

CLAIBORNE COUNTY INDUSTRIAL DEVELOPMENT BOARD

AUDIT REPORT

June 30, 2008

Claiborne County Industrial Development Board
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INDEPENDENT AUDITOR'S REPORT

Claiborne County Industrial Development Board
Board of Directors

We have audited the accompanying financial statements of the governmental activities and the major fund of the Claiborne County Industrial Development Board a component unit of Claiborne County, Tennessee, and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Claiborne County Industrial Development Board's management. Our responsibility is to express an opinion 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 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 used by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the governmental activities and the major fund present fairly, in all material respects, the financial position of the Claiborne County Industrial Development Board as of June 30, 2008, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Claiborne County Industrial Development Board has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined necessary to supplement, although not required to be a part of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2009, on our consideration of Claiborne County Industrial Development Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Board of Directors

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Claiborne County Industrial Development Board's basic financial statements. The required supplemental information is presented for the purposes of additional analysis and is not a required part of the financial statements. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Craine, Thompson + Jones P.C.

Morristown, Tennessee
September 3, 2009

Claiborne County Industrial Development Board
Statement of Net Assets
June 30, 2008

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 411,234
Accounts receivable	3,642
Buildings net of Accumulated Depreciation	555,188
Total assets	<u>\$ 970,064</u>
<u>Liabilities and Fund Balances</u>	
Accounts payable	<u>\$ 7,396</u>
Total liabilities	<u>7,396</u>
<u>Net Assets</u>	
Invested in capital assets,	555,188
Unrestricted	407,480
Total net assets	<u><u>\$ 962,668</u></u>

The accompanying notes are an integral part of these financial statements.

Claiborne County Industrial Development Board
Statement of Activities
For the Year Ended June 30, 2008

<u>Function/Programs</u>	<u>Expenses</u>	<u>Bond Proceeds</u>	<u>Net (Expense) Revenue</u>
Governmental activities:			
General Government	\$ 1,070,146	\$ 996,421	\$ (73,725)
Total governmental activities	<u>\$ 1,070,146</u>	<u>\$ 996,421</u>	<u>\$ (73,725)</u>
			<u>Governmental Activities</u>
General Revenues:			
Hotel Motel Tax			\$ 34,816
Other net local revenues			
Lease Rentals			135,645
Misc. Refunds			6,100
Total net local revenues			<u>141,745</u>
Total General Revenues			<u>176,561</u>
Change in net assets			102,836
Net assets - July 1, 2007			<u>859,832</u>
Net assets - June 30, 2008			<u>\$ 962,668</u>

The accompanying notes are an integral part of these financial statements.

Claiborne County Industrial Development Board
Balance Sheet
Governmental Funds
June 30, 2008

	<u>Total Governmental Funds</u>
<u>Assets</u>	
Cash with trustee	\$ 411,233
Accounts receivable	<u>3,642</u>
Total assets	<u><u>\$ 414,875</u></u>
 <u>Liabilities and Fund Balances</u>	
Liabilities:	
Accounts payable	<u>\$ 7,395</u>
Total liabilities	<u>7,395</u>
 Fund balances:	
Unreserved	407,480
 Reconciliation of fund balance to net assets of governmental activities:	
Amounts reported for governmental activities in the statement of net assets are different because: Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
	<u>555,188</u>
 Net Assets of Governmental Activities	<u><u>\$ 962,668</u></u>

The accompanying notes are an integral part of these financial statements.

Claiborne County Industrial Development Board
Statement of Revenues, Expenses, and Changes In Fund Balance
For the Year Ended June 30, 2008

Revenues:	
Hotel Tax	\$ 34,816
Lease and Rentals	135,646
Miscellaneous Revenue	<u>6,100</u>
Total Revenues	<u>176,562</u>
Expenditures	
Current:	
Economic Development	<u>1,057,476</u>
Total Expenditures	<u>1,057,476</u>
Excess Revenues Over/ (Under) expenditures	(880,914)
Other Financing Sources	996,421
Excess Revenues Over/ (Under) expenditures	<u>115,507</u>
Fund balance - beginning	<u>291,973</u>
Fund balance - ending	<u>\$ 407,480</u>

The accompanying notes are an integral part of these financial statements.

Claiborne County Industrial Development Board
Reconciliation of the Statement of Revenues, Expenses, and Changes in Fund Balance of Governmental funds to the Statement of Activities
For the Year Ended June 30, 2008

Amounts reported for governmental activities
in the statements of activities are different because:

Net Change in fund balance governmental funds	\$ 115,507
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense.	<u>(12,671)</u>
Change in net assets of governmental activities	<u>\$ 102,836</u>

The accompanying notes are an integral part of these financial statements.

Claiborne County Industrial Development Board
Notes to Financial Statements
June 30, 2008

1. Summary of Significant Accounting Policies:

Claiborne County Industrial Development Board (The Industrial Board) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. Reporting Entity

The Claiborne County Industrial Development Board is a component unit of Claiborne County, Tennessee. The members of the Board are appointed by the Claiborne County Commission. Claiborne County is financially accountable to the Board because the County Commission approves the Board's budget and must approve any debt issuances.

1.B. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included amount program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

1.B. Basis of Presentation (Continued)

Measurement focus basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred as under the accrual accounting. However debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Board reports the following major governmental funds:

The general fund is the Board's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another.

1.C. Assets, Liabilities and Equity

Cash

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand accounts and certificates of deposits of the District.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include grants, assessments, and contractual reimbursements.

In the fund financial statements, material receivables include revenue accruals such as grants and other intergovernmental revenues since they are usually both measurable and available.

Capital Assets

Capital Asset Activity for the year ended June 30, 2008 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets being depreciated:				
Building	\$ 688,044	\$ -	\$ -	\$ 688,044
Less:				
Accumulated Depreciation	<u>(120,185)</u>	<u>(12,671)</u>	<u>-</u>	<u>(132,856)</u>
Total Capital Assets being Depreciated, net	<u>\$ 567,859</u>	<u>\$ (12,671)</u>	<u>\$ -</u>	<u>\$ 555,188</u>

Expenditures were made for "Other Construction" as follows:

2008	\$ 996,342
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These expenditures were made as a function of the boards development function and not for any facilities owned by the Board.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt--consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets--consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets--all other net assets that do not meet the definition of "restricted" or "invested" in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

1.D. Revenues, Expenditures, and Expenses

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds--By Character: Current (further classified by function)

In the fund financial statements, governmental funds report expenditures of financial resources.

2. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. Contingency

Management is not aware of any deficiencies or noncompliance issues that, upon ultimate resolution, would have a material adverse impact on the financial statements of the industrial Board.

4. Deposits

The Board's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Custodial Credit Risk- Deposits – In the case of deposits, this is the risk that in the event of a bank failure the Board's deposits may not be returned to it. As of June 30, 2008 the Board had no exposure to custodial credit risk as its deposits were either insured by the FDIC or collateralized with securities held by the state of Tennessee Bank collateral Pool.

5. Risk Management

The Board is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omission; natural disasters; and injuries of employees for which the Board carries commercial insurance purchased from independent third parties. The Board has not experienced an insurance settlement in excess of the insurance coverage in any of the past two fiscal years.

6. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The legal level of the budgetary controls are at the department level.

7. Conduit Debt

The Industrial Board has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither, the Industrial Board, the Claiborne County Government, nor any other political subdivision of the state is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2008 there were five series of conduit bonds outstanding. The aggregate unpaid principal amount could not be determined; however, their original issue amounts totaled \$85,035,000.

Bonds Issued include:

Lincoln Memorial University (3bonds)	\$ 5,000,000
Claiborne County Hospital	\$ 5,035,000
DTR Tennessee	\$ 75,000,000

8. Budgetary violations

The Industrial Board's budget is set along with the budget of the Claiborne County Government. There are two expense items reporting that exceed the budget set for the year ending June 30, 2008. The "contributions" account expense exceeds the budget by \$5,556 and the "other charges" account expense exceeds budget by \$5,738. The contributions account is a pass through that passes 99% of the hotel / motel tax collected and through to the Chamber of Commerce. This account also includes the yearly membership fee for the Chamber. The other charges account includes various expenses paid from The Board.

SUPPLEMENTARY INFORMATION

Claiborne County Industrial Development Board
Statement of Revenues, Expenses, and Changes in Fund Balance Budget to Actual
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Hotel Tax	\$ 25,000	\$ 25,000	\$ 34,816	\$ 9,816
Lease and Rentals	125,000	125,000	135,646	10,646
Miscellaneous Refunds	1,000	1,000	6,100	5,100
Note Proceeds	-	-	996,421	996,421
Other State Revenues	90,000	90,000	-	(90,000)
Total Revenues	241,000	241,000	1,172,983	931,983
Expenditures				
Administrative Assistant	1,500	1,500	750	750
Contracts With Other Public Agencies	500	500	-	500
Contributions	43,000	43,000	48,556	(5,556)
Trustee's Commission	8,000	8,000	1,889	6,111
Other Charges	4,200	4,200	9,938	(5,738)
Other Construction	-	-	996,342	(996,342)
Debt Service	-	-	-	-
Total Expenditures	57,200	57,200	1,057,476	(1,000,276)
Excess (Deficiency) of Revenues Over Expenditures	183,800	183,800	115,507	(68,293)
Net Change in fund balance	183,800	183,800	115,507	(68,293)
Fund Balance - Beginning	-	-	291,973	291,973
Fund Balance - Ending	\$ 183,800	\$ 183,800	\$ 407,480	\$ 223,680

Claiborne County Industrial Development Board
Schedule of Directors and Officials (Unaudited)
June 30, 2008

Board of Directors

Board Officers

Chairman:	Steven Lewis
Vice-Chairman:	Roger Ball
Secretary:	Glenn Fultz

Members

Eugene Bundren
Danny Stone
James Clay Neely
John Schneider
Rob Barger
Richard Jennings

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CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Claiborne County Industrial Development Board

We have audited the financial statements of the Claiborne County Industrial Development Board a component unit of Claiborne County, Tennessee, and for the year ended June 30, 2008 which comprise the Claiborne County Industrial Development Board's financial statements and have issued our report thereon dated September 3, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Claiborne County Industrial Development Board's internal control over financial reporting in order to determine our auditing procedures 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 Claiborne County Industrial Development Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Claiborne County Industrial Development Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies of material weaknesses.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affect the Claiborne County Industrial Development Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Claiborne County Industrial Development Board's financial statements that is more than inconsequential will not be prevented or detected by the Claiborne County Industrial Development Board's internal control.

Board of Directors

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Claiborne County Industrial Development Board's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Claiborne County Industrial Development Board's internal control over financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item number 2008-1.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Craine, Thompson + Jones P.C.

Morristown, Tennessee
September 3, 2009

Claiborne County Industrial Development Board
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Audit Findings

The conditions found, including facts that support the deficiency identified in the audit finding:

2008-1

Compliance Matters – The Claiborne County Industrial Development Board is required to propose, and stay within the limits of their budget with the Claiborne County Government.

Finding - Actual expenditures of the Claiborne County Industrial Development board Exceed the amount appropriated.

Reason improvement needed – The Claiborne County Industrial Board cannot expend more funds than those that are appropriated.

Cause of condition – Failure to review budgetary operations.

Effect of condition – Actual amounts spent exceed amounts budgeted.

Recommendation – The Industrial Board must become more active in the Budget setting process, so that proper allocations are made, and actual expenditures do not exceed the amount appropriated.

Cost and benefits of recommended action – There should be no additional costs in implementing this recommendation.

Client response – No response was received on this issue.