>	<u>12,686,367</u>	<u>12,668,003</u>
Property and Equipment			
Office equipment	54,657	54,657	54,657
Computer equipment	45,350	45,350	32,076
Other equipment	599	599	599
Leasehold improvements	21,996	21,996	-
Equipment under capital lease obligations	<u>-</u>	<u>-</u>	<u>13,274</u>
	122,602	122,602	100,606
Less accumulated depreciation	<u>(108,723)</u>	<u>(98,709)</u>	<u>(85,916)</u>
Property and equipment, net	<u>13,879</u>	<u>23,893</u>	<u>14,690</u>
Land held for resale	<u>19,526,327</u>	<u>20,682,257</u>	<u>20,682,257</u>
Total assets	<u>\$ 33,781,758</u>	<u>\$ 33,392,517</u>	<u>\$ 33,364,950</u>
<b>LIABILITIES AND NET POSITION</b>			
Current Liabilities			
Accounts payable and accrued expenses	\$ 226,475	\$ 209,332	\$ 278,682
Capital lease obligations, due within one year	<u>-</u>	<u>-</u>	<u>4,822</u>
Total current liabilities	<u>226,475</u>	<u>209,332</u>	<u>283,504</u>
Net Position			
Unrestricted	33,518,946	33,141,132	33,034,298
Net investment in capital assets	13,879	23,893	14,690
Temporarily restricted	<u>22,458</u>	<u>18,160</u>	<u>32,458</u>
Total net position	<u>33,555,283</u>	<u>33,183,185</u>	<u>33,081,446</u>
Total liabilities and net position	<u>\$ 33,781,758</u>	<u>\$ 33,392,517</u>	<u>\$ 33,364,950</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 position for fiscal year 2013, 2012, and 2011.

**Statements of Revenues, Expenses and Changes in Net Position**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Unrestricted Revenue and Other Support			
Sale of land, net of commissions and cost of land sold	\$ 1,436,864	\$ 31,796	\$ -
Cost of land sold and related incentives	(1,194,514)	-	-
Land sale incentive forfeiture revenue	-	-	332,338
	<u>242,350</u>	<u>31,796</u>	<u>332,338</u>
Gross margin			
Rental and management income	84,481	87,716	91,308
Revenue from City of Knoxville and Knox County	753,725	679,100	794,925
Temporarily restricted net assets released from restrictions	-	21,996	4,713
	<u>1,080,556</u>	<u>820,608</u>	<u>1,223,284</u>
Total unrestricted revenue and other support			
Expenses			
General and administrative expenses	725,747	719,395	795,600
Estimated impairment loss related to Midway property	-	-	3,245,245
	<u>725,747</u>	<u>719,395</u>	<u>4,040,845</u>
Total expenses			
Income (loss) from operations	354,809	101,213	(2,817,561)
Investment income	12,991	14,824	55,944
	<u>367,800</u>	<u>116,037</u>	<u>(2,761,617)</u>
Change in unrestricted net position			
Changes in Temporarily Restricted Net Position			
Restricted contract payments	4,298	7,698	22,769
Temporarily restricted net assets released from restrictions	-	(21,996)	(4,713)
	<u>4,298</u>	<u>(14,298)</u>	<u>18,056</u>
Change in temporarily restricted net position			
Change in net position	372,098	101,739	(2,743,561)
Net position at the beginning of the year	<u>33,183,185</u>	<u>33,081,446</u>	<u>35,825,007</u>
Net position at the end of the year	<u>\$ 33,555,283</u>	<u>\$ 33,183,185</u>	<u>\$ 33,081,446</u>

TDC's net position as of June 30, 2013 totaled \$33,555,283 of which \$22,458 are temporarily restricted net position. The unrestricted balance may be used to meet TDC's ongoing objectives and obligations of promoting economic development in Knox County.

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

**Financial Analysis (continued)**

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

The following table provides a summary of cash receipts and disbursements for the fiscal year 2013, 2012, and 2011.

**Statements of Cash Flows**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Cash Flows From Operating Activities</b>			
Cash received form land sales, incentive forfeitures, State grants, Knox County, City of Knoxville, and other sources	\$ 2,221,135	\$ 871,203	\$ 1,285,629
Cash paid to suppliers and employees	<u>(718,639)</u>	<u>(764,961)</u>	<u>(914,624)</u>
Net cash flows from operating activities	<u>1,502,496</u>	<u>106,242</u>	<u>371,005</u>
<b>Cash Flows From Investing Activities</b>			
Interest received	12,991	14,824	64,368
Maturity of investments	<u>-</u>	<u>-</u>	<u>5,000,000</u>
Net cash flows from investing activities	<u>12,991</u>	<u>14,824</u>	<u>5,064,368</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Acquisition of land option	(25,000)	-	-
Acquisition of property and equipment	-	(21,996)	(4,946)
Principal payments on capital lease obligations	<u>-</u>	<u>(4,822)</u>	<u>(3,867)</u>
Net cash flows from financing activities	<u>(25,000)</u>	<u>(26,818)</u>	<u>(8,813)</u>
Net change in cash and cash equivalents	1,490,487	94,248	5,426,560
Cash and cash equivalents at the beginning of the year	<u>12,531,481</u>	<u>12,437,233</u>	<u>7,010,673</u>
Cash and cash equivalents at the end of the year	<u>\$ 14,021,968</u>	<u>\$ 12,531,481</u>	<u>\$ 12,437,233</u>

**Requests for Information**

This financial report is designed to provide a general overview of TDC's finances for all of those with an interest in 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 Position  
 June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 14,021,968	\$ 12,531,481
Accounts receivable	197,272	121,231
Prepaid expenses	<u>22,312</u>	<u>33,655</u>
Total current assets	<u>14,241,552</u>	<u>12,686,367</u>
<b>Property and Equipment</b>		
Office equipment	54,657	54,657
Computer equipment	45,350	45,350
Other equipment	599	599
Leasehold improvements	<u>21,996</u>	<u>21,996</u>
	122,602	122,602
Less accumulated depreciation	<u>(108,723)</u>	<u>(98,709)</u>
Property and equipment, net	<u>13,879</u>	<u>23,893</u>
Land held for resale	<u>19,526,327</u>	<u>20,682,257</u>
Total assets	<u>\$ 33,781,758</u>	<u>\$ 33,392,517</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ <u>226,475</u>	\$ <u>209,332</u>
<b>Net Position</b>		
Unrestricted	33,518,946	33,141,132
Net investment in capital assets	13,879	23,893
Temporarily restricted	<u>22,458</u>	<u>18,160</u>
Total net position	<u>33,555,283</u>	<u>33,183,185</u>
Total liabilities and net position	<u>\$ 33,781,758</u>	<u>\$ 33,392,517</u>

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
 Statements of Revenues, Expenses and Changes in Net Position  
 Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted Revenue and Other Support		
Sale of land, net of commissions	\$ 1,436,864	\$ 31,796
Cost of land sold and related incentives	<u>(1,194,514)</u>	<u>-</u>
Gross margin	242,350	31,796
Rental and management income	84,481	87,716
Revenue from City of Knoxville and Knox County	753,725	679,100
Temporarily restricted net assets released from restrictions	<u>-</u>	<u>21,996</u>
Total unrestricted revenue and other support	1,080,556	820,608
General and Administrative Expenses		
Payroll and benefits	318,826	317,746
Repairs and maintenance	178,312	140,586
Development expense and IT services	57,118	52,912
Insurance	55,607	60,415
General operating expense	41,683	42,767
Legal and professional	35,348	57,792
Rent	17,042	17,040
Business and professional development	11,797	6,789
Depreciation	10,014	12,793
Bad debt	<u>-</u>	<u>10,555</u>
Total general and administrative expenses	<u>725,747</u>	<u>719,395</u>
Income from operations	354,809	101,213
Investment income	<u>12,991</u>	<u>14,824</u>
Change in unrestricted net position	<u>367,800</u>	<u>116,037</u>
Changes in Temporarily Restricted Net Position		
Restricted contract payments	4,298	7,698
Temporarily restricted net position released from restrictions	<u>-</u>	<u>(21,996)</u>
Change in temporarily restricted net position	<u>4,298</u>	<u>(14,298)</u>
Change in net position	372,098	101,739
Net position at the beginning of the year	<u>33,183,185</u>	<u>33,081,446</u>
Net position at the end of the year	<u>\$ 33,555,283</u>	<u>\$ 33,183,185</u>

See notes to financial statements.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
 Statements of Cash Flows  
 Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from land sales and incentives	\$ 1,454,672	\$ 31,796
Cash received from Knox County	675,000	600,000
Cash received from City of Knoxville	78,725	79,100
Cash received from other sources	12,738	160,307
Cash paid to suppliers	(399,813)	(447,215)
Cash paid to employees	<u>(318,826)</u>	<u>(317,746)</u>
Net cash flows from operating activities	<u>1,502,496</u>	<u>106,242</u>
<b>Cash Flows From Investing Activities</b>		
Interest received	<u>12,991</u>	<u>14,824</u>
Net cash flows from investing activities	<u>12,991</u>	<u>14,824</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition of land option	(25,000)	-
Acquisition of property and equipment	-	(21,996)
Principal payments on capital lease obligations	<u>-</u>	<u>(4,822)</u>
Net cash flows from capital and related financing activities	<u>(25,000)</u>	<u>(26,818)</u>
Net change in cash and cash equivalents	1,490,487	94,248
Cash and cash equivalents at the beginning of the year	<u>12,531,481</u>	<u>12,437,233</u>
Cash and cash equivalents at the end of the year	<u>\$ 14,021,968</u>	<u>\$ 12,531,481</u>
<b>Reconciliation of increase from operations to net cash flows from operating activities</b>		
Operating income	\$ 354,809	\$ 101,213
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	10,014	12,793
Cost of land sold	1,180,930	-
Bad debt expense	-	10,555
Changes in temporarily restricted net assets	4,298	(14,298)
(Increase) decrease in assets:		
Accounts receivable	(76,041)	64,893
Prepaid insurance and deposits	11,343	436
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	<u>17,143</u>	<u>(69,350)</u>
Net cash flows from operating activities	<u>\$ 1,502,496</u>	<u>\$ 106,242</u>

See notes to financial statements.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
Notes to Financial Statements  
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of the Entity** - 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 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 appointed by the mayor of the City of Knoxville and confirmed by City Council.

By agreement dated March 12, 2001, renewed on December 31, 2007 and December 31, 2012 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 (the "City") 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, Knox 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.

**Basis of Accounting** - TDC's operations are accounted for as a proprietary fund. The proprietary fund is used to account for the activities of TDC which charge fees relating to rental and management income and / or acquire, develop, and sell land.

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 TDC include fee income associated with the programs, contributions, and sale of land. Operating expenses include contractual services costs, professional fees, and the cost of land sold. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**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.

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

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

**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. No impairment was recorded during 2013.

**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

Depreciation expense related to property and equipment for the years ended June 30, 2013 and 2012 approximated \$10,000 and \$12,700, respectively.

**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, 2013 or 2012. In addition, TDC was not assessed and did not recognize any interest or penalties related to taxes for the fiscal years ended June 30, 2013 or 2012.

TDC recognizes a tax contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimates and management's judgment with respect to the likely outcome of any uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Although the tax years ending June 30, 2010 through June 30, 2013 remain open for examination, it is management's opinion that no significant uncertain tax positions exist at June 30, 2013.

**Net Position** - Net position are classified into three components as defined below:

- Unrestricted net position - This component of net position consists of net positions that do meet the definition of "net investment in capital assets" or "temporarily restricted". These net positions are available for current use by TDC.
- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets.

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

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

**Net Position (Continued)**

- Temporarily restricted net position - This component of net position consists of amounts earned under contract related to the management of Fairview Technology Center and restricted to its maintenance and repair. Net positions are released from restrictions by incurring expenses satisfying the restricted purpose. If temporarily restricted net position are received and related in the same year, they are classified as unrestricted contributions for financial statement purposes.

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.

**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*.

**New Accounting Pronouncements** - For fiscal year 2013, 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.

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 Management’s Review** - Management has evaluated subsequent events for recognition or disclosure through October 10, 2013, which is the date the financial statements were issued. No events of significant or material nature have occurred that would affect the financial statements or footnote disclosures through that date.

NOTE 2 - UNRESTRICTED - BOARD DESIGNATED NET POSITION

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 Position.

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

NOTE 3 - LAND HELD FOR RESALE

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

	<u>2013</u>	<u>2012</u>
Hardin Business Park	\$ 8,063,266	\$ 8,489,374
Midway Property	6,406,400	7,040,000
Pellissippi Business Park	2,343,714	2,464,936
Eastbridge Business Park	1,964,302	1,964,302
Centerpoint Business Park	397,062	397,062
WestBridge Business Park	326,583	326,583
Optioned Property	<u>25,000</u>	<u>-</u>
Total Land Available for Resale	<u>\$ 19,526,327</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, 2013 and 2012 was approximately \$47,000 and \$50,000, 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. During the year 2013, TDC sold the property to TVA.

During the year ended June 30, 2013, TDC had land sales totaling \$1,436,864 net of commissions. The sales had a total land cost of \$1,180,930 and associated costs of \$13,584, total of \$1,194,514. During the year, TDC purchased a land option for \$25,000. The purpose of this land option is to guarantee the purchase of the tract of land in the future. The land option will be added to purchase price of the land upon acquisitions. As of October 10, 2013, the land had not yet been purchased.

NOTE 4 - RELATED PARTY TRANSACTIONS

TDC provides certain economic development support services related to Knox County and is paid for those services by Knox County on a performance basis. During the years ended June 30, 2013 and 2012, TDC recognized \$675,000 and \$600,000, respectively, in support payments from Knox County. During 2013 and 2012, TDC recognized revenue of \$78,725 and \$79,100, respectively, from the City of Knoxville for TDC’s operating budget.

TDC receives funds from Knox County for the sole purpose of awarding educational grants. Under this arrangement, TDC acts as an intermediary for these funds and does not recognize any revenue or related expense. In 2013 and 2012, there were no funds received. As of June 30, 2013, \$160,658 of funds were not distributed and are included in accounts payable and accrued expenses in the accompanying Statement of Net Position. Approximately \$80,000 of such amounts were committed to businesses for identified grants as of June 30, 2013.

NOTE 5 - RETIREMENT PLAN

TDC offers employees a 401(k) plan under which employees may elect to contribute up to 15% of their compensation. TDC 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 2013 and 2012 was \$14,116 and \$14,294, respectively.

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

NOTE 6 - CONCENTRATIONS OF RISK

During 2013 and 2012, TDC received approximately 70% and 83%, respectively, of their revenue from Knox County and the City of Knoxville. Accounts receivable from Knox County and City of Knoxville represented 94% and 88% of the accounts receivable at those dates, respectively. Such amounts subject TDC to a concentration of risk.

In accordance with its investment policy, TDC's funds are invested in United States treasuries and other United States securities. In addition, management performs ongoing evaluations of the financial stability of the financial institutions and does not believe that significant financial risk exists at June 30, 2013.

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 Chamber. The lease is renewable annually with an annual rent of \$17,040. Total operating lease expense for 2013 and 2012 was approximately \$17,000.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	June 30, 2012	Additions	Disposals	June 30, 2013
Office equipment	\$ 54,657	\$ -	\$ -	\$ 54,657
Computer equipment	45,350	-	-	45,350
Other equipment	599	-	-	599
Leasehold improvements	21,996	-	-	21,996
Less accumulated depreciation	(98,709)	(10,014)	-	(108,723)
Total net capital assets	<u>\$ 23,893</u>	<u>\$ (10,014)</u>	<u>\$ -</u>	<u>\$ 13,879</u>

NOTE 9 - 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.

As part of an agreement with the County IDB, the proceeds from the sale of property used for the Knox County Regional Farmer's Market and any accumulated interest is held by the County IDB to be paid to TDC upon request or disbursed for economic development purposes. The amounts not recorded by the Corporation related to proceeds and accumulated interest for the two projects totaled \$5,431,429 and \$6,142,195 as of June 30, 2013 and June 30, 2012, respectively.

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

NOTE 10 - 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 2013, TDC received an additional payment of \$50,000 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 11 - 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, 2013 and 2012, \$36,000 of revenue was recognized as a result of these agreements.

NOTE 12 - 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, 2013 and 2012, TDC did not receive grant proceeds. As a party to agreements in prior years, TDC has certain continuing reporting requirements.

NOTE 13 - RISK MANAGEMENT

TDC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The TDC's risks of loss are covered by a commercial package insurance policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

SUPPLEMENTARY INFORMATION



THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
 Detail of Statement of Net Position  
 June 30, 2013

	General Fund	Property Investment Fund	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ -	\$ 14,021,968	\$ 14,021,968
Accounts receivable	197,242	30	197,272
Prepaid expenses	22,312	-	22,312
Total current assets	219,554	14,021,998	14,241,552
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	(108,723)	-	(108,723)
Property and equipment, net	13,879	-	13,879
Land held for resale	-	19,526,327	19,526,327
Total assets	\$ 233,433	\$ 33,548,325	\$ 33,781,758
<b>LIABILITIES AND NET POSITION</b>			
Current Liabilities			
Accounts payable and accrued expenses	\$ 226,475	\$ -	\$ 226,475
Net Position			
Unrestricted	(29,379)	33,548,325	33,518,946
Net investment in capital assets	13,879	-	13,879
Temporarily restricted	22,458	-	22,458
Total net position	6,958	33,548,325	33,555,283
Total liabilities and net position	\$ 233,433	\$ 33,548,325	\$ 33,781,758

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
Detail of Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2013

	General Fund	Property Investment Fund	Total
Unrestricted Revenue and Support			
Sale of land, net of commissions	\$ -	1,436,864	\$ 1,436,864
Cost of land sold and related incentives	-	(1,194,514)	(1,194,514)
Gross margin	-	242,350	242,350
Rental and management income	84,481	-	84,481
Revenue from City of Knoxville and Knox County	753,725	-	753,725
Total unrestricted revenue and support	838,206	242,350	1,080,556
General and Administrative Expenses			
Payroll and benefits	318,826	-	318,826
Repairs and maintenance	178,312	-	178,312
Development expense and IT services	57,118	-	57,118
Insurance	55,607	-	55,607
General operating expense	41,683	-	41,683
Legal and professional	35,348	-	35,348
Rent	17,042	-	17,042
Business and professional development	11,797	-	11,797
Depreciation	10,014	-	10,014
Total General and Administrative Expenses	725,747	-	725,747
Income from operations	112,459	242,350	354,809
Investment income	1,806	11,185	12,991
Change in unrestricted net position	114,265	253,535	367,800
Changes in Temporarily Restricted Net Position			
Restricted contract payments	4,298	-	4,298
Change in temporarily restricted net position	4,298	-	4,298
Change in net position	118,563	253,535	372,098
Net position at the beginning of the year	(111,605)	33,294,790	33,183,185
Net position at the end of the year	\$ 6,958	\$ 33,548,325	\$ 33,555,283

See independent auditors' report.

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
Notes to Supplementary Information  
Year Ended June 30, 2013

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.



Independent Auditors' 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, in accordance with the 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, statement of net position of The Development Corporation of Knox County ("TDC") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated October 10, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered TDC'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TDC's internal control. Accordingly, we do not express an opinion on the effectiveness of TDC'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 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. 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses 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 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*.

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rodefer Moss & Co, PLLC*

Knoxville, Tennessee  
October 10, 2013