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June 17, 2009

Board of Directors
Knox County Development Corporation
102 North Third Street
Vincennes, IN 47591

We have reviewed the audit report prepared by Alerding & Co., LLC, Independent Public Accountants, for the period January 1, 2006 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Knox County Development Corporation, as of December 31, 2007 and 2006, and the results of its operations for the periods then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

KNOX COUNTY DEVELOPMENT CORPORATION

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Alerding & Co. L.L.C.
Consultants • Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Knox County Development Corporation
Vincennes, Indiana

We have audited the accompanying statements of financial position of KNOX COUNTY DEVELOPMENT CORPORATION as of December 31, 2007 and 2006, and the related statements of activities, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. Generally Accepted Auditing Standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the 2007 and 2006 financial statements referred to above present fairly, in all material respects, the financial position of KNOX COUNTY DEVELOPMENT CORPORATION as of December 31, 2007 and 2006, and the changes in net assets and cash flows for the years then ended, in conformity with the U.S. Generally Accepted Accounting Principles.

Alerding & Co.

August 22, 2008

KNOX COUNTY DEVELOPMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and cash equivalents	\$ 582,991	\$ 460,984
Cash and short term investments - EDIT Funds	1,893,443	1,743,056
Grant receivable	52,500	-0-
EDIT funds receivable	140,000	135,000
Total current assets	2,668,934	2,339,040
Property and Equipment, Net	1,988,661	1,987,716
EDIT Funds Receivable - Long-term	295,000	-0-
Total assets	\$ 4,952,595	\$ 4,326,756

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 17,610	\$ 23,615
Accrued property taxes	16,410	14,019
Payroll taxes payable	671	861
Deferred income	140,000	135,000
Total current liabilities	174,691	173,495
Deferred Income - Long-term	295,000	-0-
Total liabilities	469,691	173,495
Net Assets:		
Unrestricted net assets	760,151	745,170
Temporarily restricted net assets	3,722,753	3,408,091
Total net assets	4,482,904	4,153,261
Total liabilities and net assets	\$ 4,952,595	\$ 4,326,756

See accompanying Notes to Financial Statements.

KNOX COUNTY DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, Gains & Other Support:			
Service contracts	\$ 69,000	\$ -0-	\$ 69,000
Lease income	74,724	-0-	74,724
Contributions	80,288	-0-	80,288
Grant income	-0-	150,000	150,000
EDIT funds	-0-	276,400	276,400
	224,012	426,400	650,412
Other Revenue:			
Interest and dividend income	20,818	-0-	20,818
Interest - EDIT	-0-	59,767	59,767
	20,818	59,767	80,585
Total revenue, gains and support	244,830	486,167	730,997
Expenses:			
Management & general	229,849	-0-	229,849
WEDG Program expense	-0-	23,225	23,225
EDIT - consulting	-0-	40,218	40,218
EDIT - grants	-0-	100,000	100,000
EDIT - services	-0-	8,062	8,062
Total expenses	229,849	171,505	401,354
Increase in net assets	14,981	314,662	329,643
Net Assets, Beginning of Year	745,170	3,408,091	4,153,261
Net Assets, End of Year	\$ 760,151	\$ 3,722,753	\$ 4,482,904

See accompanying Notes to Financial Statements.

KNOX COUNTY DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, Gains & Other Support:			
Service contracts	\$ 72,000	\$ -0-	\$ 72,000
Lease income	71,046	-0-	71,046
Contributions	84,180	-0-	84,180
EDIT funds	-0-	385,000	385,000
	<u>227,226</u>	<u>385,000</u>	<u>612,226</u>
Other Revenue:			
Interest and dividend income	18,025	-0-	18,025
Interest - EDIT	-0-	67,649	67,649
Other	72	-0-	72
	<u>18,097</u>	<u>67,649</u>	<u>85,746</u>
Total revenue, gains and support	<u>245,323</u>	<u>452,649</u>	<u>697,972</u>
Expenses:			
Management & general	215,919	-0-	215,919
EDIT - consulting	-0-	43,092	43,092
EDIT - services	-0-	6,152	6,152
Total expenses	<u>215,919</u>	<u>49,244</u>	<u>265,163</u>
Increase in net assets	29,404	403,405	432,809
Net Assets, Beginning of Year	<u>715,766</u>	<u>3,004,686</u>	<u>3,720,452</u>
Net Assets, End of Year	<u>\$ 745,170</u>	<u>\$ 3,408,091</u>	<u>\$ 4,153,261</u>

See accompanying Notes to Financial Statements.

KNOX COUNTY DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities:		
Increase in net assets	\$ 329,643	\$ 432,809
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	2,170	2,416
Changes in operating assets and liabilities:		
Grant and EDIT funds receivable	(352,500)	268,250
Accounts payable	(6,005)	(426)
Accrued property taxes	2,391	-0-
Payroll taxes payable	(190)	44
Deferred income	<u>300,000</u>	<u>(130,000)</u>
Net cash provided by operating activities	275,509	573,093
Cash Flows From Investing Activities:		
Fixed assets purchased	<u>(3,115)</u>	<u>-0-</u>
Net increase in cash and cash equivalents	272,394	573,093
Cash and Cash Equivalents, Beginning of Year	<u>2,204,040</u>	<u>1,630,947</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,476,434</u>	<u>\$ 2,204,040</u>

See accompanying Notes to Financial Statements.

KNOX COUNTY DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

1. SIGNIFICANT ACCOUNTING POLICIES

KNOX COUNTY DEVELOPMENT CORPORATION (the "Organization") is a not-for-profit corporation organized independent from city and county government to encourage industrial growth within Knox County, IN ("Knox County") and surrounding area.

The significant accounting policies followed by the Organization in the preparation of its financial statements are summarized below:

Fund Accounting

The Organization utilizes the principles of fund accounting in the preparation of its financial statements. The two fund accounts used include the following:

Unrestricted Fund

The unrestricted fund is used to account for all contributions, revenues, and expenses from the general operations of the Organization.

Temporarily Restricted Fund

The temporarily restricted fund is used to record revenues that are received and expenses that are paid based on restrictions placed by the donor. The temporarily restricted net assets are received from the city of Vincennes, IN and Knox County based on Economic Development Income Taxes ("EDIT") and, in 2007, a grant received from the State of Indiana (Note 4).

Revenue Recognition

Revenues are reported as increases in temporarily restricted net assets if they are limited by donor-imposed restrictions. Contributions are recognized when the donor makes an unconditional promise to give to the Organization, either in writing or verbally. Revenues, expenses, and assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

The Organization has a contract with both the Vincennes Board of Works and the Board of Commissioners of Knox County to perform certain services. Each contract calls for payments of \$3,000 per month not to exceed one year through December 31, 2008.

Estimates

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and notes to the financial statements. Actual results could differ from those estimates.

KNOX COUNTY DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents represent cash invested in checking, savings, and certificate of deposit accounts.

Property and Equipment

Purchased property and equipment are recorded at cost. Items donated are recorded at fair market value on the date of donation. Assets donated with restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding the length those donated assets must be maintained, the Organization reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted at that time. Costs of improvements are capitalized and costs of repairs and maintenance are expensed as incurred. Depreciation is recorded over the estimated useful lives of the assets utilizing the straight-line method.

Income Taxes

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code.

2. EDIT FUNDS RECEIVABLE

As of December 31, 2007, the County Council of Knox County has pledged financial support to the Organization of \$140,000 for 2008, \$145,000 for 2009, and \$150,000 for 2010. These funds are to be used for infrastructure improvements through the EDIT funding.

EDIT funds receivable are due as follows:

	<u>2007</u>	<u>2006</u>
Less than one year	\$ 140,000	\$ 135,000
One to five years	<u>295,000</u>	<u>-0-</u>
	<u>\$ 435,000</u>	<u>\$ 135,000</u>

KNOX COUNTY DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 1,983,850	\$ 1,983,850
Building	608,746	608,746
Equipment	31,628	28,513
	<u>2,624,224</u>	<u>2,621,109</u>
Less accumulated depreciation	<u>(635,563)</u>	<u>(633,393)</u>
Property and equipment, net	<u>\$ 1,988,661</u>	<u>\$ 1,987,716</u>

4. WORKFORCE AND EDUCATIONAL DEVELOPMENT GRANT

During 2007, the Organization received a Workforce and Educational Grant ("WEDG") in the amount of \$150,000 from the Indiana Office of Community and Rural Affairs for educational programs. The Organization provided a cash match through the use of the EDIT funds in the amount of \$37,500. The match is reflected in the temporarily restricted column of the statement of activities and net assets as a net amount.

5. FUNDING

The Organization received a funding grant from the Knox County Holding Corporation during the year 2001 in the amount of \$880,000. The proceeds, which are restricted to land acquisition, are the result of a \$1.1 million economic development income tax revenue bond issued in 2001. The Organization will not receive any additional funding from this bonding issue.

The Organization also received a \$300,000 grant from the Knox County Holding Corporation's bond issue of economic development income tax lease rental bonds. This bond issue was in the original amount of \$2,000,000. The proceeds from this issue are to be used for infrastructure improvements only such as drainage, water lines, sewer lines, water retention areas, etc. During the years ended December 31, 2007 and 2006, the Knox County Holding Corporation represented that they paid, on a cash basis, an additional \$18,013 and \$10,269, respectively, in infrastructure expenses leaving \$310,921 in unspent funds at December 31, 2007.

The property purchased with the above funding becomes the Organization's property and is held free of any liens or encumbrances. The infrastructure improvements are also owned by the Organization.

KNOX COUNTY DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Funding for repayment of the above bond issue is imposed by the EDIT, as adopted by the Knox County Council on September 17, 2001. The County pays directly to the Knox County Holding Corporation the economic development income tax revenue. The bond is amortized ratably over a period ending July 15, 2013. The economic development income tax lease rental bonds are amortized ratably over a period ending August 1, 2021. If the Organization does not pay the repayment funding for the bonding, the Knox County government becomes responsible for the payments.

These bonds are the responsibility of the Knox County Corporation and are administered through the Bond Trustees at the Bank of New York.

6. CONCENTRATION OF CREDIT RISK

Cash and Cash Equivalents

The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.