

THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF KNOX

Financial Statements and Supplementary Information

Years Ended March 31, 2016 and 2015



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OF THE COUNTY OF KNOX  
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THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF KNOX  
Board Members and Officers  
Years Ended March 31, 2016 and 2015

Board Members

Alvin J. Nance

Chairman

Trey Coleman

Vice Chairman

Tamara Boyer

Secretary Treasurer

Paul Fortunato

Asst. Secretary Treasurer

Other Board Members

Greg McWhorter

Sam Mayes

Terry Henley

Doug White

Dwaine Setzer

Greg Meadows

Les Mirts

Legal Counsel

R. Christopher Trump

Legal Counsel to the Board

## Independent Auditors' Report

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

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

We have audited the accompanying financial statements of The Industrial Development Board of the County of Knox (the "Board"), which comprise the statements of net position as of March 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Board as of March 31, 2016 and 2015, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2016, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the Board's internal control over financial reporting and compliance.

*Rodehorst Moss & Co, PLLC*

Knoxville, Tennessee  
July 12, 2016



THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX  
Management's Discussion and Analysis  
Years Ended March 31, 2016 and 2015

This section of The Industrial Development Board of the County of Knox's (the "Board") annual financial report presents a discussion and analysis of the Board's financial performance during the fiscal year ended March 31, 2016. Please read it in conjunction with the Board's financial statements following this section. The 2015 and 2014 information is provided for comparative purposes.

**Financial Highlights**

- The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$3,271,024 (net position). Net position amounted to \$3,850,741 and \$8,416,348 at March 31, 2015 and 2014, respectively, of which \$600,091 and \$5,473,045 are restricted net position and require approval by The Development Corporation of Knox County ("The Development Corporation") for their use.
- The Board's net position decreased by \$579,717, decreased by \$4,565,607 and increased by \$187,223 in 2016, 2015, and 2014, respectively. The decrease from 2014 to 2015 and 2015 to 2016 is due primarily to the transfer of restricted investments back to The Development Corporation. The increase from 2013 to 2014 is due primarily to the closing fee on the extension of the PILOT for Green Mountain Coffee.
- The Board's total liabilities decreased by \$76,213 in 2016 and decreased by \$674,338 in 2015. The changes in total liabilities were due to fluctuations in ending trade accounts payable levels at the end of the year and funds held for the Northshore Town Center Project and Oakwood Senior Living Center.

**Overview of the Financial Statements**

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

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

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

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

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

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

**Financial Analysis**

At the close of the 2016 fiscal year, the Board's assets exceeded liabilities by \$3,271,024. At the close of the 2015 and 2014 fiscal years, the Board's assets exceeded liabilities by \$3,850,741 and \$8,416,348, respectively. The table below provides a summary of the Board's net position as of March 31, 2016, 2015 and 2014:

**Statements of Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 578,897	\$ 557,234	\$ 254,411
Funds held for others, restricted	75,856	175,125	843,991
Restricted investments	-	596,064	5,473,045
Accounts receivable	24,289	1,500	-
Interest receivable, unrestricted	-	-	163
Interest receivable, restricted	-	1,022	3,307
Prepaid expenses	-	4,027	-
	<hr/>	<hr/>	<hr/>
Total current assets	679,042	1,334,972	6,574,917
Land held for resale	<hr/>	<hr/>	<hr/>
	2,690,964	2,690,964	2,690,964
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 3,370,006</u>	<u>\$ 4,025,936</u>	<u>\$ 9,265,881</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 23,126	\$ 70	\$ 5,542
Other liabilities, restricted	75,856	175,125	843,991
	<hr/>	<hr/>	<hr/>
Total current liabilities	98,982	175,195	849,533
<b>NET POSITION</b>			
Restricted	-	600,091	5,473,045
Unrestricted	<hr/>	<hr/>	<hr/>
	3,271,024	3,250,650	2,943,303
	<hr/>	<hr/>	<hr/>
Total net position	<u>\$ 3,271,024</u>	<u>\$ 3,850,741</u>	<u>\$ 8,416,348</u>

The Board's net position decreased by \$579,717 and \$4,565,607 in 2016 and 2015, respectively. The decrease is primarily due to the transfer of restricted investments back to The Development Corporation.

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

**Financial Analysis - (continued)**

The following table provides a summary of the changes in net position for fiscal year 2016, 2015 and 2014:

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues			
Closings	\$ 66,914	\$ 360,343	\$ 172,842
Oakwood Senior Living	77,000	77,000	38,500
PILOT	141,762	37,289	35,789
Fees	4,000	-	10,000
Other operating	-	1,500	6,000
	<u>289,676</u>	<u>476,132</u>	<u>263,131</u>
Total operating revenue			
Operating Expenses			
PILOT	138,062	34,689	34,689
Professional services	26,133	25,450	31,645
Administrative	25,200	18,000	18,000
Insurance	4,332	4,678	-
Operating	1,085	1,792	911
Advertising	851	891	1,222
Oakwood Senior Living	-	-	6,020
	<u>195,663</u>	<u>85,500</u>	<u>92,487</u>
Total operating expenses			
Operating income	<u>94,013</u>	<u>390,632</u>	<u>170,644</u>
Non-operating (Expense) Income			
Transfer of investments to outside entity	(674,104)	(4,970,690)	-
Interest	374	14,451	16,579
	<u>(673,730)</u>	<u>(4,956,239)</u>	<u>16,579</u>
Total non-operating (expense) income			
Change in net position	(579,717)	(4,565,607)	187,223
Net position at the beginning of the year	<u>3,850,741</u>	<u>8,416,348</u>	<u>8,229,125</u>
Net position at the end of the year	<u>\$ 3,271,024</u>	<u>\$ 3,850,741</u>	<u>\$ 8,416,348</u>

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

**Financial Analysis - (continued)**

The Board's net position as of March 31, 2016 totaled \$3,271,024. The unrestricted balance may be used to meet the Board's ongoing objectives and obligations of promoting economic development in Knox County.

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

The following table provides a summary of cash receipts and disbursements for fiscal years 2016, 2015 and 2014:

**Statements of Cash Flows**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>			
Receipts from PILOT program	\$ 66,914	\$ 360,343	\$ 172,842
Receipt for third party building renovations	77,000	75,500	38,500
Receipts from closing fee	118,973	37,289	35,789
Receipts from agenda appearance	-	1,500	1,000
Receipt from application fee	4,000	-	10,000
Receipts from meeting revenue	-	-	5,000
Payments to vendors	(28,444)	(42,310)	(28,198)
Payments for PILOT program	(114,936)	(34,689)	(34,689)
Payments to administrator	(25,200)	(18,000)	(18,000)
Payment for third party building renovations	-	-	(6,020)
	<u>98,307</u>	<u>379,633</u>	<u>176,224</u>
<b>Net cash flows from operating activities</b>			
<b>Cash Flows from Investing Activities</b>			
Transfer of funds to outside entity	(77,000)	-	-
Purchase of investments	(1,040)	(93,709)	(32,524)
Maturity of investments	-	-	49,084
Interest received	1,396	16,899	18,885
	<u>(76,644)</u>	<u>(76,810)</u>	<u>35,445</u>
<b>Net cash flows from investing activities</b>			
<b>Net change in cash and cash equivalents</b>	<u>\$ 21,663</u>	<u>\$ 302,823</u>	<u>\$ 211,669</u>

**Requests for Information**

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

THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX  
 Statements of Net Position  
 March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 578,897	\$ 557,234
Funds held for others, restricted	75,856	175,125
Restricted investments	-	596,064
Accounts receivable	24,289	1,500
Interest receivable, restricted	-	1,022
Prepaid expenses	-	4,027
Total current assets	679,042	1,334,972
Land held for resale	2,690,964	2,690,964
Total assets	\$ 3,370,006	\$ 4,025,936
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 23,126	\$ 70
Other liabilities, restricted	75,856	175,125
Total current liabilities	98,982	175,195
<b>NET POSITION</b>		
Restricted	-	600,091
Unrestricted	3,271,024	3,250,650
Total net position	\$ 3,271,024	\$ 3,850,741

THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX  
 Statements of Revenues, Expenses and Changes in Net Position  
 Years Ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
PILOT	\$ 141,762	\$ 37,289
Oakwood Senior Living	77,000	77,000
Closing revenue	66,914	360,343
Fees	4,000	-
Other operating revenue	<u>-</u>	<u>1,500</u>
Total operating revenue	<u>289,676</u>	<u>476,132</u>
Operating Expenses		
PILOT	138,062	34,689
Professional services	26,133	25,450
Administrative	25,200	18,000
Insurance	4,332	4,678
Operating	1,085	1,792
Advertising	<u>851</u>	<u>891</u>
Total operating expenses	<u>195,663</u>	<u>85,500</u>
Operating income	<u>94,013</u>	<u>390,632</u>
Non-operating (Expense) Income		
Transfer of investments to outside entity	(674,104)	(4,970,690)
Interest	<u>374</u>	<u>14,451</u>
Total non-operating expense, net	<u>(673,730)</u>	<u>(4,956,239)</u>
Change in net position	(579,717)	(4,565,607)
Net position at the beginning of the year	<u>3,850,741</u>	<u>8,416,348</u>
Net position at the end of the year	<u>\$ 3,271,024</u>	<u>\$ 3,850,741</u>

THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX  
 Statements of Cash Flows  
 Years Ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Receipts from PILOT program	\$ 118,973	\$ 37,289
Receipt for third party building renovations	77,000	75,500
Receipts from closing fees	66,914	360,343
Receipt from application fee	4,000	-
Receipts from agenda appearance	-	1,500
Payments for PILOT program	(114,936)	(34,689)
Payments to vendors	(28,444)	(42,310)
Payments to administrator	<u>(25,200)</u>	<u>(18,000)</u>
Net cash flows from operating activities	<u>98,307</u>	<u>379,633</u>
Cash Flows from Investing Activities		
Transfer of funds to related party	(77,000)	-
Purchase of investments	(1,040)	(93,709)
Interest received	<u>1,396</u>	<u>16,899</u>
Net cash flows from investing activities	<u>(76,644)</u>	<u>(76,810)</u>
Net change in cash and cash equivalents	21,663	302,823
Cash and cash equivalents at the beginning of the year	<u>557,234</u>	<u>254,411</u>
Cash and cash equivalents at the end of the year	<u>\$ 578,897</u>	<u>\$ 557,234</u>
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 94,013	\$ 390,632
Adjustments to reconcile operating income to net cash flows from operating activities:		
Decrease (increase) in assets		
Accounts receivable	(22,789)	(1,500)
Prepaid expenses	4,027	(4,027)
(Decrease) increase in liabilities		
Accounts payable	<u>23,056</u>	<u>(5,472)</u>
Net cash flows from operating activities	<u>\$ 98,307</u>	<u>\$ 379,633</u>

Supplemental Disclosure of Non-Cash Investing Activity

During the years ended March 31, 2016 and 2015, the Industrial Development Board of Knox County (the "Board") transferred a restricted certificate of deposit that was classified as an investment to The Development Corporation. The transfers amounted to \$597,104 and \$4,970,690, respectively and were recorded as non-operating expense. See Note 5 in the notes to the financial statements for additional information.

THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF KNOX  
Notes to Financial Statements  
March 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

**Net Position Classification** - Net position is classified into two components as defined below:

- Restricted net position - This component of net position consists of restrictions placed on net position used through external constraints imposed by creditors, grantors, contributors, or laws or regulations or other governments or restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - This component of net position consists of net position that does not meet the definition of “restricted.” These net positions are available for current use by the Board.

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

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

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

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

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

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

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

**Conduit Debt Obligations** - From time to time, the Board has entered into conduit debt arrangements in accordance with the Board's enabling legislation to provide financial assistance to private-sector entities for acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The conduit debt obligations are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the debts, ownership of the acquired facilities transfers to the private-sector entity serviced by the conduit debt issuance. The Board is not obligated in any manner for repayment of the obligations. Accordingly, the obligations are not reported as liabilities in the accompanying financial statements. At March 31, 2016, the Board had the following conduit debt arrangements:

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

In May 2013, the Board approved a tax exempt revenue bond for Senior Citizens Home Assistance Service, Inc. for the Renaissance Terrace Project in connection with the refinancing of the remaining note on the building that provides service for the elderly and disabled in the community. The face of the debt obligation is \$1,994,500. The Board is not responsible for this amount.

In May 2014, the Board approved a tax exempt revenue bond for Young Men's Christian Assistance of East Tennessee for the acquisition, construction and equipping of recreational facilities. The face of the debt obligation is \$5,000,000. The Board is not responsible for this amount.

As of March 31, 2015, the Board had total outstanding debt obligations, for the debt listed above, in the amount of \$15,227,137. The face value for the debt obligations totaled \$15,994,500.

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

**Date of Managements Review** - Management has evaluated events and transactions occurring subsequent to the statements 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.

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

NOTE 2 - CONCENTRATIONS OF CREDIT RISKS

As of March 31, 2016, the Board has a balance of \$578,897 with Regions Bank. The Regions Bank balance represents 100% of the total balance.

At March 31, 2016 and 2015, all of the Board's bank accounts were fully insured either by the FDIC or by the Board's participation in the State of Tennessee's collateral pool.

NOTE 3 - LAND HELD FOR RESALE

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

NOTE 4 - ADMINISTRATIVE SERVICES AGREEMENT

The Board has an administrative services agreement with The Development Corporation. The Development Corporation provides administrative services to the Board for a fee of \$2,100 (\$1,500 in 2015) per month (\$25,200 per year). These services include clerical and personnel services and other ordinary, necessary services for the Board, including the retention and maintenance of records. The fee will be paid from the proceeds from the sale or lease of all or any part of the Board's properties or as a result of any agreement entered into. The fees will be payable at such time as the Board and The Development Corporation shall agree and only to the extent that the Board has received proceeds from such properties sufficient to pay the same, and after payment of any expenses incurred by the Board in connection with such properties. From such proceeds, the Board shall repay any other expenses advanced or incurred by The Development Corporation in connection with the administrative services rendered.

NOTE 5 - RESTRICTED NET POSITION

As part of an agreement with The Development Corporation, the use of the proceeds received from the ground lease with America's Collectibles Network, Inc. is restricted. The Board must pay any remaining proceeds after cost reimbursement plus interest to The Development Corporation or disburse the proceeds for economic development in Knox County in accordance with the written direction of The Development Corporation. During 2016, the Board transferred the remaining proceeds back to The Development Corporation. Total amount transferred during the year amount to \$597,104.

As part of an agreement with The Development Corporation, the use of proceeds received from the sale of property used for the Knox County Regional Farmers' Market is restricted. The Board must pay any remaining proceeds after reimbursement plus interest to The Development Corporation or disburse the proceeds for economic development in Knox County in accordance with the written direction of The Development Corporation. During 2015, the Board transferred the remaining proceeds back to The Development Corporation. Total amount transferred during the year amount to \$4,970,690.

As of March 31, 2016 total restricted net position was \$0. As of March 31, 2015 total restricted net position was \$600,091.

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

NOTE 6 - KNOX COUNTY PROPERTY TAX INCENTIVE PROGRAM

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

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

The Board receives fees from the Program's applicants for the various stages of the administration. During the fiscal year 2016, there was one closings and a total of seven current projects. During the fiscal year 2015, there were three closings and a total of seven current projects.

NOTE 7 - RISK MANAGEMENT

The Board 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 Board's risks of loss are covered by a commercial package directors and officers insurance policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

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 Industrial Development Board of the County of Knox  
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Industrial Development Board of the County of Knox (the "Board"), which comprise the statements of net position as of March 31, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 12, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Rodefer Moss & Co, PLLC*

Rodefer Moss & Co, PLLC  
July 12, 2016

