

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2009

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
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, 2009, 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, 2009, 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, 2009, 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 December 15, 2009, 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 should be considered in assessing the results of our audit.

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 other information 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, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stone Rudolph & Henry, PLC

December 15, 2009

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2009

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, 2009. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The Board was able to make the single largest industrial announcement in the history of Tennessee: A \$1.2 billion polysilicon plant (Hemlock Semiconductor).
- The Board's total net assets decreased \$2,811,582 as a result of this year's activities. This decrease was the result primarily of the Board's success at recruiting two new industries to the region.
- The Board incurred industrial park development expenses of \$7.6 million. (Nearly all of this was funded by State grants)
- Capital contributed by the County enabled the purchase of the \$20+ million Commerce Park and its subsequent sale.
- This year's recruitment efforts resulted in two new industry announcements and one major expansion:
 - Hemlock Semiconductor (est. \$1.2 billion investment, 500 jobs)
 - Avanti Manufacturing (est. \$13 million investment, 30 jobs)
 - Conwood Company expansion (est. \$8 million, 45 jobs)
- The County provided the full operations funding for the IDB for fiscal 2008-2009.

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 Foundation. For fiscal year 2009, Aspire spent approximately \$246,000 toward economic development efforts, with more than \$53,000 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.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2009

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 you can see in the table below, total net assets decreased by more than \$2.8 million. By far, the most significant reason for this change was related to the sale of Commerce Park to Hemlock Semiconductor, LLC. Over \$2.3 million in net property value and nearly \$123,000 in site development costs were contributed in this fiscal year. There were substantial changes in the Board's current assets and liabilities as it cash-flowed millions of dollars worth of State grant funded site development work toward a November, 2009 completion date.

The Board also added to its capital assets a \$2 million facility constructed for lease to the state to serve as the Tennessee Rehabilitation Center. This facility was constructed through the use of a new note included in the liabilities section.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF NET ASSETS (IN THOUSANDS)
JUNE 30, 2009 AND 2008
TABLE A-1

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
<u>ASSETS</u>				
Current Assets	\$ 4,480.2	\$ 2,439.4	\$ 2,040.8	83.7%
Notes Receivable	4,947.6	233.3	4,714.3	2020.7%
Capital Assets (Net)	2,029.7	53.0	1,976.7	3729.6%
Property Held for Sale or Lease	14,330.4	16,682.6	(2,352.2)	-14.1%
<u>TOTAL ASSETS</u>	<u>\$ 25,787.9</u>	<u>\$ 19,408.3</u>	<u>\$ 6,379.6</u>	32.9%
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities	\$ 8,216.5	\$ 959.8	\$ 7,256.7	756.1%
Non-Current Liabilities	2,204.3	269.9	1,934.4	716.7%
<u>TOTAL LIABILITIES</u>	10,420.8	1,229.7	9,191.1	747.4%
Net Assets Invested in Capital Assets	210.9	53.0	157.9	297.9%
Unrestricted Net Assets	15,156.2	18,125.6	(2,969.4)	-16.4%
<u>TOTAL NET ASSETS</u>	<u>15,367.1</u>	<u>18,178.6</u>	<u>(2,811.5)</u>	-15.5%
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 25,787.9</u>	<u>\$ 19,408.3</u>	<u>\$ 6,379.6</u>	32.9%

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2009

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 in prior years, however in 2009 the Board received an increase to offset a substantial decline in Aspire Foundation grant revenues and to upgrade an existing support position. As compared to 2008, total revenues increased significantly due mostly to the large volume of state grants received to help fund site and rail development efforts for Hemlock Semiconductor, Avanti Manufacturing, and Florim, USA (\$7.6 million, shown as Industrial Park Development on the following page). In addition, the Board recognized a considerable gain related to the sale of property to Avanti Manufacturing (\$366k, offset substantially by obligations to the City and County included within the Cost of Land Sold line).

The Board's overall expenses increased considerably as well. Operating expenses increased by \$114,000 due in large part to an increase in industrial park maintenance requirements, an increase in prospect activity, and an upgrade to an existing staff position. More notably, in addition to the development costs and the cost of land sold to Avanti (both referred to above), the Board recorded the net cost of new Commerce Park land sold to Hemlock Semiconductor (\$15.4 million). The resulting negative change in net assets was largely offset by contributions from the City and County to arrive at this year's negative Change in Net Assets of \$2.8 million.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2009

CLARKSVILLE-MONTGOMERY COUNTY
 INDUSTRIAL DEVELOPMENT BOARD
 CONDENSED STATEMENTS OF ACTIVITIES (IN THOUSANDS)
 JUNE 30, 2009 AND 2008
 TABLE A-2

	2009	2008	Dollar Change	Percent Change
Montgomery County Subsidy	\$ 537.7	\$ 467.7	\$ 70.0	15.0%
Lease and Other Income	196.1	176.1	20.0	11.3%
Gain from Assets Sold	366.1	203.0	163.1	80.4%
ASPIRE Clarksville Grants	53.0	112.6	(59.6)	-52.9%
State Grants	5,298.0	-	5,298.0	n/a
Non-Operating Revenues	24.1	37.1	(13.0)	-35.1%
Total Revenues	<u>6,475.0</u>	<u>996.5</u>	<u>5,478.5</u>	549.8%
Operating Expenses	688.5	574.3	114.2	19.9%
Interest Expense	28.6	10.6	18.0	169.8%
Industrial Park Development	7,567.6	20.8	7,546.8	36282.7%
Cost of Land Sold	16,044.6	209.6	15,835.0	7554.9%
Total Expenses	<u>24,329.3</u>	<u>815.3</u>	<u>23,514.0</u>	2884.1%
Change in Net Assets	(17,854.3)	181.2	(18,035.5)	-9951.9%
Contributions from City & County	15,042.7	416.4	14,626.3	3512.2%
Net Assets - Beginning	<u>\$ 18,178.6</u>	<u>\$ 17,580.9</u>	<u>597.7</u>	3.4%
Net Assets - Ending	<u>\$ 15,367.0</u>	<u>\$ 18,178.6</u>	<u>\$ (2,811.6)</u>	-15.5%

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 14% over budget due in large part to unbudgeted expenses

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2009

surrounding the two industrial announcements in this reporting period. These expense overages were offset somewhat by favorable operating revenue variances (3%).

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED BUDGETARY COMPARISON SCHEDULE (IN THOUSANDS)
JUNE 30, 2009
TABLE A-3

	Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenues			
County Funding	\$ 537.7	\$ 537.7	\$ -
Other Revenue	242.0	220.2	(21.8)
Gain from Sale of Assets	-	366.1	366.1
ASPIRE Clarksville Grants	53.0	53.0	-
State Grants	-	5,298.0	5,298.0
Total Revenues	<u>832.7</u>	<u>6,475.0</u>	<u>5,642.3</u>
Expenses			
Operating Expenses	629.1	717.1	(88.0)
Project Expenses	-	23,612.2	(23,612.2)
Total Expenses	<u>629.1</u>	<u>24,329.3</u>	<u>(23,700.2)</u>
Revenue In Excess of Expense	<u>\$ 203.6</u>	<u>\$ (17,854.3) *</u>	<u>\$ (18,057.9)</u>

* before contributions from City & County of \$15M and budgeted capital expenditures toward notes payable of \$203,619.

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

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2009

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
JUNE 30, 2009
LONG TERM DEBT
TABLE A-4

<u>Fiscal</u> <u>Year</u>	<u>Note</u> <u>Principal</u>
2009	\$ 70,025
2010	\$ 165,735
2011	\$ 175,003
2012	\$ 184,790
2013	\$ 185,249
2014	\$ 159,743

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, until 2009, had been mostly constant. The County, having assumed full operational funding of the IDB since 2005, approved a 16% increase for 2010. It is hoped that recent industrial announcements have 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, 2009

	Governmental Fund	Adjustments (Note 7)	Statement of Net Assets
<u>ASSETS</u>			
Cash in Banks	\$ 1,296,207		\$ 1,296,207
Certificates of Deposit	564,243		564,243
Accounts Receivable	815,488		815,488
Grant Receivable	53,000		53,000
State Grants Receivable	1,362,209		1,362,209
Notes Receivable	4,947,586		4,947,586
Unbilled Reimbursable Costs	97,088		97,088
Property Held for Sale or Lease	14,330,420		14,330,420
Capital Assets:			
Land and Other Non-Depreciated Assets		\$ 37,641	37,641
Other Capital Assets - Net of Accumulated Depreciation		1,992,085	1,992,085
Construction in Progress	274,907		274,907
Due from Related Party	17,005		17,005
Total Assets	\$ 23,758,153	\$ 2,029,726	\$ 25,787,879
<u>LIABILITIES</u>			
Land Sales Options	\$ 21,700		\$ 21,700
Accounts Payable	2,932,776		2,932,776
Accrued Liabilities	525,340		525,340
Due to Related Party	22,446		22,446
Due to Montgomery County	4,714,286		4,714,286
Noncurrent Liabilities			
Due within one year	-	\$ 165,735	165,735
Due in more than one year	-	2,038,602	2,038,602
Total Liabilities	8,216,548	2,204,337	10,420,885
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balance:			
Reserved for:			
Property Held for Sale or Lease	14,330,420		
Construction in Progress	274,907		
Construction Retainage Held	184,723		
Noncurrent Lease Obligation	24,933		
Unreserved	726,622	(174,611)	
Total Fund Balance	15,541,605	(174,611)	
Total Liabilities and Fund Balance	\$ 23,758,153		
Net Assets:			
Invested in Capital Assets, net of related debt			210,927
Unrestricted			15,156,067
Total Net Assets		\$ 2,029,726	\$ 15,366,994

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, 2009

	Governmental Fund	Adjustments (Note 7)	Statement of Activities
<u>REVENUES:</u>			
Lease and Other Income	\$ 196,098		\$ 196,098
Montgomery County Subsidy	537,700		537,700
Net Gains from Sales of Land	366,071		366,071
State Grants	5,297,968		5,297,968
Grant from Aspire Clarksville	53,000		53,000
Total Revenues	<u>6,450,837</u>	<u>-</u>	<u>6,450,837</u>
<u>OTHER FINANCING SOURCES:</u>			
Proceeds from Notes Payable	2,004,465	\$ (2,004,465)	-
Investment Earnings	24,088		24,088
Total Other Financing Sources	<u>2,028,553</u>	<u>(2,004,465)</u>	<u>24,088</u>
Total Revenues and Other Financing Sources	<u>8,479,390</u>	<u>(2,004,465)</u>	<u>6,474,925</u>
<u>EXPENDITURES/EXPENSES</u>			
Current:			
Advertising	19,809		19,809
Conferences and Trade Shows	8,369		8,369
Contributions	15,000		15,000
Depreciation	-	19,633	19,633
Dues and Membership	10,961		10,961
Employee Pensions and Benefits	39,507		39,507
Entertainment	28,978		28,978
Expenses for Sales of Land	16,044,645		16,044,645
Loss on Sale	-	349	349
Insurance	4,175		4,175
Miscellaneous	9,069		9,069
Office and Data Processing Equipment	3,327		3,327
Office Supplies	2,151		2,151
Payroll Taxes	21,410		21,410
Postal Charges	2,754		2,754
Printing and Stationery	1,061		1,061
Professional Services	37,120		37,120
Project	7,567,562		7,567,562
Public Relations	1,950		1,950
Rent	19,246		19,246
Repair and Maintenance	35,988		35,988
Salaries	310,332		310,332
Subscriptions	924		924
Supplies	3,226		3,226
Telephone	8,169		8,169
Travel	49,112		49,112
Utilities	19,721		19,721
Vehicle	16,071		16,071

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, 2009

	<u>Governmental Fund</u>	<u>Adjustments (Note 7)</u>	<u>Statement of Activities</u>
Debt Service:			
Principal	70,026	(70,026)	-
Interest	28,593		28,593
Capital Outlays	1,996,658	(1,996,658)	-
Total Expenditures/Expenses	<u>26,375,914</u>	<u>(2,046,702)</u>	<u>24,329,212</u>
Excess of Expenditures over Revenues before Contributions	(17,896,524)	42,237	(17,854,287)
Contributions from City and County	<u>15,042,705</u>	-	<u>15,042,705</u>
Change in Net Assets	(2,853,819)	42,237	(2,811,582)
Fund Balance/Net Assets:			
Beginning of the Year	<u>18,395,424</u>	-	<u>18,178,576</u>
End of the Year	<u>\$ 15,541,605</u>	<u>\$ -</u>	<u>\$ 15,366,994</u>

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.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 is exposed to concentration of credit risk by placing its deposits in financial institutions. The Board has mitigated this risk because the bank balance in excess of the FDIC limit is collateralized by the State of Tennessee bank collateral pool. 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.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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.

Date of Management's Review

Subsequent events have been evaluated through December 15, 2009, which is the date the financial statements were available to be issued.

2. Cash and Cash Equivalents

Custodial credit risk for the Board's deposits is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As required by state statutes, the Board's policy is to require that financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral of 105% for deposits in excess of federal depository insurance. The collateral is required to be held by the Board or its agent in the Board's name.

At June 30, 2009, cash in banks and certificates of deposits totaling \$1,860,450 in the financial statements were represented by bank balances totaling \$3,895,433, 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, 2009. The following is a summary of the Board's certificates of deposit at June 30, 2009, all of which were insured by the FDIC or the State of Tennessee Collateral Pool.

	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of Deposit	\$ 564,243	\$ 564,243

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

4. Notes Receivable from Sale of Land

The Three C Group, LLC note is a non-interest bearing note receivable, secured by a subordinate deed of trust on the eight acres sold and improvements. The Hemlock Semiconductor, LLC (HSC) note is a non-interest bearing note receivable received in exchange for land.

	June 30,	
	2009	2008
Three C Group, LLC note	\$ 233,300	\$ 233,300
Hemlock Semiconductor, LLC note	4,714,286	-
	\$ 4,947,586	\$ 233,300

The Three C Group, LLC 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. The HSC note is due in six annual installments of \$785,714.29 with the last payment occurring on January 1, 2015.

5. Capital Assets

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

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital Assets				
Equipment	\$ 53,301	\$ 37,289	\$ 16,093	\$ 74,497
Vehicles	28,282	36,790	28,282	36,790
Leasehold Improvements	48,793	-	-	48,793
Buildings	-	1,883,553	-	1,883,553
Land	-	37,641	-	37,641
Software	-	1,385	-	1,385
	\$ 130,376	\$ 1,996,658	\$ 44,375	\$ 2,082,659

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Accumulated Depreciation				
Equipment	\$ 44,437	\$ 4,442	\$ 15,745	\$ 33,134
Vehicles	28,282	3,975	28,282	3,975
Leasehold Improvements	4,608	3,253	-	7,861
Buildings	-	7,848	-	7,848
Software	-	115	-	115
	\$ 77,327	\$ 19,633	\$ 44,027	\$ 52,933

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

5. Capital Assets (Cont'd)

Land is not depreciated or amortized. Capital assets with net book values totaling \$1,935,550 were pledged as collateral for debt at June 30, 2009.

6. Construction in Progress

A summary of changes in construction in progress follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Rail to Park Expansion	\$ 175,804	\$ 25,602	\$ -	\$ 201,406
Teeter Property	118,057	17,710,392	17,828,449	-
Kimbrough Property	32,000	-	32,000	-
Hagewood Property	45,456	103,551	149,007	-
Ladd Property	-	14,662	14,662	-
Rehab Center	295,582	1,633,280	1,928,862	-
Speculative Building	45,636	27,865	-	73,501
Pad-Ready Site	394,700	696,021	1,090,721	-
	<u>\$ 1,107,235</u>	<u>\$ 20,211,373</u>	<u>\$ 21,043,701</u>	<u>\$ 274,907</u>

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 and other debt among the liabilities of the Board.

Cost of capital assets	\$ 2,082,659
Less: Accumulated depreciation	<u>52,933</u>
Net capital assets	<u>\$ 2,029,726</u>

Debt related to capital assets:	
Current portion of note payable	\$ 121,738
Long-term portion of note payable	<u>1,697,061</u>
Total debt related to capital assets	<u>1,818,799</u>

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

7. Adjustments to Governmental Fund Statements (Cont'd)

Other debt:	
Current portion of note payable	43,997
Long-term portion of note payable	<u>341,541</u>
Total other debt	<u>385,538</u>
 Total debt	 <u>\$ 2,204,337</u>

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	\$ (2,004,465)
Capital outlays	1,996,658
Depreciation expense	(19,633)
Debt service principal	70,026
Loss on sale	<u>(349)</u>
	<u>\$ 42,237</u>

8. Property Held for Sale or Lease

		<u>At Cost</u>
Land-Park Expansion	893.210 acres available	\$ 12,194,757
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
Homemax Property	2.000 acres available	13,965
Pad-Ready Site	40.000 acres available	<u>1,636,831</u>
Total		<u>\$ 14,330,420</u>

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

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

9. Land Sale Options

The Board had three land sale options from prospective buyers outstanding at June 30, 2009. 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, with \$7,200 additional consideration received in fiscal year 2009. 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.

On August 1, 2008, the Board entered into a letter of agreement in which a developer would 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 June 10, 2009, the Board extended the letter of agreement for one year.

10. Land Purchase Options

The Board exercised four land purchase options with sellers during the fiscal year ended June 30, 2009. The first option, granted in fiscal year 2004, allowed 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. This option was exercised on August 28, 2008, for \$17,674,912. The funding for this purchase was provided by bonds issued by Montgomery County. On January 30, 2009, this land was leased to HSC in exchange for a \$5,500,000 non-interest bearing note receivable (see Note 4) pursuant to a payments-in-lieu-of-tax (PILOT) agreement.

The second option, purchased in fiscal year 2005, allowed 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 was exercised on January 30, 2009, for an option price of \$6,239,072. The funding for this purchase was provided by HSC pursuant to a PILOT agreement.

The third option, purchased in fiscal year 2008, allowed 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 was extended with monthly payments of \$25,000 from September to December 31, 2008 and was exercised on January 30, 2009, for an option price of \$9,575,000. The funding for this purchase was provided by HSC pursuant to a PILOT agreement.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

10. Land Purchase Options (Cont'd)

The fourth option, purchased in fiscal year 2008, allowed 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 expired December 31, 2008, and was renewed for one month for additional consideration of \$3,000. This option was exercised on January 30, 2009, for an option price of \$1,699,200. The funding for this purchase was provided by HSC pursuant to a PILOT agreement.

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 \$18,698 for the year ended June 30, 2009. The Board has designated funds in the amount of the long-term portion of the operating lease obligation.

Future payments on lease obligations are as follows:

2010	\$ 18,700
2011	18,700
2012	<u>6,233</u>
	<u>\$ 43,633</u>

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 lease contract began January 1, 2009 and ends December 31, 2020. Under the terms of the lease, the State makes 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.

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

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2010	\$ 258,513
2011	258,513
2012	258,513
2013	258,513
2014	258,513
2015 and Thereafter	1,680,335

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

13. Long-Term Debt

Long-term debt consists of the following:

	2009	2008
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.	\$ 140,227	\$ 172,982
Note payable bearing interest at 5.5% secured by land and a building; principal and interest paid in monthly installments, maturing May 2021.	2,041,194	96,915
Note payable bearing interest at 3.9% secured by a vehicle; principal and interest are payable in monthly installments, maturing November 2013.	22,916	-
Total Long-Term Debt	2,204,337	269,897
Less Current Portion	165,735	33,610
Total Long-Term Debt Excluding Current Portion	\$ 2,038,602	\$ 236,287

Changes in long-term debt (including current portions) for the year ended June 30, 2009, were as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009	Estimated Amount Due in Year Ending June 30, 2010
Notes Payable	\$ 269,897	\$2,004,465	\$ 70,025	\$ 2,204,337	\$ 165,735

Future payments on notes payable are as follows:

Year Ending June 30,	Total Principal	Total Interest
2010	\$ 165,735	\$ 117,539
2011	175,003	108,272
2012	184,790	98,484
2013	185,249	88,127
2014	159,743	78,634
2015-2019	930,700	249,417
2020-2021	403,117	22,205
Total	\$ 2,204,337	\$ 762,678

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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, 2009 and 2008, contributions totaling \$17,507 and \$15,906, respectively, were paid and expensed by the Board. Employee contributions to the plan were \$19,491 and \$13,751 for years ended June 30, 2009 and 2008, 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, 2009 totaled \$92,225,859.

16. Related Party Transactions

The Board paid EDC \$233,465 for its share of EDC expenses during the year ended June 30, 2009. The Board had related party payables at June 30, 2009 totaling \$22,446, and related party receivables of \$17,005. Included in related party receivables at June 30, 2009 is \$17,000 that was advanced to the EDC to facilitate payment of routine Board expenses and is not expected to be collected within one year.

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.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

18. Commitments and Contingencies

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, 2009, there was an accrued liability of \$613,679 to the City and \$313,889 to the County for sales of land that took place during the fiscal years ended June 30, 2009 and 2008.

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, 2009, the Board had accrued a liability of \$340,618 for the rail spur connection with payments of \$44,322 paid to contractors to date.

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.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2009

<u>State Grantor/Program Title</u>	<u>Contract Period</u>	<u>Grant Number Or Pass Through Grantor's Contract Number</u>	<u>Accrued Receivable July 1, 2008</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2009</u>
<u>State of Tennessee Economic & Community Development</u>						
Community Development	08/30/06 - 06/30/11	GG-07-12830-00	\$ -	\$ -	\$ 88,706	\$ 88,706
Community Development	03/12/09 - 06/30/13	BC8311	-	3,797,521	4,636,871	839,350
Community Development	02/09/09 - 01/31/14	GG-09-273.00-00	-	138,238	567,380	429,142
Community Development	09/15/08 - 06/30/09	Z-09-217184-00	-	-	1,500	1,500
Total			\$ -	\$ 3,935,759	\$ 5,294,457	\$ 1,358,698

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
DIRECTORY OF BOARD MEMBERS AND MANAGEMENT (UNAUDITED)
JUNE 30, 2009

BOARD MEMBERS

	<u>Term Expires</u>
Tom Skrodzki, Chairman	June 2009
Bryce Sanders, Vice Chairman	June 2011
William S. Stuard, Past Chairman	June 2009
Mark Briggs, Secretary-Treasurer	June 2013
William B. Linscott	June 2011
Dr. Linda Rudolph	June 2013
James Eldon Thomas	June 2009
Susan Thomas	June 2013
Niesha Wolfe	June 2011

Richard Batson, Legal Counsel, Ex-Officio
Carolyn Bowers, County Mayor, Ex-Officio
James Chavez, Ex-Officio
Mike Evans, Ex-Officio
Dr. Tim Hall, Ex-Officio
Johnny Piper, City Mayor, Ex-Officio

MANAGEMENT

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



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

Board of Directors
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, 2009, which collectively comprise the Board's basic financial statements and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 deficiency described on the following page as item 2009-1 to be a significant deficiency in internal control over financial reporting. The Board did not resolve prior year finding number 2008-1. The finding recurred in the current year and is reported as finding 2009-1. The Board resolved prior-year finding number 2008-2 by performing the specific tasks outlined in our report dated October 21, 2008.

2009-1 (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). Ten adjusting entries and five reclassifying entries were required for the financial statements to be presented in conformity with GAAP. One of the ten adjusting entries was 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.

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, we consider the significant deficiency described above as item 2009-1 to be a material weakness.

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

December 15, 2009