

**THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE - WARREN COUNTY, TENNESSEE**

**AUDITED FINANCIAL STATEMENTS AND  
AND OTHER FINANCIAL INFORMATION**

**Year Ended June 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Industrial Development Board of McMinnville-Warren County, Tennessee  
McMinnville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the General Fund and the statement of budgetary comparison of General Fund of The Industrial Development Board of McMinnville-Warren County, Tennessee, a joint venture between the City of McMinnville, Tennessee and Warren County, Tennessee, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of The Industrial Development Board of McMinnville-Warren County, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit.

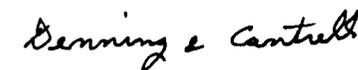
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and 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 made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the statement of budgetary comparison of the General Fund of The Industrial Development Board of McMinnville-Warren County, Tennessee, as of June 30, 2008, and the respective changes in financial position and cash flows 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 15, 2008, on our consideration of The Industrial Development Board of McMinnville-Warren County, Tennessee's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance with 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 should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages ii through iv, 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 an opinion on the financial statements of The Industrial Development Board of McMinnville-Warren County, Tennessee taken as a whole. The financial information listed as supplementary information in the table of contents as pages 21 through 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements of The industrial Development Board of McMinnville-Warren County, Tennessee. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated, in all material respects in relation to the financial statements, take as a whole.

  
Certified Public Accountants

McMinnville, Tennessee  
October 15, 2008

**Industrial Development Board of  
McMinnville – Warren County, Tennessee**

The Industrial Development Board is pleased to present its Annual Financial Report developed in compliance with Government Accounting Standards Board (GASB) Statement No. 34 and other related standards.

**Management’s Discussion and Analysis**

The following discussion and analysis of the Industrial Development Board’s activities and financial performance provides an introduction and overview to the Board’s basic financial statements for the year ended June 30, 2008. It should be read in conjunction with the Board’s financial statements.

**Board’s Activities and Highlights**

- The Board’s net assets decreased 36% from \$13,033,729 to 8,353,195. This decrease was largely due to the sale of the A.O. Smith building which was on the books for \$6,500,000.00
- The Board completed engineering and design work for the construction of an access road in the Mountain View Industrial park to make some 60 acres of land in the park marketable. The Board also began construction on this road.
- The Board has been working with TDOT and the Warren County Executive to begin construction of the connector road in the Mountain View Industrial Park.
- The Board completed wetland mitigation for the connector road.
- The Board assisted SMG in obtaining financing to construct a new building doubling their capacity.
- The Board assisted Jarden Consumer solutions to expand into the old Aquatech building by allowing an assumption of the existing lease.
- The Board assisted Iron Horse Trailers in leasing the old Walter A Wood building and beginning operation in Warren County.
- The Board assisted Flight Deck Specialists in purchasing the old Cookeville Tool & Die building and beginning operations in McMinnville-Warren County.
- The Board assisted Thermo Flex Products in leasing a portion of the Carrier facility to begin operations in Warren County.
- The Board sold the old A.O. Smith site to TN Soy Products for the operation of a soy bean crushing facility thus putting this property back on the tax roles.
- The Board assisted the TN Dept. of Safety in relocating for the addition to the McMinnville campus of Motlow State Community College.

**Overview of the Financial Statements**

The Board’s basic financial statements include a statement of net assets, statement of activities and changes in net assets, and notes to the financial statements.

The Board’s financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by GASB.

**Statement of Net Assets.** The statement of net assets presents the financial position of the Board. It present information on the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating. In 2008 there was a decrease in the Net Assets due to the sale of the A.O. Smith building.

**Statement of Activities.** The statement of activities presents a comparison between direct expenses and program revenues for each program function of the Board's governmental activities.

**Governmental Fund Financial Statement.** The Board accounts for its financial activities in governmental funds. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance.

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities.** Amounts reported for the governmental activity in the statement of activities are different because the net effect of various transactions involving capital assets is to increase net assets. Depreciation expense of capital assets is reported in government-wide statements of activity and changes in net assets but, since they do not require the use of current financial resources, depreciation expense is not reported as an expenditure in the governmental fund. Principal payment of long-term debt consumes financial resources of the governmental fund and is therefore shown as an expenditure.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of data provided in the Board's financial statements. The notes to the financial statements can be found on pages 11-19.

## Financial Analysis

**Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets exceed liabilities by \$8,353,195 as of June 30, 2008.

A condensed summary of the Board's statements of net assets of June 30, 2008 is presented below with a comparative analysis between 2007 and 2008.

	2007	2008
Total Assets	\$18,063,358	\$12,896,152
Total Liabilities	\$ 5,029,629	\$ 4,542,957
Net Assets invested in capital assets, net of related debt	\$ 6,042,781	\$ 1,044,092
Unrestricted	\$ 6,829,795	\$ 7,170,738
Total Net Assets	\$13,033,729	\$ 8,353,195

The largest portion of the Board's net assets represents its investments in capital assets such as land and buildings for present and future industrial use. Because the Board uses the capital assets to grow both existing and future industry and thus produce new employment

opportunities, these assets are only available for future spending that might enhance their intended use.

**Changes in net assets:** A condensed summary of the Board’s statements of activities and changes in net assets for the year ending June 30, 2008 is presented below. A comparative analysis with 2007 is also included.

	<u>2007</u>	<u>2008</u>
<b>Support &amp; Revenues</b>		
Operating Grants & Contributions	\$ 446,150	\$ 576,650
Rent	\$ 41,500	\$ 40,500
Interest & Investment Earnings	\$ 86,324	\$ 98,072
Miscellaneous	\$ 3,994	\$ 6,382
 Total Revenues	 \$ 577,968	 \$ 721,604
 <b>Expenditures</b>		
Industrial Development	<u>\$ 715,011</u>	<u>\$ 532,907</u>
	(\$137,043)	\$ 188,697
 Loss on Sale of Property		 (\$4,869,231)
 <u>Increase in Fund Balance</u>	 <u>(\$ 137,043)</u>	 <u>(\$4,680,534)</u>

Revenue of the Board includes City of McMinnville and Warren County contributions and rent from existing properties. Expenses for both years consist of the operation of the Board office and expenses associated with owning rental property.

### **Current Economic Factors**

The Board, having recently acquired additional property for the Mountain View Industrial Park, is now tasked with preparing the land for industrial use. This preparation includes planning, design, and construction of infrastructure to the property as well as the construction of suitable buildings. These improvements are under way.

### **Contacting the Board’s Financial Management**

This financial report is designed to provide creditors and funding agencies with a general overview of the Board’s finances and show the Board’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Industrial Development Board of McMinnville-Warren County, Tennessee 110 South Court Square; McMinnville, TN 37110.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE - WARREN COUNTY, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2008

<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
Current assets:	
Unrestricted cash	\$ 1,713,715
Interest receivable	20,860
Capital lease receivable - current portion	484,405
TOTAL CURRENT ASSETS	2,218,980
Non-current assets:	
Certificate of deposit - restricted	\$ 138,365
Capital lease receivable	5,436,163
Less amount shown as current	(484,405)
Capital assets (net)	5,587,049
	12,896,152
<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities:	
Current portion of long term debt	501,482
Long Term Debt:	
Notes payable	4,542,957
Less portion due within one year shown as current liability	501,482
TOTAL LIABILITIES	4,041,475
Net assets:	
Invested in capital assets, net of related debt	1,044,092
Restricted for capital expenditure	138,365
Unrestricted	7,170,738
	\$ 12,896,152

See Independent Auditors' Report and Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE-WARREN COUNTY, TENNESSEE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets Primary Government</u>
Primary Government Governmental activities:		<u>Charge for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Industrial development	\$ 532,907		\$ 576,650	\$ 43,743
		General revenues:		
			Rent	40,500
			Interest and investment earnings	98,072
			Loss on sale of building	(4,869,231)
			Miscellaneous	6,382
			Total general revenues	(4,724,277)
			Change in net assets	(4,680,534)
		Beginning net assets		13,033,729
		Ending net assets		\$ 8,353,195

Note - Interest of \$ 121,569 has been included in expenses.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE - WARREN COUNTY, TENNESSEE

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2008

		<u>General Fund</u>
<b><u>Assets</u></b>		
Current assets:		
Unrestricted cash	\$	1,713,715
Interest receivable		20,860
Capital lease receivable		<u>484,405</u>
Total current assets		2,218,980
Non-current assets:		
Certificate of deposit - restricted	138,365	
Capital lease receivable	<u>4,951,758</u>	<u>5,090,123</u>
Total assets		<u><u>7,309,103</u></u>
<b><u>Liabilities</u></b>		
Deferred income on capital lease		5,436,163
<b><u>Fund balances</u></b>		
Unreserved, reported in:		
General Fund		1,734,575
Reserved for capital outlay		<u>138,365</u>
Total fund balances		<u>1,872,940</u>
Total liabilities and fund balances	\$	<u><u>7,309,103</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE-WARREN COUNTY, TENNESSEE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2008

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Total Governmental Fund Balances	\$ 7,309,103
Amounts reported for governmental activities in the statement of net assets are different due to:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	5,587,049
Notes payable, not reported in the funds	<u>(4,542,957)</u>
Net Assets of Governmental Activities	<u>\$ 8,353,195</u>

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE - WARREN COUNTY, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND

Year ended June 30, 2008

		<u>General Fund</u>
<b>Support and revenues:</b>		
Rents	\$	40,500
Interest income		98,072
Miscellaneous		6,382
		<hr/>
<b>TOTAL SUPPORT AND REVENUES</b>		<b>144,954</b>
 <b>Expenses:</b>		
Salaries and benefits		120,205
Advertising and promotions		5,161
Travel and entertainment		4,449
Insurance expense		12,425
Professional fees		7,997
Office supplies		17,752
Telephone		2,635
Printing and photography		3,101
Auto repair and maintenance		3,294
Dues and subscriptions		3,816
Development		105,660
Interest expense		121,569
Principal paid on notes		480,910
Other expenses		1,712
		<hr/>
<b>TOTAL EXPENSES</b>		<b>890,686</b>
<b>EXCESS OF EXPENSES OVER SUPPORT AND REVENUES</b>		<b>(745,732)</b>
 <b>Other financing source (uses):</b>		
Payments from primary governments	\$	576,650
Collections on capital leases		524,809
Proceeds from sale of building		500,000
		<hr/>
<b>INCREASE IN FUND BALANCE</b>		<b>855,727</b>
 <b>Fund Balance at July 1, 2007 - restated</b>		<hr/> <b>1,017,213</b>
 <b>Fund Balance at June 30, 2008</b>	<b>\$</b>	<hr/> <b>1,872,940</b> <hr/>

Note - Beginning fund balance was restated by \$ 5,960,972 due to capital lease receivables that had been recognized in income in prior periods in error. This resulted in a decrease to beginning fund balance of \$ 5,960,972.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE-WARREN COUNTY, TENNESSEE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2008

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Net Change in Fund Balances - Total Governmental Funds	\$ 855,727
Loss on sale of building not reported in the funds	(4,869,231)
Depreciation expense not reported in the funds	(110,368)
Changes in prepaid expenses not reflected in the funds, but are reflected in the Statement of Net Assets	(12,763)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces debt in the Statement of Net Assets	480,910
Capital lease receipts reported as other financing source in the funds, not reflected in the Statement of Changes in Net Assets	(524,809)
Proceeds from sale of building reported as other financing source in the funds, not reflected in the Statement of Changes in Net Assets	<u>(500,000)</u>
Change in Net Assets of Governmental Activities	<u>\$ (4,680,534)</u>

**THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE - WARREN COUNTY, TENNESSEE**

**STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND**

Year ended June 30, 2008

	Budget Original & Final	Actual
Beginning fund balance July 1, 2007	\$ 1,017,213	\$ 1,017,213
<b>Resources (inflows):</b>		
Rents	40,500	40,500
Interest income		98,072
Miscellaneous		6,382
	<u>1,057,713</u>	<u>1,162,167</u>
Amounts available for appropriation	1,057,713	1,162,167
<b>Expenses:</b>		
Administrative expenses	142,180	120,205
Advertising and promotions	30,000	5,161
Travel and entertainment	8,000	4,449
Insurance expense	10,050	12,425
Professional fees	16,000	7,997
Office supplies	19,500	17,752
Telephone	3,000	2,635
Printing and photography	4,750	3,101
Auto repair and maintenance	5,000	3,294
Dues and subscriptions	3,200	3,816
Development	42,500	105,660
Interest expense		121,569
Principal paid on notes	41,500	480,910
Capital expenditure	287,470	
Other expenses	4,000	1,712
	<u>617,150</u>	<u>890,686</u>
Total charges to appropriations	617,150	890,686
	440,563	271,481
<b>Other financing source (uses):</b>		
Payments from primary governments	576,650	576,650
Collections on capital leases		524,809
Proceeds from sale of building		500,000
	<u>576,650</u>	<u>1,601,459</u>
Ending fund balance June 30, 2008	\$ <u>1,017,213</u>	\$ <u>1,872,940</u>

See Independent Auditors' Report and Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE - WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Industrial Development Board of McMinnville - Warren County, Tennessee, Inc. (Board) was organized to promote industrial growth in the McMinnville and Warren County area. This growth is promoted by acquiring industrial real estate for either development or leasing of facilities. The 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.

Financial Reporting Entity

The Industrial Development Board of McMinnville-Warren County, Tennessee is the basic government that has financial accountability and control over all activities related to the recruiting of industry in McMinnville and Warren County. The Board receives funding primarily from McMinnville and Warren County along with other state and federal assistance and must comply with the accompanying requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined by the GASB pronouncement since the Board's directors have decision making authority, the authority to contract, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 that are included in the Board's reporting entity. The Board is considered a joint venture between the City of McMinnville and Warren County, Tennessee. Five board members each are provided by the City of McMinnville and Warren County.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: government, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Board or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

See Independent Auditors' Report.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE - WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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The funds of the financial reporting entity are described below:

*Governmental Funds*

General Fund

The General Fund is the primary operating fund of the Board and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recored within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the timing of the related cash flows.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resources measurement focus as defined in item (b) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- (a) All governmental funds utilize a "current financial resources" measurment focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- (b) The government-wide statement utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities is presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

See Independent Auditors' Report.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE - WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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Assets, Liabilities, and Equity

Cash

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificate of deposits of the Board.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include appropriations from the City of McMinnville and Warren County.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

Concentrations of Credit Risk

Financial instruments that potentially subject the Board to significant concentrations of credit risk consist principally of cash. The Board places its cash with federally-insured financial institutions and limits the amount of credit exposure to any one institution by requiring collateral, if the deposit is not held by a bank that participates in the Tennessee Collateral Pool.

Capitalized Interest

Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Compensated Absences

The Board's policies regarding vacation time do not permit employees to accumulate earned but unused vacation leave. Therefore there is no liability for these compensated absences in the government-wide statements.

Equity Classifications

Government-wide Statements

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

- (a). 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.
- (b). 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.
- (c). Unrestricted net assets--All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE-WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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**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.

Revenues

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Data

The Board is not required to submit an annual budget.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether they are reported in the government-wide or fund financial statements.

**Government-wide Statements**

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost. The Board has adopted a capitalization threshold of \$2,500.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Buildings	39
Automobiles	5
Improvements	15
Office equipment, furniture and fixtures	5

**Fund Financial Statements**

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long Term Debt

All long term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long term debt consists primarily of notes payable.

Long term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

Advertising costs are charged to expense as incurred.

**THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE-WARREN COUNTY, TENNESSEE**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

**NOTE B - CASH AND DEPOSITS**

It is the Board's policy for deposits to be 105% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. At year end the District had demand deposits and non-negotiable certificates of deposit with a carrying amount of \$ 1,851,980. The bank balances amounted to \$ 1,874,215. \$1,038,823 of this amount consists of certificates of deposits with \$100 being held in petty cash. The interest rates on these certificates range from 3.11% to 4.6%.

**NOTE C - CERTIFICATE OF DEPOSIT RESTRICTED ACCORDING TO THE FOLLOWING PURPOSE:**

Industrial development in the City of McMinnville	\$	<u>138,365</u>
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**NOTE D - CAPITAL ASSETS**

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2008 are as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance June 30, 2008</u>
Capital assets not being depreciated:				
Land	\$ 2,705,400		200,000	\$ 2,505,400
Capital assets being depreciated:				
Buildings and improvements	10,165,033		6,300,000	3,865,033
Transportation equipment	25,132			25,132
Office equipment	33,876	\$		33,876
	<u>10,224,041</u>	<u>0</u>	<u>6,300,000</u>	<u>3,924,041</u>
<b>Total capital assets</b>	<u>12,929,441</u>	<u>0</u>	<u>6,500,000</u>	<u>6,429,441</u>
Less accumulated depreciation:				
Buildings and improvements	1,825,878	99,698	1,130,769	794,807
Transportation equipment	20,734	4,398		25,132
Office equipment	16,181	6,272		22,453
	<u>1,862,793</u>	<u>110,368</u>	<u>1,130,769</u>	<u>842,392</u>
<b>Net capital assets</b>	<u>\$ 11,066,648</u>	<u>\$ (110,368)</u>	<u>\$ 5,369,231</u>	<u>\$ 5,587,049</u>

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE-WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE E - NOTES PAYABLE**

<p>Department of Economic and Community Development of the State of Tennessee commencing November 17, 2005 with an initial interest rate of 1.00% for the first 59 months, 2.00% for the next 59 months and 3.00% for the last 116 months of the note. The note is secured by a deed of trust on the property which is leased to Superior Walls of Tennessee, Inc., referred to in Note D. Monthly payments on this note range from \$3,371 to \$3,804.</p>	\$ 663,301
<p>Caney Fork Electric Cooperative, Inc. commencing July 3, 2000, collateralized by a deed of trust for real estate located in Warren County, payable \$ 3,438 monthly with interest at a rate of 0%</p>	123,750
<p>Department of Economic and Community Development of the State of Tennessee and Warren County commencing October 11, 2005, guaranteed by Ronald J. Wilson, President and CEO of Morrison Tool and Fab, Inc. payable monthly with an initial interest rate of 1.25% graded up to an ultimate rate of 3.25%. This note is secured by a deed of trust on the property which is leased to Morrison Tool and Fab, Inc. referred to in Note D. Monthly payments range from \$3,463 to \$3,905.</p>	661,181
<p>Caney Fork Electric Cooperative, Inc. commencing February 2, 2007, collateralized by a deed of trust and assignment of lease for real estate located in Warren County, payable \$ 2,652 monthly with interest at a rate of 5.0%</p>	206,375
<p>Caney Fork Electric Cooperative, Inc. commencing February 2, 2007, collateralized by a deed of trust and assignment of lease for real estate located in Warren County, payable \$ 2,500 monthly with interest at a rate of 0.0%</p>	232,500
<p>Caney Fork Electric Cooperative, Inc. commencing November 1, 2008 collateralized by a deed of trust and assignment of lease for real estate located in Warren County, payable \$ 6,852 monthly with interest at a rate of 0.0%</p>	678,333
<p>Tennessee Valley Authority commencing May 15, 2008 collateralized by a deed of trust for real estate located in Warren County, payable \$ 8,845 monthly with interest at a rate of 4.0%</p>	788,683
<p>Tennessee Valley Authority commencing April 1, 2003 collateralized by a deed of trust for real estate located in Warren County and a receivable from K &amp; K Properties, payable \$ 6,680 monthly with interest at a rate of 2.75%</p>	356,180
<p>Cumberland Area Investment Corp commencing May, 2008 collateralized by a deed of trust for real estate located in Warren County, payable \$ 2,295 monthly with interest at a rate of 4.5%</p>	283,215
<p>First National Bank of McMinnville commencing April 1, 2003 collateralized by a deed of trust for real estate located in Warren County and a receivable from K &amp; K Properties, payable \$ 11,106 monthly with interest at a rate of 6.0%</p>	549,439
<b>TOTAL</b>	\$ 4,542,957

See Independent Auditors' Report.

**THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE-WARREN COUNTY, TENNESSEE**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

**NOTE E - NOTES PAYABLE - continued**

The notes mature as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 501,482	\$ 104,597	\$ 606,079
2010	522,283	92,138	614,421
2011	538,995	78,862	617,857
2012	506,270	72,147	578,417
2013	468,499	56,447	524,946
2014-2018	1,266,718	174,124	1,440,842
2019-2023	488,289	79,780	568,069
2024-2028	250,421	11,561	261,982
	<u>\$ 4,542,957</u>	<u>\$ 669,656</u>	<u>\$ 5,212,613</u>

**NOTE F - LEASE FOR FACILITIES**

The Board rents its office facilities from the McMinnville - Warren County Chamber of Commerce for functional operations. The rent is \$ 1,350 monthly and expires July 31, 2008.

**NOTE G - OTHER LEASES**

The Board has entered into a lease agreement with Sunbeam Products, Inc., operating as Oster Professional Products. The leased property is the Sunbeam-Oster building located in McMinnville, Tennessee, and the lease term began on July 1, 2002 and will continue for a period of five years ending July 1, 2008. Sunbeam Products, Inc. pays \$ 28,500 annually to the Board for use of the property during the term of the lease.

The Board has renewed a lease agreement with Metal Products Company. The leased property is the Metal Products Company building located in McMinnville, Tennessee, and the lease term began on February 7, 2007 and will continue for a period of six years ending February 7, 2013. Metal Products Company pays \$ 1,000 monthly for the use of the property to the Board during the term of the lease.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE-WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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NOTE G - OTHER LEASES - continued

Future minimum rental receipts under the above leases are scheduled as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2009	\$ 12,000
2010	12,000
2011	12,000
2012	12,000
2013	8,000
	<u>56,000</u>
	<u>\$ 56,000</u>

NOTE H - RELATED PARTY TRANSACTIONS

The Board has entered into a sale-leaseback transaction with K & K Properties, as described in Note L. Currently, several of the Board's directors have a financial interest in K & K Properties.

NOTE I - NET ASSETS

Net assets represent the difference between assets and liabilities. The net assets are as follows:

Invested in capital assets, net of related debt:	
Net property and equipment	\$ 5,587,049
Less: Notes payable	<u>4,542,957</u>
	<u>1,044,092</u>
Restricted for capital expenditures	<u>138,365</u>
Unrestricted	<u>7,170,738</u>
	<u>\$ 8,353,195</u>

NOTE J - ADVERTISING

Advertising in the amount of \$ 5,161 was expensed for the year.

NOTE K - CONCENTRATION OF CREDIT RISKS

Accounts receivable are concentrated in the City of McMinnville and Warren County, Tennessee.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE-WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE L - CAPITAL LEASE RECEIVABLES**

The Board has entered into a lease agreement with K & K Properties for industrial property located in McMinnville, Tennessee. This property was purchased by the Board, on March 3, 2003. The property was purchased from K & K Properties for the purpose of completing a sale-leaseback transaction. The lease was financed by K & K Properties through First National Bank in McMinnville, Tennessee, and includes monthly payments totaling \$ 17,786 beginning April 2003 and ending March 2013. At termination, the lease includes a bargain purchase clause for K & K Properties. If K & K Properties defaults on the loan, the Board would be liable for the remaining balance owed to the bank.

The Board has entered into a capital lease agreement with Superior Walls of East Tennessee, Inc. for a new building constructed on Highway 70S in Warren County, Tennessee. The lease term began on June 1, 2007 and will continue for a period of 20 years. Superior Walls of East Tennessee, Inc. will pay \$ 3,371 per month for the first 60 months (including interest at a rate of 1.0%), \$3,625 for the next 60 months (including interest at a rate of 2.0%) and \$ 3,804 for the remaining 120 months (including interest at a rate of 3.0%) to the Department of Economic and Community Development of the State of Tennessee on behalf of the Board to be applied to the note payable referred to in note E. Superior Walls of East Tennessee, Inc. has an option to purchase the leased property for an amount equal to the total of all unpaid installments under the note associated with the property plus an additional \$ 250.

The Board has entered into a capital lease agreement for the the sale of a manufacturing facility in Morrison, Tennessee to Morrison Tool & Fab., Inc. The lease term began on March 1, 2007 and will continue for 15 years. Under the terms of the lease, monthly payments are \$ 25,850 including interest at a rate of .25%. Morrison Tool & Fab, Inc. has the option to purchase the facility for \$ 1 at the end of the lease.

Future minimum capital lease receivables are as follows:

Fiscal year ending June 30,	Superior Walls of East Tennessee, Inc.	Morrison Tool & Fab, Inc.	K & K Properties	Amount
2009	\$ 33,975	\$ 275,774	\$ 174,655	\$ 484,404
2010	34,316	301,567	182,729	518,612
2011	34,445	302,322	191,522	528,289
2012	32,581	303,078	200,758	536,417
2013	33,239	303,837	155,955	493,031
Beyond five years	<u>494,745</u>	<u>2,380,665</u>	<u>          </u>	<u>2,875,410</u>
<b>TOTAL</b>	<b>\$ <u>663,301</u></b>	<b>\$ <u>3,867,243</u></b>	<b>\$ <u>905,619</u></b>	<b>\$ <u>5,436,163</u></b>

**NOTE M - EXPENDITURES IN EXCESS OF APPROPRIATIONS**

Expenditures exceeded appropriations in the General Fund by \$273,536.

**NOTE N - FUND BALANCE RESTATED**

Fund balance at July 1, 2007, was reduced by \$ 5,960,972 due to capital leases that had been incorrectly reported in income in prior years.

See Independent Auditors' Report.

**OTHER SUPPLEMENTARY INFORMATION**

THE INDUSTRIAL DEVELOPMENT BOARD OF McMINNVILLE-WARREN COUNTY, TENNESSEE

SCHEDULE OF LONG TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS

June 30, 2008

Year Ended June 30,	Caney Fork Electric Cooperative Non-Interest Bearing Loans			Caney Fork Electric Cooperative		
	Principal	Principal	Principal	Principal	Interest	Total
2009	\$ 41,250	\$ 27,500	\$ 82,222	\$ 20,125	\$ 9,043	\$ 29,168
2010	41,250	30,000	82,222	23,030	8,790	31,820
2011	41,250	30,000	82,222	24,208	7,611	31,819
2012		30,000	82,222	25,447	6,373	31,820
2013		30,000	82,222	26,749	5,071	31,820
2014		30,000	82,222	28,117	3,702	31,819
2015		30,000	82,222	29,556	2,264	31,820
2016		25,000	82,222	29,143	752	29,895
2017			20,557			
<b>TOTAL</b>	<b>\$ 123,750</b>	<b>\$ 232,500</b>	<b>\$ 678,333</b>	<b>\$ 206,375</b>	<b>\$ 43,606</b>	<b>\$ 249,981</b>

Year Ended June 30,	TN Dept of Economic & Community Development			TN Dept of Economic & Community Development		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 30,675	\$ 7,417	\$ 38,092	\$ 33,975	\$ 6,478	\$ 40,453
2010	33,866	7,688	41,554	34,316	6,137	40,453
2011	36,531	8,207	44,738	34,445	6,261	40,706
2012	32,388	12,270	44,658	32,581	10,914	43,495
2013	33,124	11,534	44,658	33,239	10,256	43,495
2014	33,877	10,781	44,658	33,910	9,585	43,495
2015	34,648	10,010	44,658	34,594	8,901	43,495
2016	34,992	10,215	45,207	35,143	8,531	43,674
2017	34,658	12,197	46,855	34,382	11,623	46,005
2018	35,801	11,054	46,855	35,427	10,217	45,644
2019	36,982	9,873	46,855	36,505	9,140	45,645
2020	38,202	8,653	46,855	37,615	8,030	45,645
2021	39,462	7,393	46,855	38,759	6,886	45,645
2022	40,764	6,091	46,855	39,938	5,707	45,645
2023	42,109	4,746	46,855	41,153	4,492	45,645
2024	43,498	3,357	46,855	42,405	3,240	45,645
2025	44,933	1,922	46,855	43,694	1,950	45,644
2026	34,671	471	35,142	41,220	621	41,841
<b>TOTAL</b>	<b>\$ 661,181</b>	<b>\$ 143,879</b>	<b>\$ 805,060</b>	<b>\$ 663,301</b>	<b>\$ 128,969</b>	<b>\$ 792,270</b>

THE INDUSTRIAL DEVELOPMENT BOARD OF McMINNVILLE-WARREN COUNTY, TENNESSEE

SCHEDULE OF LONG TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS

June 30, 2008

Year Ended June 30,	Cumberland Area Investment Corporation			Tennessee Valley Authority		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 15,104	\$ 12,436	\$ 27,540	\$ 75,976	\$ 30,168	\$ 106,144
2010	15,798	11,742	27,540	79,072	27,072	106,144
2011	16,524	11,016	27,540	82,293	23,851	106,144
2012	17,283	10,257	27,540	85,591	20,553	106,144
2013	18,077	9,463	27,540	89,133	17,011	106,144
2014	18,907	8,633	27,540	92,765	13,380	106,145
2015	19,776	7,764	27,540	96,544	9,600	106,144
2016	20,684	6,855	27,539	100,464	5,680	106,144
2017	21,634	5,905	27,539	86,845	1,564	88,409
2018	22,628	4,911	27,539			
2019	23,668	3,872	27,540			
2020	24,755	2,784	27,539			
2021	25,893	1,647	27,540			
2022	22,484	466	22,950			
<b>TOTAL</b>	<b>\$ 283,215</b>	<b>\$ 97,751</b>	<b>\$ 380,966</b>	<b>\$ 788,683</b>	<b>\$ 148,879</b>	<b>\$ 937,562</b>

Year Ended June 30,	Tennessee Valley Authority			First National Bank		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 71,257	\$ 8,903	\$ 80,160	\$ 103,398	\$ 30,152	\$ 133,550
2010	73,242	6,918	80,160	109,487	23,791	133,278
2011	75,282	4,878	80,160	116,240	17,038	133,278
2012	77,372	2,788	80,160	123,386	8,992	132,378
2013	59,027	677	59,704	96,928	2,435	99,363
<b>TOTAL</b>	<b>\$ 356,180</b>	<b>\$ 24,164</b>	<b>\$ 380,344</b>	<b>\$ 549,439</b>	<b>\$ 82,408</b>	<b>\$ 631,847</b>

**THE INDUSTRIAL DEVELOPMENT BOARD OF  
McMINNVILLE - WARREN COUNTY, TENNESSEE**

**SCHEDULE OF INSURANCE IN FORCE**

June 30, 2008

The Board had the following insurance coverage in force at June 30, 2008:

<u>Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date</u>
<b>Property and Crime:</b>		
Personal property	\$ 32,000	August 29, 2008
Employee dishonesty	100,000	
Forgery, theft, computer fraud	100,000	
<b>Workman's Compensation</b>	<b>Statutory</b>	<b>August 29, 2008</b>
<b>General Liability:</b>		<b>August 29, 2008</b>
Bodily injury	250,000 per incident 600,000 aggregate	
Catastrophic medical	1,000,000	
Accidental medical payments	1,000 per incident 10,000 aggregate	
Fire	85,000	
Impounded property	85,000	
Errors and omissions	1,000,000	
<b>Automobile Liability:</b>		<b>August 29, 2008</b>
Bodily injury	250,000 per incident 600,000 aggregate	
Property damage	85,000	
Catastrophic medical	1,000,000	
Medical payments	1,000 per incident 10,000 aggregate	
<b>Uninsured motorist:</b>		
Bodily injury	250,000	
Property damage	85,000	
Comprehensive & collision	per schedule	

**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***

Board of Directors  
The Industrial Development Board of McMinnville-Warren County, Tennessee  
McMinnville, Tennessee

We have audited the accompanying financial statements of The Industrial Development Board of McMinnville-Warren County, Tennessee, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 15, 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 Industrial Development Board of McMinnville-Warren County, Tennessee's internal control over financial reporting as a basis for designing 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 Industrial Development Board of McMinnville-Warren County, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Industrial Development Board of McMinnville-Warren County, Tennessee's internal control over financial reporting.

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 Industrial Development Board of McMinnville-Warren County, Tennessee'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 Industrial Development Board of McMinnville-Warren County, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies listed as item 07-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

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 Industrial Development Board of McMinnville-Warren County, Tennessee's internal control.

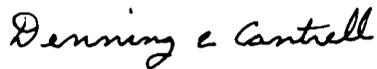
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify 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 The Industrial Development Board of McMinnville-Warren County, Tennessee'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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, shown as item 08-1 in the schedule of findings and responses.

The Industrial Development Board of McMinnville-Warren County, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Industrial Development Board of McMinnville-Warren County, Tennessee's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and Tennessee's Comptroller's office, and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

McMinnville, Tennessee  
October 15, 2008

THE INDUSTRIAL DEVELOPMENT BOARD OF  
MCMINNVILLE-WARREN COUNTY, TENNESSEE  
FINDINGS AND RESPONSES  
June 30, 2008

Audit Findings and Responses

07-1 Finding - The Board does not have the proper segregation of duties necessary for effective control over financial reporting.

Recommendation - It does not appear to be practical for the Board to hire additional employees at this time.

Response - "During the period ending June 30, 2008 the Board segregated financial reporting as much as possible with the limited staff. Employees making deposits are separated from employees writing checks. It is not practical for us to hire an additional employee only for the reason of further segregation."

08-1 Finding - Expenditures exceeded appropriations in the General Fund by \$273,536.

Recommendation - The budget should be appropriately amended to ensure expenditures do not exceed appropriations.

Response - "We concur with the auditors' recommendation."

Finding 07-1 was mentioned in last year's report.