# CLARKSVILLE-MONTGOMERY COUNTY
# INDUSTRIAL DEVELOPMENT BOARD
# AUDITED FINANCIAL STATEMENTS
# AND OTHER INFORMATION
# JUNE 30, 2008

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STONE,
RUDOLPH
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# INDEPENDENT AUDITOR'S REPORT

The Industrial Development Board
of Clarksville-Montgomery County
Clarksville, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Clarksville-Montgomery County Industrial Development Board (the Board), a component unit of Montgomery County, Tennessee, as of and for the year ended June 30, 2008, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Board and do not purport to, and do not, present fairly the financial position of Montgomery County, Tennessee, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Board as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2008, 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 the 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 important for assessing the results of our audit.

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The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The directory of board members and management listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Stone Rudolph & Henry, PLC

October 21, 2008

# CLARKSVILLE-MONTGOMERY COUNTY
# INDUSTRIAL DEVELOPMENT BOARD
# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
# JUNE 30, 2008

Our discussion and analysis of the Clarksville-Montgomery County Industrial Development Board's financial performance provides an overview of the Board's financial activity for the year ended June 30, 2008. Please read it in conjunction with the financial statements, which follow this section.

## Financial Highlights

- The Board's total net assets increased $597,652 as a result of this year's activities. This increase was the result of the Board's project activity and additional contributed capital from the City and County.
- The Board incurred industrial recruitment and park development expenses of $1,337,659. ($1.1M of this amount was for industrial park construction in progress.)
- Land sales of $202,979 and City/County contributed capital of $416,440 (totaling $619,419) helped offset park development expenses incurred in this fiscal year.
- This year's recruitment efforts resulted in 32 formal requests for information, 13 community visits, and 7 new projects for a total of 10 active projects at year-end (4 back office, 5 manufacturing, and 1 barge port).
- The County provided the full operations funding for the IDB for fiscal 2007-2008.

## Required Financial Statements

The financial statements of the Clarksville-Montgomery County Industrial Development Board (Board) report information about the Board using generally accepted accounting principles. These statements offer financial information about its activities. The Governmental Fund Balance Sheet/Statement of Net Assets include all of the Board's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations (liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities. This statement measures the success of the Board's operations and can be used to determine if the Board recovered all its cost through the funding provided by the Montgomery County Government. The final required financial statement is the Budgetary Comparison Schedule. The primary purpose of this statement is to provide information regarding the Board's financial performance versus the adopted budget for this year.

## Financial Analysis of the Board

The financial statements of the Board include only activities of the Industrial Development Board. In addition to the actual cash received and expended, the Industrial Development Board receives the benefit of private dollars through the marketing efforts of the Aspire Clarksville Foundation. For fiscal year 2008, Aspire spent nearly $296,900 toward economic development efforts, with more than $97,000 representing direct industrial development efforts benefiting the Board's activities. Over time, increases or decreases in fund balance/net assets can show whether the business is improving or deteriorating. However, other non-financial factors such as economic conditions, property available for sale, the focus of the Aspire Foundation agenda and changes in legislation and the local legislative agenda should be considered.

Fund Balance / Net Assets

One of the most important questions asked about the Board's finances is "Is the Board as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets reports information about the Board's activities in a way that will help answer this question. An increase in net assets is an indicator that a business is improving.

In order to more clearly compare with the financial performance of the previous year, summaries of the Statements of Net Assets are presented in Table A-1. As shown in the table below, total net assets increased by nearly $600,000. The execution of the 2007's pending purchase of the final acreage for the community's mega-site had the most significant affect on the years shown (current assets and liabilities are both comparably lower). In addition, the sale of two park properties (fre Resources location and a speculative building project on Industrial Park Drive) reduced the balance of properties held for sale. The remaining current liabilities are various Industrial Park project costs that were ongoing at year-end (Construction in Progress, Contingent Bond Liability, etc.). As this statement shows, the Board continues to maintain a healthy net asset position.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF NET ASSETS (IN THOUSANDS)
JUNE 30, 2008 AND 2007
TABLE A-1

| | 2008 | 2007 | Dollar Change | Total Percent Change |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets | $ 2,672.7 | $ 3,003.2 | $ (330.5) | -11.0% |
| Capital Assets (Net) | 53.0 | 56.6 | (3.6) | -6.3% |
| Property Held for Sale or Lease | 16,682.6 | 16,912.7 | (230.1) | -1.4% |
| TOTAL ASSETS | $ 19,408.3 | $ 19,972.5 | $ (564.2) | -2.8% |
| LIABILITIES AND NET ASSETS | | | | |
| Current Liabilities | $ 959.8 | $ 2,187.6 | $ (1,227.8) | -56.1% |
| Non-Current Liabilities | 269.9 | 204.0 | 65.9 | 32.3% |
| TOTAL LIABILITIES | 1,229.7 | 2,391.6 | (1,161.9) | -48.6% |
| Net Assets Invested in Capital Assets | 53.0 | 56.6 | (3.6) | -6.3% |
| Unrestricted Net Assets | 18,125.6 | 17,524.3 | 601.3 | 3.4% |
| TOTAL NET ASSETS | 18,178.6 | 17,580.9 | 597.7 | 3.4% |
| TOTAL LIABILITIES AND NET ASSETS | $ 19,408.3 | $ 19,972.5 | $ (564.2) | -2.8% |

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities

While the Governmental Fund Balance Sheet / Statement of Net Assets shows the change in financial position of net assets, the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities details the nature and source of these changes.

In order to more clearly compare the financial performance to the previous year, summaries in the format of a Statement of Activities are presented in Table A-2 on the following page. Operating revenue for the Board is generated almost entirely by the County Government. Operating revenues had remained mostly constant for the last eight years, with the City & County providing a total of around $445,000. Starting with 2005, the County assumed the entire funding of the Industrial Board's operating expenses, with the City and County continuing the Inter-local agreement to fund the infrastructure additions to the park expansion project. For 2008, the Board experienced a 5% increase to $467,000 to change part-time staff to full-time. As compared to 2007, total revenue decreased significantly due mostly to the absence of a state grant received in 2007 to help fund rail development efforts (shown as Rail Development below). Rail and Park Development expenses for 2008 amounting to $1,107,235 are shown as Construction in Progress on the Statement of Net Assets. The Gains from Assets Sold and Cost of Land Sold for 2008 are related to two speculative building projects and nearly offset each other. Overall, in 2008 the Board was able to retain $150,000 from its operations (after $31,000 in debt reduction) to help fund Construction in Progress. This, plus $416,440 of contributed capital toward site and rail development, resulted in the total change in net assets shown on the following page.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF ACTIVITIES (IN THOUSANDS)
JUNE 30, 2008 AND 2007
TABLE A-2

| | 2008 | 2007 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Operating Revenues | $ 643.8 | $ 520.9 | $ 122.9 | 23.6% |
| Gain from Assets Sold | 203.0 | 573.7 | (370.7) | -64.6% |
| ASPIRE Clarksville Grants | 112.6 | 75.7 | 36.9 | 48.7% |
| State Grants | - | 750.0 | (750.0) | -100.0% |
| Non-Operating Revenues | 37.1 | 53.1 | (16.0) | -30.1% |
| Total Revenues | 996.5 | 1,973.4 | (976.9) | -49.5% |
| | | | | |
| Operating Expenses | 574.2 | 557.6 | 16.6 | 3.0% |
| Interest Expense | 10.6 | 12.3 | (1.7) | -13.8% |
| Rail Development | - | 1,986.4 | (1,986.4) | -100.0% |
| Industrial Park Development | 20.8 | 362.1 | (341.3) | -94.3% |
| Cost of Land Sold | 209.7 | - | 209.7 | |
| Total Expenses | 815.3 | 2,918.4 | (2,103.1) | -72.1% |
| | | | | |
| Change in Net Assets | 181.2 | (945.0) | 1,126.2 | -119.2% |
| Contributions from City and County | 416.4 | 3,047.0 | (2,630.6) | -86.3% |
| | | | | |
| Net Assets - Beginning | 17,581.0 | 15,479.0 | 2,102.0 | 13.6% |
| Net Assets - Ending | $ 18,178.6 | $ 17,581.0 | $ 597.6 | 3.4% |

Budgetary Comparison Schedule

The Budgetary Comparison Schedule reports the variances between actual revenues and expenses versus the Board's budget. It provides information on the Board's financial performance as compared to expected performance at the beginning of the reporting period.

The Board adopts an Operating and Capital Expenses Budget to assist in planning and forecasting for the fiscal year. The Budget is approved first by the Industrial Development Board and then the County. It is in effect for the entire fiscal year. Management uses the budget as a planning tool for the coming year. A Condensed Budgetary Comparison Schedule is shown below in Table A-3. The Board ended the fiscal year with operating expenses 7.6% under budget due in large part to a brief staff position vacancy, reduced travel expenses, and delayed road utility costs. These expense savings were complemented by unbudgeted "Other Revenue" related to higher crop sale prices from park properties held for sale and the reclassification of some park property due diligence costs. Additionally, unbudgeted gains from the sale of park properties (speculative building and fre Resources, Inc.) were offset by related non-operating project expenses.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED BUDGETARY COMPARISON SCHEDULE (IN THOUSANDS)
JUNE 30, 2008
TABLE A-3

| | Budgeted Amounts | Actual Amounts | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Revenues | | | |
| County Funding | $ 467.7 | $ 467.7 | $ - |
| Other Revenue | 90.6 | 213.2 | 122.6 |
| Gain from Sale of Assets | - | 203.0 | 203.0 |
| ASPIRE Clarksville Grants | 105.5 | 112.6 | 7.1 |
| Total Revenues | 663.8 | 996.5 | 332.7 |
| Expenses | | | |
| Operating Expenses | 632.8 | 584.9 | 47.9 |
| Project Expenses | - | 230.4 | (230.4) |
| Total Expenses | 632.8 | 815.3 | (182.5) |
| Revenue In Excess of Expense* | $ 31.0 | $ 181.2 | $ 150.2 |

* before contributions from City & County and budgeted capital expenditures toward notes payable of $31,000

The budgeted Revenues in Excess of Expense shown in Table A-3 are designated to service debt obligations incurred to obtain industrial park properties. Below, in Table A-4, is a schedule of principal payments that are to be funded from current and future operations.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
JUNE 30, 2008
LONG-TERM DEBT
TABLE A-4

| Fiscal Year | Note Principal |
|---|---|
| 2009 | $ 33,610 |
| 2010 | $ 40,416 |
| 2011 | $ 42,696 |
| 2012 | $ 45,105 |
| 2013 | $ 37,873 |
| 2014-2015 | $ 41,268 |
| 2019-2021 | $ 28,919 |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Most companies structure planning with the intent to increase sales to existing customers and to increase the overall customer base. A more appropriate goal for an entity such as the Industrial Development Board is to educate and encourage government officials of the efforts to recruit new industries to our community. External factors such as City and County finances will have a great impact on growth and effectiveness. As mentioned in an earlier segment, the IDB's funding has been mostly stable for the last eight years. (There were two exceptions: a 5% cut in 2004 returned in 2005 and a 5% increase in 2008.) The County, having assumed full operational funding of the IDB since 2005, approved a 15% increase for 2009. It is hoped that recent prospect activity and interest has demonstrated the Board's ability to expand the workforce in Montgomery County through recruitment of new industries, and that this will lead to a willingness to support the Board as needed in the future.

## CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Board's finances. If you have any questions about this report or need any additional information contact the Vice President of Finance and Human Resources, Clarksville-Montgomery County Economic Development Council, P. O. Box 883, Clarksville, Tennessee 37041-0883.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
JUNE 30, 2008

| | Governmental Fund | Adjustments (Note 7) | Statement of Net Assets |
|---|---|---|---|
| ASSETS | | | |
| Cash in Banks | $ 473,135 | | $ 473,135 |
| Certificates of Deposit | 541,234 | | 541,234 |
| Accounts Receivable | 203,470 | | 203,470 |
| Grant Receivable | 59,265 | | 59,265 |
| Notes Receivable | 233,300 | | 233,300 |
| Unbilled Reimbursable Costs | 34,760 | | 34,760 |
| Property Held for Sale or Lease | 16,682,617 | | 16,682,617 |
| Capital Assets, Net of Accumulated Depreciation | - | $ 53,049 | 53,049 |
| Construction in Progress | 1,107,235 | | 1,107,235 |
| Due from Related Party | 18,408 | | 18,408 |
| Other | 1,838 | | 1,838 |
| Total Assets | $ 19,355,262 | $ 53,049 | $ 19,408,311 |
| LIABILITIES | | | |
| Land Sales Options | $ 13,500 | | $ 13,500 |
| Accounts Payable | 533,732 | | 533,732 |
| Accrued Liabilities | 384,940 | | 384,940 |
| Due to Related Party | 27,666 | | 27,666 |
| Noncurrent Liabilities | | | |
| Due within one year | - | $ 33,610 | 33,610 |
| Due in more than one year | - | 236,287 | 236,287 |
| Total Liabilities | 959,838 | 269,897 | 1,229,735 |
| FUND BALANCE/NET ASSETS | | | |
| Fund Balance: | | | |
| Reserved for: | | | |
| Property Held for Sale or Lease | 16,682,617 | | |
| Construction in Progress | 1,107,235 | | |
| Noncurrent Lease Obligation | 43,633 | | |
| Unreserved | 561,939 | (216,848) | |
| Total Fund Balance | 18,395,424 | (216,848) | |
| Total Liabilities and Fund Balance | $ 19,355,262 | | |
| Net Assets: | | | |
| Invested in Capital Assets | | | 53,049 |
| Unrestricted | | | 18,125,527 |
| Total Net Assets | | $ 53,049 | $ 18,178,576 |

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

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

| | Governmental Fund | Adjustments (Note 7) | Statement of Activities |
|---|---|---|---|
| REVENUES: | | | |
| Lease and Other Income | $ 176,120 | | $ 176,120 |
| Montgomery County Subsidy | 467,700 | | 467,700 |
| Net Gains from Sales of Land | 202,979 | | 202,979 |
| Grant from Aspire Clarksville | 112,612 | | 112,612 |
| Total Revenues | 959,411 | - | 959,411 |
| OTHER FINANCING SOURCES: | | | |
| Proceeds from Notes Payable | 96,915 | $ (96,915) | - |
| Investment Earnings | 37,116 | | 37,116 |
| Total Other Financing Sources | 134,031 | (96,915) | 37,116 |
| Total Revenues and Other Financing Sources | 1,093,442 | (96,915) | 996,527 |
| EXPENDITURES/EXPENSES | | | |
| Current: | | | |
| Advertising | 33,149 | | 33,149 |
| Conferences and Trade Shows | 6,698 | | 6,698 |
| Consulting Services | 685 | | 685 |
| Contributions | 10,000 | | 10,000 |
| Depreciation | - | 11,563 | 11,563 |
| Dues and Membership | 10,135 | | 10,135 |
| Employee Pensions and Benefits | 54,424 | | 54,424 |
| Entertainment | 22,434 | | 22,434 |
| Expenses for Sales of Land | 209,654 | | 209,654 |
| Insurance | 5,235 | | 5,235 |
| Office and Data Processing Equipment | 1,556 | | 1,556 |
| Office Supplies | 2,934 | | 2,934 |
| Postal Charges | 2,161 | | 2,161 |
| Printing and Stationery | 1,762 | | 1,762 |
| Professional Services | 36,770 | | 36,770 |
| Project | 20,770 | | 20,770 |
| Public Relations | 515 | | 515 |
| Rent | 17,298 | | 17,298 |
| Repair and Maintenance | 22,966 | | 22,966 |
| Salaries | 277,425 | | 277,425 |
| Subscriptions | 723 | | 723 |
| Supplies | 593 | | 593 |
| Telephone | 6,896 | | 6,896 |
| Travel | 32,090 | | 32,090 |
| Utilities | 16,300 | | 16,300 |
| Debt Service: | | | |
| Principal | 31,015 | (31,015) | - |
| Interest | 10,579 | | 10,579 |
| Capital Outlays | 8,021 | (8,021) | - |
| Total Expenditures/Expenses | 842,788 | (27,473) | 815,315 |

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES (CONT'D)
YEAR ENDED JUNE 30, 2008

| | Governmental Fund | Adjustments (Note 7) | Statement of Activities |
|---|---|---|---|
| Excess of Expenditures over Revenues before Contributions | 250,654 | (69,442) | 181,212 |
| Contributions from City and County | 416,440 | - | 416,440 |
| Change in Net Assets | 667,094 | (69,442) | 597,652 |
| Fund Balance/Net Assets: | | | |
| Beginning of the Year | 17,728,330 | - | 17,580,924 |
| End of the Year | $ 18,395,424 | $ - | $ 18,178,576 |

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

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Clarksville-Montgomery County Industrial Development Board (the Board) is a nonprofit corporate agency and instrumentality of Montgomery County, Tennessee, organized under Title 7, Chapter 53 of the Tennessee Code Annotated. The Board has as its main purpose maintaining and increasing employment opportunities and furthering the use of Montgomery County's agricultural products and natural resources by promoting industry, trade, commerce, and construction by inducing manufacturing, industrial, governmental, educational, financial, service, commercial and recreational enterprises to locate in or remain in this area.

The Board is a component unit of Montgomery County, Tennessee, which is the principal reporting entity and primary government. The County is responsible for appointing the majority of the Board's board of directors and provides its primary funding support.

The Board applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued after November 30, 1989, unless those pronouncements or opinions conflict with or contradict GASB pronouncements. The Board is treated as a discrete component unit of Montgomery County since Montgomery County may unilaterally control the operations of the Board. The financial reporting entity of the Board only includes the assets and operations of the Board and does not include any other fund, organization, institution, agency, department, or office of Montgomery County, the primary government.

In fiscal year 1995, the Clarksville-Montgomery County Tourism Commission (Tourism), the Clarksville Area Chamber of Commerce (Chamber), and the Board jointly organized the Clarksville-Montgomery County Economic Development Council (EDC) to develop, coordinate, and implement a comprehensive marketing plan relating to economic development in Montgomery County and to advance the general welfare and economic prosperity of Clarksville-Montgomery County and the surrounding area.

The Board is responsible for one-third of the EDC staff's salary, payroll taxes, benefits, and certain other operating costs and expenses related to general administration of the EDC. The Chamber and Tourism each are also responsible for one-third of the expenses related to the EDC staff and general administration expenses. All other expenses of the EDC are shared based on usage allocations.

The EDC issues a publicly-available financial report. That report may be obtained by contacting Shannon Green at 25 Jefferson Street, Suite 300, Clarksville, Tennessee 37040.

1. Summary of Significant Accounting Policies (Cont'd)

Basis of Presentation
The financial statements of the governmental activities and major fund are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Board considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred.

In preparing the statement of net assets and statement of activities the Board uses the accrual basis of accounting. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Allocations of costs, such as depreciation, are recorded. All assets and liabilities (whether current or noncurrent) associated with the Board's activities are reported.

Funding
The Board receives operating subsidies from Montgomery County. A major reduction of funds by this supporting organization could have a significant effect on the future operations of the Board.

Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the variances could be material to the financial statements.

Concentrations of Credit Risk
Financial instruments that potentially subject the Board to significant concentrations of credit risk consist principally of cash and accounts receivable. The Board places its cash with federally-insured financial institutions and limits the amount of credit exposure to any one institution by requiring collateral. With respect to accounts receivable, credit risk is primarily limited to amounts due from escrow agents in connection with the sale of property.

Restricted Assets
When an expense is incurred for which both restricted and unrestricted resources are available, the Board first applies restricted resources to these expenses.

Capital Assets
All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The Board does not have a material amount of donated assets. Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. All assets with an initial, individual cost of more than $500 and an estimated useful life in excess of two years are capitalized.

1. Summary of Significant Accounting Policies (Cont'd)

Property Held for Sale or Lease
Property held for sale or lease is recorded at cost. The cost of property sold is charged to expense using the specific identification method.

Accrued Compensated Absences
Employees are required to take earned vacation days within the fiscal year and sick days are not paid upon separation. Therefore, there are no accrued compensated absences at the financial statement date.

Uncollectible Accounts
Accounts receivable are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles.

2. Cash and Cash Equivalents

At June 30, 2008, cash in banks and certificates of deposits totaling $1,014,369 in the financial statements were represented by bank balances totaling $1,040,585, all of which were insured by the FDIC or the State of Tennessee Collateral Pool.

3. Investments and Other Deposits

Investments and other deposits are restricted by State law to deposits with financial institutions and certain obligations guaranteed by the United States Government. Investments and other deposits are stated at cost or amortized cost, which approximates fair value at June 30, 2008. The following is a summary of the Board's certificates of deposit at June 30, 2008, all of which were insured by the FDIC or the State of Tennessee Collateral Pool.

| | Carrying Amount | Market Value |
|---|---|---|
| Certificates of Deposit | $ 541,234 | $ 541,234 |

4. Note Receivable from Sale of Land

A non-interest bearing note receivable, secured by a subordinate deed of trust on the eight acres sold and improvements, is due as follows:

| | June 30, | |
|---|---|---|
| | 2008 | 2007 |
| Three C Group, LLC note | $ 233,300 | $ - |

The note is due and payable upon the earlier of: (1) the date Three C Group, LLC obtains a binding lease for all or substantially all of the improvements on the property; or (2) the closing date for sale of the property.

5. Capital Assets

A summary of changes in capital assets and accumulated depreciation follows:

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|---|---|---|---|---|
| Equipment | $ 45,280 | $ 8,021 | $ - | $ 53,301 |
| Vehicles | 28,282 | - | - | 28,282 |
| Leasehold Improvements | 48,793 | - | - | 48,793 |
| | $ 122,355 | $ 8,021 | $ - | $ 130,376 |

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|---|---|---|---|---|
| Accumulated Depreciation | | | | |
| Equipment | $ 41,782 | $ 2,655 | $ - | $ 44,437 |
| Vehicles | 22,627 | 5,655 | - | 28,282 |
| Leasehold Improvements | 1,355 | 3,253 | - | 4,608 |
| | $ 65,764 | $ 11,563 | $ - | $ 77,327 |

6. Construction in Progress

A summary of changes in construction in progress follows:

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|---|---|---|---|---|
| Rail to Park Expansion | $ - | $ 175,804 | $ - | $ 175,804 |
| Teeter Property | - | 118,057 | - | 118,057 |
| Kimbrough Property | - | 32,000 | - | 32,000 |
| Hagewood Property | - | 45,456 | - | 45,456 |
| Rehab Center | - | 690,282 | - | 690,282 |
| Speculative Building | - | 45,636 | - | 45,636 |
| | $ - | $ 1,107,235 | $ - | $ 1,107,235 |

Construction in progress is not depreciated until placed in service.

7. Adjustments to Governmental Fund Statements

Governmental Fund Balance Sheet to the Statement of Net Assets:

When capital assets that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Board, net of related accumulated depreciation. The statement of net assets also includes the debt related to the capital assets among the liabilities of the Board.

| | |
|---|---|
| Cost of capital assets | $ 130,376 |
| Less: Accumulated depreciation | 77,327 |
| Net capital assets | $ 53,049 |
| | |
| Current portion of note payable | $ 33,610 |
| Long-term portion of note payable | 236,287 |
| Total debt related to capital assets | $ 269,897 |

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities:

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 as depreciation expense. Proceeds from the sales of capital assets are excluded from the statement of activities since the proceeds are not a gain or loss associated with the sale. Governmental funds record borrowings as revenue and the principal portion of debt repayment as an expense, while the statement of net assets records borrowings as a liability and the statement of activities records the interest portion of payments as an expense.

| | |
|---|---|
| Proceeds from notes payable | $ (96,915) |
| Capital outlays | 8,021 |
| Depreciation expense | (11,563) |
| Debt service principal | 31,015 |
| | $ (69,442) |

8. Property Held for Sale or Lease

| | | At Cost |
|---|---|---|
| Land-Park Expansion | 814.133 acres available | $ 10,862,770 |
| Goodpasture Property | 33.090 acres available | 204,918 |
| Bell Property | 54.180 acres available | 199,398 |
| Hamill Property | 7.750 acres available | 44,602 |
| Darnell Property | 28.840 acres available | 35,949 |
| Hayes Property (see Note 13) | 55.290 acres available | 478,093 |
| Homemax Property | 2.000 acres available | 13,965 |
| Connell/Mattingly Property | 88.985 acres available | 1,795,968 |
| Tylertown Road Property | 332.9003 acres available | 3,046,954 |
| Total | | $ 16,682,617 |

Access property is included in the acres available shown above. All acres are approximate.

9. Land Sale Options

The Board had two land sale options from prospective buyers outstanding at June 30, 2008. The first option, granted in fiscal year 2004, allows the holder to purchase a twenty-acre tract of land at a price of $16,000 per acre. The option was given for $6,400 consideration. This option expires in 2010.

The second option, granted in fiscal year 2006, allows the holder to purchase twelve acres of land at a price of $240,000. This option was given for the initial consideration of $5,000 and additional consideration of $1,000 payable annually for the next five years.

10. Land Purchase Options (see Note 19)

The Board had three land purchase options with prospective sellers outstanding at June 30, 2008. The first option, granted in fiscal year 2004, allows the Board to purchase a 988 acre tract of land at a price of $16,740 per acre for which $9,610 was given as consideration for the option. The option expires September 21, 2008.

The second option, purchased in fiscal year 2005, allows the Board to purchase 338 acres at a price of $17,600 per acre. This option was purchased for the initial consideration of $8,000 and additional consideration of $8,000 payable annually for four years. This option expires March 10, 2010.

10. Land Purchase Options (see Note 19) (Cont'd)

The third option, purchased in fiscal year 2008, allows the Board to purchase a 514 acre tract of land at a price of $20,545 per acre for which $25,000 was given as consideration for the option. This option expired March 31, 2008. From April 1 to August 31, 2008, the Board kept the option open by paying monthly installments of $3,000. The option can be extended with monthly payments of $25,000 from September to December 31, 2008.

11. Operating Leases

Beginning December 2006, the Board began subleasing office space in the Green Bank building from the EDC under a five-year agreement. Rental expense under the operating lease was $16,476 for the year ended June 30, 2008.

Future payments on lease obligations are as follows:

| | |
|---|---|
| 2009 | $ 18,700 |
| 2010 | 18,700 |
| 2011 | 18,700 |
| 2012 | 6,233 |
| | $ 62,333 |

12. Lease Contracts

On June 27, 2008, the Board entered into a lease contract with the State of Tennessee (the State) for rental of a medical office building. The building is currently under construction with an expected date of completion in December 2008. The lease contract begins January 1, 2009 and ends December 31, 2020. Under the terms of the lease, the State will make monthly lease payments to the Board of $21,542. The State has one option to renew the lease for an additional ten years with monthly rent of $15,866. Land and improvements will be surrendered to the Board upon termination of the lease.

Future cash flows from this lease contract are expected to be as follows:

| Year Ending June 30, | Lease Payments |
|---|---|
| 2009 | $ 129,252 |
| 2010 | 258,504 |
| 2011 | 258,504 |
| 2012 | 258,504 |
| 2013 | 258,504 |
| 2014 and Thereafter | 1,938,780 |

## 13. Long-Term Debt

Long-term debt consists of the following:

| | 2008 | 2007 |
|---|---|---|
| Note payable bearing interest at a fixed rate of 5.5% secured by approximately 55.29 acres of land; principal and interest are payable in quarterly installments, maturing March 25, 2013. | $ 172,982 | $ 203,997 |
| Note payable bearing interest at 5.5% secured by land and a building under construction; payments of interest only until May 2009; principal and interest then paid in monthly installments, with interest accruing at 6.5%, maturing May 2021. | 96,915 | - |
| Total Long-Term Debt | 269,897 | 203,997 |
| Less Current Portion | 33,610 | 31,015 |
| Total Long-Term Debt Excluding Current Portion | $ 236,287 | $ 172,982 |

Changes in long-term debt (including current portions) for the year ended June 30, 2008, were as follows:

| | Balance July 1, 2007 | Increases | Decreases | Balance June 30, 2008 | Estimated Amount Due in Year Ending June 30, 2009 |
|---|---|---|---|---|---|
| Notes Payable | $ 203,997 | $ 96,915 | $ 31,015 | $ 269,897 | $ 33,610 |

Future payments on notes payable are as follows:

| Year Ending June 30, | Total Principal | Total Interest |
|---|---|---|
| 2009 | $ 33,610 | $ 14,268 |
| 2010 | 40,416 | 12,228 |
| 2011 | 42,696 | 9,948 |
| 2012 | 45,105 | 7,540 |
| 2013 | 37,873 | 4,974 |
| 2014-2018 | 41,268 | 13,984 |
| 2019-2021 | 28,929 | 2,379 |
| Total | $ 269,897 | $ 65,321 |

14. Retirement Plan

EDC maintains a defined contribution 401(k) plan administered by American Chamber of Commerce Executives (ACCE) under which employees of the Board can participate. Substantially all employees who have completed one year of service, reached age 21 and work one thousand hours or more per year are eligible to participate. For each plan year that an employee participates, the Board will contribute an amount equal to four percent of the participant's total annual earnings as the employer basic contribution. Employees can make pre-tax contributions from one to one hundred percent of total annual earnings in which they are immediately vested. The Board will match one hundred percent of pre-tax contributions up to a maximum of four percent as the employer matching contribution. With regard to contributions of the Board, vesting occurs immediately.

During the fiscal years ended June 30, 2008 and 2007, contributions totaling $15,906 and $13,026, respectively, were paid and expensed by the Board. Employee contributions to the plan were $13,751 and $11,230 for years ended June 30, 2008 and 2007, respectively.

15. Conduit Debt Obligations

The Board has participated in several issues of Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The Board is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The principal balances outstanding as of June 30, 2008 totaled $127,562,404.

16. Related Party Transactions

The Board's total payments to EDC for expenses and group purchases for the year ended June 30, 2008 was $224,605.

17. Annual Budget Procedures

There is no requirement for the Board to legally adopt a budget. However, an annual budget is prepared by management and approved by the Board of Directors. The budget is prepared using the cash basis of accounting and is primarily used as a cash management tool. The board members review the Board's needs for the year as well as prior year expenditures to arrive at the current year budget. There is no requirement that the budget be amended for variances that are inconsequential and which occur as the result of normal operations. The "encumbrance" method of budgeting and accounting for expenditures is not used.

18. Commitments and Contingencies (see Note 19)

Under terms of an interlocal agreement among Montgomery County, Tennessee, the City of Clarksville, Tennessee and the Board, the sales price of property held for sale or lease will be split 90% to the City and 10% to the Board. Any revenue in excess of the first $10,000 per acre (per transaction) will be split 45% to the City, 45% to the County and 10% to the Board. The splitting of the proceeds will remain in effect until such time as either the City annexes the land being purchased for expansion or the City has recovered its investment, which shall include interest paid.

After such time as the City has either annexed the land being purchased or recovered its investment, the sale of the land shall be divided equally between the City and County after 10% is deducted for the Board. At June 30, 2008, there were no commitments or contracts for the sale of property. No amount is accrued for this commitment in these financial statements because the amount to be paid to the City or County, if any, is not currently determinable.

Effective December 14, 2006, the Board was awarded a grant from the State of Tennessee FastTrack Infrastructure Development Program in the amount of $648,978 for costs associated with the rail spur connection to the Florim Corporation. The grant requires the grantee to provide matching funds of $483,616. At June 30, 2008, the Board had accrued a liability of $384,940 for the rail spur connection.

The Board's exposure to property loss and general liability is handled through the purchase of commercial insurance. Insurance coverage was adequate to cover settlements for the past three fiscal years.

19. Subsequent Events

On August 1, 2008, the Board entered into a letter of agreement in which a developer would be willing to purchase or lease a 225-acre lot for the development of approximately two million square feet of Class A bulk warehouse, manufacturing, office and flex distribution space thereon. Once the option is final, the developer will pay $5,000 initial consideration and $50,000 earnest money. The purchase price of the lot is $34,000 per acre. The option will expire five years after being finalized, at which time additional consideration of $5,000 will be due if the developer has not acquired all of the property.

On August 29, 2008, the Board exercised the first purchase option described in Note 10. The Board purchased 1,055.849 acres for $17,674,912. The funding for this purchase was provided by bonds issued by Montgomery County.

On September 12, 2008, the Board entered into an agreement to sell 22.7 acres for $771,800. This sale is expected to close on October 31, 2008.

19. Subsequent Events (Cont'd)

On September 24, 2008, the Board entered into a purchase option. This option allows the Board to purchase 86 acres at a price of $20,000 per acre. This option was purchased for the initial consideration of $10,000. This option expires December 31, 2008. It is renewable for five months for additional consideration of $3,000 per month. The extension expires May 31, 2009.

During September and October, 2008, financial markets in both the United States and abroad experienced a material decline in investment values. Several of the largest mortgage and insurance companies, as well as commercial and investment banks, failed during this market upheaval. The United States government has taken legislative and fiscal measures to restore consumer confidence in the markets, but the impact of those actions cannot yet be measured. The effects of these matters, if any, on the Board's future ability to collect outstanding accounts receivable, notes receivable, and grant receivable and to obtain buyers for properties currently held are not yet known. Accordingly, these statements do not include any adjustments relating to the afore-mentioned matters.

# CLARKSVILLE-MONTGOMERY COUNTY
# INDUSTRIAL DEVELOPMENT BOARD
# DIRECTORY OF BOARD MEMBERS AND MANAGEMENT (UNAUDITED)
# JUNE 30, 2008

## BOARD MEMBERS

| | Term Expires |
|---|---|
| William S. Stuard, Chairman | June 2009 |
| Tom Skrodzki, Vice Chairman | June 2009 |
| James E. Thomas, Past Chairman | June 2009 |
| Bryce Sanders, Secretary-Treasurer | June 2011 |
| Mark Briggs | June 2013 |
| Jim Coode | June 2013 |
| William B. Linscott | June 2011 |
| Linda Rudolph | June 2013 |
| Niesha Wolfe | June 2011 |

Carolyn Bowers, County Mayor, Ex-Officio
Johnny Piper, City Mayor, Ex-Officio
Richard Batson, Legal Counsel, Ex-Officio
Cecil Morgan, Jr., Ex-Officio
James Chavez, Ex-Officio
Mike Evans, Ex-Officio

## MANAGEMENT

James Chavez, President and CEO
Mike Evans, Executive Director
Shannon Green, Vice President of Finance and Human Resources

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RUDOLPH
& HENRY, PLC

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Accountants

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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Industrial Development Board
of Clarksville-Montgomery County
Clarksville, Tennessee

We have audited the financial statements of the governmental activities and the major fund of Clarksville-Montgomery County Industrial Development Board (the Board), as of and for the year ended June 30, 2008, which collectively comprise the Board's basic financial statements and have issued our report thereon dated October 21, 2008. 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 the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 or material weaknesses. However, as discussed on the following page, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 affects the 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 Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiencies described on the following page as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

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5115 Maryland Way, Suite 105 • Brentwood, TN 37027 • Phone: (615) 376-8101 • Fax: (931) 647-5445

2008-1 (Recurring finding) Management Oversight of Financial Reporting: We noted a lack of management oversight over financial reporting that includes the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). Eighteen adjusting entries were required for the financial statements to be presented in conformity with GAAP. Twelve of the eighteen adjusting entries were calculated by management.

Recommendation: We recommend that management implement review procedures to ensure that the financial statements are prepared in conformity with generally accepted accounting principles.

Management Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance to prepare financial statements and footnotes in accordance with generally accepted accounting principles prior to the independent audit.

2008-2 Control Operating Effectiveness Deficiencies: We noted operating effectiveness deficiencies in the following controls:

1. Review of the payroll reports was not documented.
2. Review of the payroll entries was not documented.
3. Documentation of quarterly inventory reconciliations was not available.

Recommendation: We recommend that management implement procedures to ensure that each control is operating with sufficient effectiveness by:

1. Documenting the review of the payroll reports.
2. Documenting the review of the payroll entries.
3. Documenting the quarterly reconciliation of inventory.

Management Response: Management will implement procedures to document the review of payroll reports and ensure full implementation of existing procedures for the review of payroll entries. Management will also implement a procedure to document the quarterly reconciliation of inventory.

The Board did not resolve prior year finding number 2007-1. The finding recurred in the current year and is reported as finding 2008-1.

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 Board's internal control.

Our consideration of 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-1 and 2008-2 to be material weaknesses.

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.*

The Board's responses to the findings identified in our audit are described above. We did not audit the Board's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board members, management, and officials of Montgomery County and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Stone Rudolph & Henry, PLC

October 21, 2008