

THE DEVELOPMENT CORPORATION  
OF KNOX COUNTY

Financial Statements and Supplementary Information

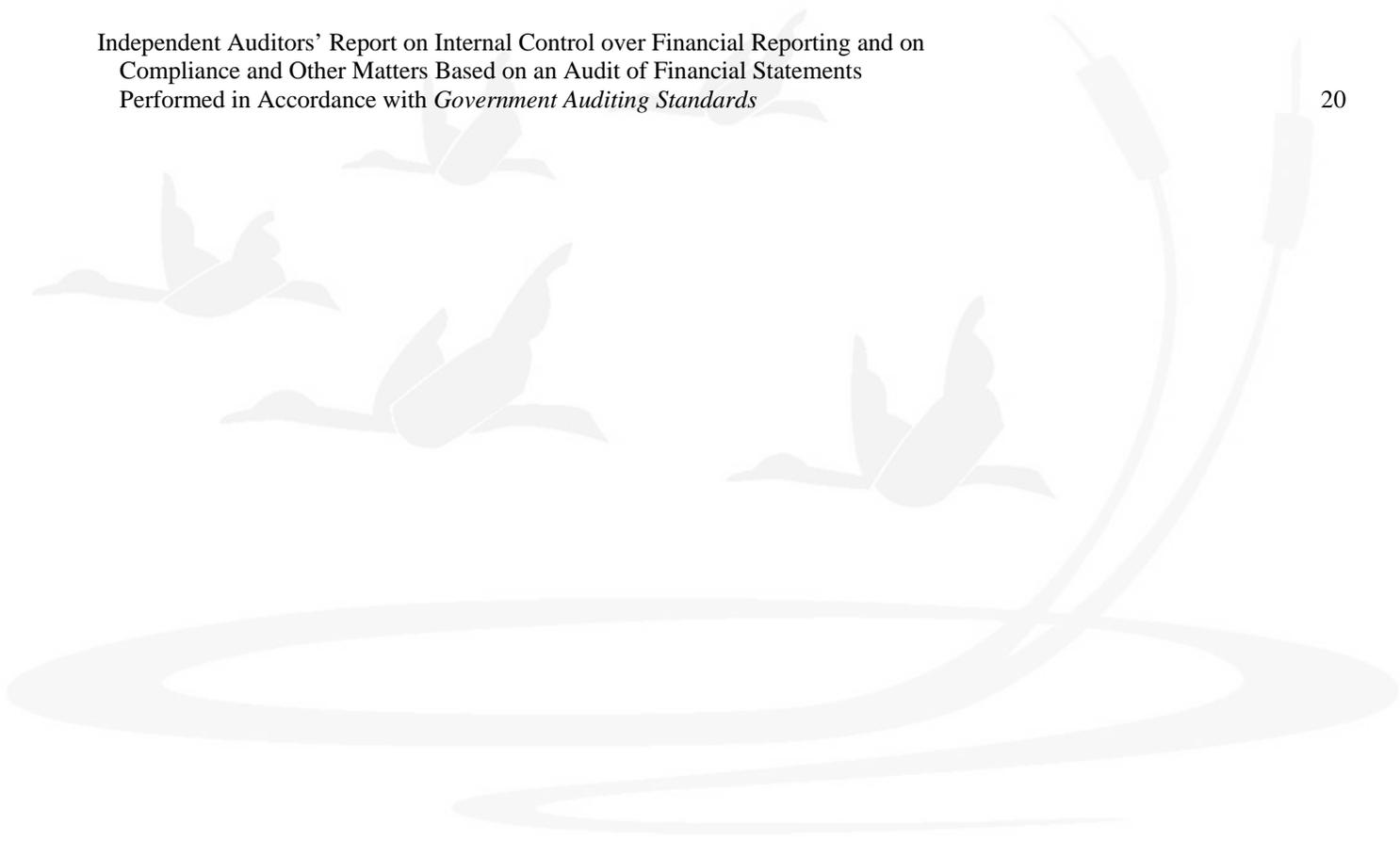
Years Ended June 30, 2015 and 2014



THE DEVELOPMENT CORPORATION  
OF KNOX COUNTY  
Financial Statements and Supplementary Information  
Years Ended June 30, 2015 and 2014

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THE DEVELOPMENT CORPORATION  
OF KNOX COUNTY  
Officers and Board Members  
Year Ended June 30, 2015

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

Dave Wright

Brad Anders

Tim Burchett

Madeline Rogero

Anthony L. Spezia

Randy 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

### **Report on the Financial Statements**

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, 2015 and 2014, 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 respective financial position of TDC as of June 30, 2015 and 2014, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise TDC's basic financial statements. The detailed statements listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic 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 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015, 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 TDC's internal control over financial reporting and compliance.

*Rodehorst Moss & Co, PLLC*

Knoxville, Tennessee  
October 15, 2015

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
Management's Discussion and Analysis  
June 30, 2015

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, 2015. Please read it in conjunction with TDC's financial statements following this section. The 2014 and 2013 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 \$39,749,877 ("net position"). Net position in the amount of \$39,749,877 at June 30, 2015 included \$22,094 in temporarily restricted net position for use at Fairview Technology Center. Net position in the amount of \$33,580,661 and \$33,555,283 at June 30, 2014 and 2013, respectively, included \$18,742 and \$22,458 in temporarily restricted net position at June 30, 2014 and 2013, respectively.
- The TDC's net position increased by \$6,169,216 in 2015 and increased by \$25,378 in 2014. The increase from 2014 to 2015 is due the receipt of funds from The Industrial Development Board of the County of Knox and a land sale that occurred during the year. The increase from 2013 to 2014 was due primarily to the receipt of grant proceeds.
- The TDC's total liabilities decreased by \$8,741 in 2015 and decreased by \$4,036 in 2014. 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 2015 fiscal year, TDC's assets exceeded liabilities by \$39,749,877. At the close of the 2014 and 2013 fiscal year, TDC's assets exceeded liabilities by \$33,580,661 and \$33,555,283, respectively. The table on the following page provides a summary of TDC's net position as of June 30, 2015, 2014, and 2013.

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

**Financial Analysis (continued)**

**Statements of Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 21,431,098	\$ 11,583,678	\$ 14,021,968
Accounts receivable	43,533	172,532	197,272
Prepaid expenses	<u>19,012</u>	<u>20,853</u>	<u>22,312</u>
Total current assets	21,493,643	11,777,063	14,241,552
Property and equipment, net	6,437	8,820	13,879
Land held for resale	<u>18,464,473</u>	<u>22,017,217</u>	<u>19,526,327</u>
Total assets	<u>\$ 39,964,553</u>	<u>\$ 33,803,100</u>	<u>\$ 33,781,758</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
Current Liabilities			
Accounts payable and accrued expenses	<u>\$ 53,040</u>	<u>\$ 61,781</u>	<u>\$ 65,817</u>
Total current liabilities	53,040	61,781	65,817
Grant payable	<u>160,658</u>	<u>160,658</u>	<u>160,658</u>
Total liabilities	213,698	222,439	226,475
Deferred Inflows of Resources			
Unearned revenue	<u>978</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>214,676</u>	<u>222,439</u>	<u>226,475</u>
Net Position			
Unrestricted	39,721,346	33,553,099	33,518,946
Investment in capital assets	6,437	8,820	13,879
Restricted	<u>22,094</u>	<u>18,742</u>	<u>22,458</u>
Total net position	<u>39,749,877</u>	<u>33,580,661</u>	<u>33,555,283</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 39,964,553</u>	<u>\$ 33,803,100</u>	<u>\$ 33,781,758</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 years 2015, 2014, and 2013.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenue and Other Support			
Sale of land, net of commissions and cost of land sold	\$ 4,500,000	\$ -	\$ 1,436,864
Cost of land sold and related incentives	<u>(3,888,644)</u>	<u>-</u>	<u>(1,194,514)</u>
Gross margin	611,356	-	242,350
Revenue from City of Knoxville and Knox County	690,080	690,080	753,725
Rental and management income	92,080	70,090	84,481
Fairview revenue	3,352	-	4,298
Grant revenue	<u>-</u>	<u>20,000</u>	<u>-</u>
Total revenue and other support	1,396,868	780,170	1,084,854
Expenses			
General and administrative	<u>854,803</u>	<u>763,030</u>	<u>725,747</u>
Income from operations	<u>542,065</u>	<u>17,140</u>	<u>359,107</u>
Non-operating Income			
Transfer of investments from outside entity	5,567,794	-	-
Investment income	<u>59,357</u>	<u>8,238</u>	<u>12,991</u>
Total non-operating income	<u>5,627,151</u>	<u>8,238</u>	<u>12,991</u>
Change in net position	6,169,216	25,378	372,098
Net position at the beginning of the year	<u>33,580,661</u>	<u>33,555,283</u>	<u>33,183,185</u>
Net position at the end of the year	<u>\$ 39,749,877</u>	<u>\$ 33,580,661</u>	<u>\$ 33,555,283</u>

TDC's net position as of June 30, 2015 totaled \$39,749,877 of which \$22,094 is temporarily restricted net position. TDC's net position increased \$6,169,216. The majority of this increase is due to a transfer from The Industrial Development Board of the County of Knox. 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 years 2015, 2014, and 2013.

**Statements of Cash Flows**

	<u>2015</u>	<u>2014</u>	<u>2013</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	\$ 10,829,763	\$ 808,525	\$ 2,221,135
Cash paid to suppliers and employees	<u>(1,038,643)</u>	<u>(3,255,053)</u>	<u>(743,639)</u>
Net cash flows from operating activities	9,791,120	(2,446,528)	1,477,496
<b>Cash Flows From Investing Activities</b>			
Interest received	59,357	8,238	12,991
<b>Cash Flows From Capital and Related Financing Activities</b>			
Acquisition of property and equipment	<u>(3,057)</u>	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	9,847,420	(2,438,290)	1,490,487
Cash and cash equivalents at the beginning of the year	<u>11,583,678</u>	<u>14,021,968</u>	<u>12,531,481</u>
Cash and cash equivalents at the end of the year	<u>\$ 21,431,098</u>	<u>\$ 11,583,678</u>	<u>\$ 14,021,968</u>

TDC's cash and cash equivalents increased \$9,847,420 at June 30, 2015. The majority of the increase was to: 1) transfer of funds from The Industrial Development Board of Knox County, and 2) sale of the land during the year.

**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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 21,431,098	\$ 11,583,678
Accounts receivable	43,533	172,532
Prepaid expenses	<u>19,012</u>	<u>20,853</u>
Total current assets	21,493,643	11,777,063
Property and equipment, net	6,437	8,820
Land held for resale	<u>18,464,473</u>	<u>22,017,217</u>
Total assets	<u>\$ 39,964,553</u>	<u>\$ 33,803,100</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 53,040	\$ 61,781
Grant payable	<u>160,658</u>	<u>160,658</u>
Total liabilities	213,698	222,439
Deferred Inflows of Resources		
Unearned revenue	<u>978</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>214,676</u>	<u>222,439</u>
Net position		
Unrestricted	39,721,346	33,553,099
Investment in capital assets	6,437	8,820
Restricted	<u>22,094</u>	<u>18,742</u>
Total net position	<u>39,749,877</u>	<u>33,580,661</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 39,964,553</u>	<u>\$ 33,803,100</u>

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
 Statements of Revenues, Expenses and Changes in Net Position  
 Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenue and Other Support		
Sale of land, net of commissions	\$ 4,500,000	\$ -
Cost of land sold and related incentives	<u>(3,888,644)</u>	<u>-</u>
Gross margin	611,356	-
Revenue from City of Knoxville and Knox County	690,080	690,080
Rental and management income, net of bad debt expense of \$0 in 2015 and \$3,615 in 2014	92,080	70,090
Fairview revenue	3,352	-
Grant revenue	<u>-</u>	<u>20,000</u>
Total revenue and other support	<u>1,396,868</u>	<u>780,170</u>
General and Administrative Expenses		
Payroll and benefits	418,564	332,970
Repairs and maintenance	190,832	157,703
Legal and professional	89,009	84,492
Insurance	63,067	62,614
General operating	58,427	28,940
Rent	18,081	17,040
Business and professional development	9,997	5,054
Depreciation	5,440	5,059
Development expense and IT services	1,386	65,442
Fairview expense	<u>-</u>	<u>3,716</u>
Total general and administrative expenses	<u>854,803</u>	<u>763,030</u>
Income from operations	<u>542,065</u>	<u>17,140</u>
Non-operating Income		
Transfer in of investments from outside entity	5,567,794	-
Investment income	<u>59,357</u>	<u>8,238</u>
Total non-operating income	<u>5,627,151</u>	<u>8,238</u>
Change in net position	6,169,216	25,378
Net position at the beginning of the year	<u>33,580,661</u>	<u>33,555,283</u>
Net position at the end of the year	<u>\$ 39,749,877</u>	<u>\$ 33,580,661</u>

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
 Statements of Cash Flows  
 Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from outside entity	\$ 5,567,794	\$ -
Cash received from land sales and incentives	4,347,458	-
Cash received from Knox County	742,737	622,928
Cash received from City of Knoxville	90,080	87,241
Cash received from other sources	81,694	98,356
Cash paid to suppliers	(436,721)	(431,193)
Cash paid for land held for sale	(183,358)	(2,490,890)
Cash paid to employees	<u>(418,564)</u>	<u>(332,970)</u>
Net cash flows from operating activities	9,791,120	(2,446,528)
<b>Cash Flows From Investing Activities</b>		
Interest received	59,357	8,238
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition of property and equipment	<u>(3,057)</u>	<u>-</u>
Net change in cash and cash equivalents	9,847,420	(2,438,290)
Cash and cash equivalents at the beginning of the year	<u>11,583,678</u>	<u>14,021,968</u>
Cash and cash equivalents at the end of the year	<u>\$ 21,431,098</u>	<u>\$ 11,583,678</u>
<b>Reconciliation of increase from operations to net cash flows from operating activities</b>		
Operating income	\$ 542,065	\$ 17,140
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	5,440	5,059
Cost of land sold	3,736,102	-
Bad debt expense	-	3,615
Transfer in from outside entity	5,567,794	-
(Increase) decrease in assets:		
Accounts receivable	128,999	21,125
Prepaid expenses	1,841	1,459
Land held for resale	(183,358)	(2,490,890)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(8,741)	(4,036)
Unearned revenue	<u>978</u>	<u>-</u>
Net cash flows from operating activities	<u>\$ 9,791,120</u>	<u>\$ (2,446,528)</u>

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
Notes to Financial Statements  
June 30, 2015 and 2014

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 (the "City"), and TDC, TDC is designated to act as the Joint Economic and Community Development Board. 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, 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.

**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 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 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 non-operating 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.

**Deposits** - Custodial credit risk is the risk that in the event of a bank failure, TDC's deposits may not be returned to it. TDC has formally adopted an investment policy regarding collateralization of deposits.

**Accounts Receivable** - Accounts receivable primarily include amounts due under agreements with the County and other various agreements. An allowance for uncollectible accounts is recorded, when necessary, based on management's evaluation of the receivables. At June 30, 2015, management does not feel an allowance for uncollectible accounts is necessary. 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 2015 or 2014.

**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
Computer software	2 - 3 years
Other equipment	5 years
Leasehold improvements	5 years

Depreciation expense related to property and equipment for the years ended June 30, 2015 and 2014 was \$5,440 and \$5,059, 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, 2015 or 2014. In addition, TDC was not assessed and did not recognize any interest or penalties related to taxes for the fiscal years ended June 30, 2015 or 2014.

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, 2012 through June 30, 2015 remain open for examination, it is management's opinion that no significant uncertain tax positions exist at June 30, 2015.

**Net Position** - Net position is 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 "investment in capital assets" or "restricted". These net positions are available for current use by TDC.
- 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)**

- **Restricted net position** - This component of net position consists of amounts earned under contracts 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 restricted net position is received and related in the same year, it is classified as unrestricted contributions for financial statement purposes.

TDC follows Governmental Accounting Standards Board (“GASB”) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

When both restricted and unrestricted fund balances are available for use, it is TDC’s policy to use restricted net position balance first, then use unrestricted net position balance.

**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 Government Accounting Standards Board (“GASB”) Statement No. 40 *Deposit and Investment Risk Disclosures*.

**Reclassifications** - Certain reclassifications have been made to the 2014 balances to conform to the 2015 presentation with no effect on previously reported change in net position or net position.

**Date of Management’s Review** - Management has evaluated events and transactions occurring subsequent to the statement of net position date for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

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.

NOTE 3 - LAND HELD FOR RESALE

Land held for resale, including capitalized improvements, valued at lower of cost or market, consists of the following at June 30:

	<u>2015</u>	<u>2014</u>
Midway Property	\$ 6,406,400	\$ 6,406,400
Hardin Business Park	4,381,774	8,117,876
Karns Valley Business Park	2,461,280	2,461,280
Pellissippi Business Park	2,343,714	2,343,714
Eastbridge Business Park	2,142,660	1,964,302
Centerpoint Business Park	397,062	397,062
WestBridge Business Park	326,583	326,583
Optioned Property	<u>5,000</u>	<u>-</u>
Total Land Available for Resale	<u>\$ 18,464,473</u>	<u>\$ 22,017,217</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, 2015 and 2014 was \$48,959 and \$37,595, respectively.

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

NOTE 3 - LAND HELD FOR RESALE - (Continued)

During the year ended June 30, 2015, TDC had land sales totaling \$4,500,000 net of commissions. The sales had a total land cost of \$3,736,102 and associated costs of \$152,542, total of \$3,888,644. During the year, TDC purchased a land option for \$5,000 and property in the Eastbridge Business Park for \$178,358. 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.

During the year ended June 30, 2014, TDC purchased land for \$2,461,280. Also, during 2014, TDC built a sign for the Hardin Business Park. The total cost of the improvement was \$54,610, in which \$20,000 was paid for by a grant.

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, 2015 and 2014, TDC recognized \$600,000 support payments from Knox County. During 2015 and 2014, TDC recognized revenue of \$90,080 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 2015 and 2014, there were no funds received. As of June 30, 2015, \$160,658 of funds were not distributed and are included in accounts payable and accrued expenses in the accompanying Statement of Net Position. As of June 30, 2015, \$120,000 of such amounts were committed to businesses for identified grants.

During 2015, TDC received funds from County Industrial Development Board ("County IDB"). See further discussion in Note 9.

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 2015 and 2014 was \$18,473 and \$14,943, respectively.

NOTE 6 - CONCENTRATIONS OF RISK

During 2015 and 2014, TDC received approximately 13% and 88%, respectively, of their revenue from the County and the City. Accounts receivable from the County and the City represented 52% and 96% 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, 2015.

Tennessee Code Annotated, Section 9-4-105, requires the TDC to secure deposits by having banks pledge governmental securities as collateral. The state statute requires collateral whose market value is equal to 105% of the deposit, less the amount protected by the Federal Deposit Insurance Corporation ("FDIC"). In lieu of pledged collateral, the bank may participate in the bank collateral pool as administered by the Tennessee State Treasurer. Banks that participate in the bank collateral pool may use one of three different security pledge levels (90, 100 or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public funds accounts for TDC.

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

NOTE 6 - CONCENTRATIONS OF RISK - (Continued)

Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment cover any deficiency.

NOTE 7 - LEASES

TDC leases office space on a monthly basis from the Knoxville Chamber under an operating lease agreement. The lease is renewable annually with an annual rent of \$17,040. Total operating lease expense for 2015 was \$18,081.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	June 30, 2014	Additions	Disposals	June 30, 2015
Office equipment	\$ 54,657	\$ -	\$ -	\$ 54,657
Computer equipment	22,253	3,057	(4,109)	21,201
Computer software	23,097	-	-	23,097
Other equipment	599	-	-	599
Leasehold improvements	21,996	-	-	21,996
Less accumulated depreciation	<u>(113,782)</u>	<u>(5,440)</u>	<u>4,109</u>	<u>(115,113)</u>
Total net capital assets	<u>\$ 8,820</u>	<u>\$ (2,383)</u>	<u>\$ -</u>	<u>\$ 6,437</u>

Capital asset activity for the year ended June 30, 2014 was as follows:

	June 30, 2013	Additions	Disposals	June 30, 2014
Office equipment	\$ 54,657	\$ -	\$ -	\$ 54,657
Computer equipment	22,253	-	-	22,253
Computer software	23,097	-	-	23,097
Other equipment	599	-	-	599
Leasehold improvements	21,996	-	-	21,996
Less accumulated depreciation	<u>(108,723)</u>	<u>(5,059)</u>	<u>-</u>	<u>(113,782)</u>
Total net capital assets	<u>\$ 13,879</u>	<u>\$ (5,059)</u>	<u>\$ -</u>	<u>\$ 8,820</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.

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES - (Continued)

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. During 2015, the amounts were transferred back to TDC from the County IDB. The amount of proceeds and accumulated interest transferred totaled \$5,567,794.

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. No incentive payments were received during 2015 or 2014.

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. During the year ended June 30, 2015, the fee for administrative services was increased from \$1,800 per month to \$2,100 per month. For the years ended June 30, 2015 and 2014, administrative revenue recognized totaled \$41,400 and \$36,000, respectively.

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, 2015 and 2014, 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, 2015

	General Fund	Property Investment Fund	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 83,882	\$ 21,347,216	\$ 21,431,098
Accounts receivable	43,533	-	43,533
Prepaid expenses	19,012	-	19,012
Total current assets	146,427	21,347,216	21,493,643
Property and equipment, net	6,437	-	6,437
Land held for resale	-	18,464,473	18,464,473
Total assets	\$ 152,864	\$ 39,811,689	\$ 39,964,553
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
Current Liabilities			
Accounts payable and accrued expenses	\$ 53,040	\$ -	\$ 53,040
Grant payable	160,658	-	160,658
Total liabilities	213,698	-	213,698
Deferred Inflows of Resources			
Unearned revenue	978	-	978
Total liabilities and deferred inflows of resources	214,676	-	214,676
Net Position			
Unrestricted	(90,343)	39,811,689	39,721,346
Investment in capital assets	6,437	-	6,437
Restricted	22,094	-	22,094
Total net position	(61,812)	39,811,689	39,749,877
Total liabilities, deferred inflows of resources and net position	\$ 152,864	\$ 39,811,689	\$ 39,964,553

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
Detail of Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2015

	General Fund	Property Investment Fund	Total
Revenue and Other Support			
Sale of land, net commissions	\$ -	\$ 4,500,000	\$ 4,500,000
Cost land sold and related incentives	-	(3,888,644)	(3,888,644)
Gross margin	-	611,356	611,356
Revenue from City of Knoxville and Knox County	690,080	-	690,080
Rental and management income	92,080	-	92,080
Fairview revenue	3,352	-	3,352
Total revenue and support	<u>785,512</u>	<u>611,356</u>	<u>1,396,868</u>
General and Administrative Expenses			
Payroll and benefits	418,564	-	418,564
Repairs and maintenance	190,832	-	190,832
Legal and professional	89,009	-	89,009
Insurance	63,067	-	63,067
General operating expense	58,427	-	58,427
Rent	18,081	-	18,081
Business and professional development	9,997	-	9,997
Depreciation	5,440	-	5,440
Development expense and IT services	1,386	-	1,386
Total general and administrative expenses	<u>854,803</u>	<u>-</u>	<u>854,803</u>
Income (loss) from operations	<u>(69,291)</u>	<u>611,356</u>	<u>542,065</u>
Non-operating Income			
Transfer in of investments from outside entity	-	5,567,794	5,567,794
Investment income	2,969	56,388	59,357
Total non-operating income	<u>2,969</u>	<u>5,624,182</u>	<u>5,627,151</u>
Change in net position	(66,322)	6,235,538	6,169,216
Net position at the beginning of the year	<u>4,510</u>	<u>33,576,151</u>	<u>33,580,661</u>
Net position at the end of the year	<u>\$ (61,812)</u>	<u>\$ 39,811,689</u>	<u>\$ 39,749,877</u>

THE DEVELOPMENT CORPORATION OF KNOX COUNTY  
Note to Supplementary Information  
June 30, 2015

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, 2015, 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, which collectively comprise the TDC's basic financial statements, and have issued our report thereon dated October 15, 2015.

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

*Roddefn Moss & Co, PLLC*

Knoxville, Tennessee  
October 15, 2015

