

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2010

TABLE OF CONTENTS

Independent Auditor's Report1

Management's Discussion and Analysis (Unaudited)3

Audited Financial Statements:

 Governmental Fund Balance Sheet/Statement of Net Assets9

 Statement of Governmental Fund Revenues, Expenditures and
 Changes in Fund Balance/Statement of Activities.....10

 Notes to Financial Statements12

Other Information:

 Schedule of State Financial Assistance22

 Directory of Board Members and Management (Unaudited)23

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*24

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Clarksville-Montgomery County Industrial Development Board
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, 2010, 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.

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, 2010, 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 27, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial

reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 27, 2010

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2010

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, 2010. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The Board's total net assets increased \$195,312 as a result of this year's activities.
 - Most of this increase was used to pay down the principal of notes payable (as budgeted).
- The Board incurred industrial park development expenses of over \$31 million. (Nearly all of this was funded by State grants.)
 - A large majority of these expenditures were related to the Board's ongoing oversight of site improvements and infrastructure development for the Hemlock Semiconductor, LLC site.
- This year's recruitment and retention efforts resulted in a major new retail development and one major expansion:
 - Madison Street retail development with Publix as an anchor tenant (est. \$15M capital investment, est. \$1.8M annual tax revenues)
 - Akebono brake plant expansion (300 new jobs)
- The County provided the full operations funding for the IDB for fiscal 2009-2010.

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 2010, Aspire spent over \$428,000 toward economic development efforts, with more than \$132,000 representing direct industrial development efforts benefiting the Board's activities. Over time, increases or decreases in fund balance / net assets can show whether the Board 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, 2010

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 the Board 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 increased by more than \$195,000. This increase in net assets was from the operations of the Board and intended, in large part, to be used in reduction of principal on non-current liabilities (note the 8% reduction from FY09). By far, the most significant changes from the FY09 statement are related the Board's state-funded industrial site and infrastructure development. This work has largely no effect on the net assets of the Board but is evident in the amount of the Board's State Grants Receivable and Accounts Payable. At the end of FY10, this amount was over \$4.6 million more than FY09.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF NET ASSETS (IN THOUSANDS)
JUNE 30, 2010 AND 2009

TABLE A-1

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<u>ASSETS</u>				
Current Assets	\$ 9,133.6	\$ 4,480.2	\$ 4,653.4	103.9%
Notes Receivable	4,161.9	4,947.6	(785.7)	-15.9%
Capital Assets (Net)	2,310.8	2,029.7	281.1	13.9%
Property Held for Sale or Lease	14,330.4	14,330.4	0.0	0.0%
TOTAL ASSETS	<u><u>\$ 29,936.7</u></u>	<u><u>\$ 25,787.9</u></u>	<u><u>\$ 4,148.8</u></u>	16.1%
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities	\$ 12,499.0	\$ 8,216.5	\$ 4,282.5	52.1%
Non-Current Liabilities	1,875.4	2,204.3	(328.9)	-14.9%
TOTAL LIABILITIES	<u>14,374.4</u>	<u>10,420.8</u>	<u>3,953.6</u>	37.9%
Net Assets Invested in Capital Assets	210.9	210.9	0.0	0.0%
Unrestricted Net Assets	15,351.4	15,156.2	195.2	1.3%
TOTAL NET ASSETS	<u>15,562.3</u>	<u>15,367.1</u>	<u>195.2</u>	1.3%
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 29,936.7</u></u>	<u><u>\$ 25,787.9</u></u>	<u><u>\$ 4,148.8</u></u>	16.1%

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2010

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 below.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF ACTIVITIES (IN THOUSANDS)
JUNE 30, 2010 AND 2009
TABLE A-2

	2010	2009	Dollar Change	Percent Change
Montgomery County Subsidy	\$ 624.6	\$ 537.7	\$ 86.9	16.2%
Lease and Other Income	369.3	196.1	173.2	88.3%
Gain from Assets Sold	-	366.1	(366.1)	-100.0%
ASPIRE Clarksville Grants	132.6	53.0	79.6	150.2%
State Grants	31,438.1	5,298.0	26,140.1	493.4%
Non-Operating Revenues	19.5	24.1	(4.6)	-19.0%
Total Revenues	<u>32,584.1</u>	<u>6,474.9</u>	<u>26,109.2</u>	403.2%
Operating Expenses	748.3	688.4	59.9	8.7%
Interest Expense	109.7	28.6	81.1	283.6%
Industrial Park Development	31,597.0	7,567.6	24,029.4	317.5%
Cost of Land Sold	-	16,044.6	(16,044.6)	-100.0%
Total Expenses	<u>32,455.0</u>	<u>24,329.2</u>	<u>8,125.8</u>	33.4%
Change in Net Assets	129.1	(17,854.3)	17,983.4	-100.7%
Contributions from City and County	66.2	15,042.7	(14,976.5)	-99.6%
Net Assets - Beginning	15,367.0	18,178.6	(2,811.6)	-15.5%
Net Assets - Ending	<u>\$ 15,562.3</u>	<u>\$ 15,367.0</u>	<u>\$ 195.3</u>	1.3%

Operating revenue for the Board is generated almost entirely by the County Government. In 2010, the Board received an increase in County funding of nearly \$87,000 in addition to nearly \$80,000 more in Aspire Clarksville Grants to help implement the Global Business Development initiatives of the Board's Strategic Blueprint. The most noteworthy difference in the activities of the Board from 2009 is by far the amount of park development costs that were funded by State Grants. The most significant of these costs were those related to fulfilling site and infrastructure development obligations to Hemlock Semiconductor, LLC (\$30+million). Other state-funded park development projects included the completion of rail access to the Florim, USA site (\$560k) and sewer upgrades to the Conwood, LLC site (\$95k).

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2010

Other less noteworthy differences from 2009:

- The increase in Lease Income and Interest Expense related to the Board's first full year as landlord for the Tennessee Rehabilitation Center.
- No gain from the sale of land in 2010.
- The Contributions from the City and County toward rail development to connect the old and new industrial parks.

Overall, the increase in Net Assets was a bit less than anticipated for the year due to unfunded park development costs, however substantial enough to enable the Board to reduce the principal on long-term liabilities largely from this year's operations as planned.

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 by 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 6.6% under budget and operating revenues 3.7% over budget. These favorable variances were more than offset by unbudgeted (and Board approved) Project Expenses that were not funded by state grants.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2010

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED BUDGETARY COMPARISON SCHEDULE (IN THOUSANDS)
JUNE 30, 2010
TABLE A-3

	<u>Budgeted</u> <u>Amounts</u>	<u>Actual</u> <u>Amounts</u>	Variance Favorable (Unfavorable)
Revenues			
County Funding	\$ 624.6	\$ 624.6	\$ -
Other Revenue	331.5	388.8	57.3
ASPIRE Clarksville Grants	149.3	132.6	(16.7)
State Grants	<u>-</u>	<u>31,438.1</u>	<u>31,438.1</u>
Total Revenues	<u>1,105.4</u>	<u>32,584.1</u>	<u>31,478.7</u>
Expenses			
Operating Expenses	918.9	858.0	60.9
Project Expenses	<u>-</u>	<u>31,597.0</u>	<u>(31,597.0)</u>
Total Expenses	<u>918.9</u>	<u>32,455.0</u>	<u>(31,536.1)</u>
Revenue In Excess of Expense	<u>\$ 186.5</u>	<u>\$ 129.1</u> *	<u>\$ (57.4)</u>

* before contributions from City & County of \$66k and
budgeted capital expenditures toward notes payable of
\$186k.

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

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
JUNE 30, 2010
LONG TERM DEBT
TABLE A-4

<u>Fiscal</u> <u>Year</u>	<u>Note</u> <u>Principal</u>
2011	\$ 175,003
2012	\$ 184,790
2013	\$ 185,249
2014	\$ 159,743
2015	\$ 166,291

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Most companies structure strategic planning with the intent to increase sales to existing customers and to increase the overall customer base thereby producing a higher profit margin and a greater posture for sustained growth. A more appropriate goal for an entity such as the Industrial Development Board is to educate and encourage government officials of its efforts to encourage new and existing economic growth within our community. External factors such as City and County finances will have a great impact on the Board's growth and effectiveness. It is hoped that recent industrial and economic development announcements and a relative increase in prospect activity despite global economic conditions demonstrate 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, 2010

	Governmental Fund	Adjustments (Note 7)	Statement of Net Assets
<u>ASSETS</u>			
Cash in Banks	\$ 2,301,004		\$ 2,301,004
Certificates of Deposit	579,081		579,081
Accounts Receivable	38,895		38,895
Grant Receivable	117,689		117,689
State Grants Receivable	6,012,166		6,012,166
Notes Receivable	4,161,871		4,161,871
Unbilled Reimbursable Costs	66,279		66,279
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	-	1,930,186	1,930,186
Construction in Progress	342,999		342,999
Due from Related Party	18,478		18,478
Total Assets	\$ 27,968,882	\$ 1,967,827	\$ 29,936,709
<u>LIABILITIES</u>			
Accounts Payable	\$ 7,396,297		\$ 7,396,297
Due to Montgomery County	3,928,571		3,928,571
Unearned State Grant Revenue	516,163		516,163
Retainage Payable	433,029		433,029
Due to Related Party	27,282		27,282
Land Sales Options	22,700		22,700
Notes Payable:			
Due within one year	-	\$ 175,003	175,003
Due in more than one year	-	1,875,358	1,875,358
Total Liabilities	12,324,042	2,050,361	14,374,403
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balance:			
Reserved for:			
Property Held for Sale or Lease	14,330,420		
Construction in Progress	342,999		
Construction Retainage Held	421,354		
Noncurrent Lease Obligation	6,233		
Unreserved	543,834	(82,534)	
Total Fund Balance	15,644,840	(82,534)	
Total Liabilities and Fund Balance	\$ 27,968,882		
Net Assets:			
Invested in Capital Assets, net of related debt			153,861
Unrestricted			15,408,445
Total Net Assets		\$ 1,967,827	\$ 15,562,306

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, 2010

	Governmental Fund	Adjustments (Note 7)	Statement of Activities
<u>REVENUES:</u>			
Lease and Other Income	\$ 369,322		\$ 369,322
Montgomery County Subsidy	624,616		624,616
State Grants	31,438,031		31,438,031
Grant from Aspire Clarksville	132,586		132,586
Total Revenues	<u>32,564,555</u>	<u>-</u>	<u>32,564,555</u>
<u>OTHER FINANCING SOURCES:</u>			
Investment Earnings	19,495		19,495
Total Other Financing Sources	<u>19,495</u>	<u>-</u>	<u>19,495</u>
Total Revenues and Other Financing Sources	<u>32,584,050</u>	<u>-</u>	<u>32,584,050</u>
<u>EXPENDITURES/EXPENSES</u>			
Current:			
Advertising	45,884		45,884
Conferences and Trade Shows	11,516		11,516
Contributions	15,000		15,000
Depreciation	-	\$ 67,737	67,737
Dues and Membership	10,476		10,476
Employee Pensions and Benefits	41,068		41,068
Entertainment	14,513		14,513
Insurance	2,870		2,870
Office and Data Processing Equipment	3,283		3,283
Office Supplies	2,290		2,290
Payroll Taxes	23,209		23,209
Postal Charges	662		662
Printing and Stationery	812		812
Professional Services	44,700		44,700
Project	31,596,990		31,596,990
Public Relations	641		641
Rent	19,434		19,434
Repair and Maintenance	46,405		46,405
Salaries	325,806		325,806
Subscriptions	231		231
Supplies	745		745
Telephone	7,951		7,951
Travel	43,887		43,887
Utilities	19,108		19,108
Vehicle	97		97

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, 2010

	<u>Governmental Fund</u>	<u>Adjustments (Note 7)</u>	<u>Statement of Activities</u>
Debt Service:			
Principal	153,976	(153,976)	-
Interest	109,679		109,679
Capital Outlays	5,838	(5,838)	-
Total Expenditures/Expenses	<u>32,547,071</u>	<u>(92,077)</u>	<u>32,454,994</u>
Excess of Revenues over Expenditures before Contributions	36,979	92,077	129,056
Contributions from City and County	<u>66,256</u>	<u>-</u>	<u>66,256</u>
Change in Net Assets	103,235	92,077	195,312
Fund Balance/Net Assets:			
Beginning of the Year	<u>15,541,605</u>	<u>-</u>	<u>15,366,994</u>
End of the Year	<u>\$ 15,644,840</u>	<u>\$ -</u>	<u>\$ 15,562,306</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 and from grantors including Aspire Clarksville and the State of Tennessee.

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 27, 2010, 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 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, 2010, cash in banks and certificates of deposits totaling \$2,880,086 in the financial statements were represented by bank balances totaling \$3,684,005, 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, 2010. The following is a summary of the Board's certificates of deposit at June 30, 2010, 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	<u>\$ 579,081</u>	<u>\$ 579,081</u>

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,	
	2010	2009
Three C Group, LLC note	\$ 233,300	\$ 233,300
Hemlock Semiconductor, LLC note	3,928,571	4,714,286
	\$ 4,161,871	\$ 4,947,586

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 seven annual installments of \$785,714.29 with the last payment occurring on January 1, 2015.

5. Property Held for Sale or Lease

		At Cost
Land-Park Expansion	893.210 acres available	\$ 12,740,868
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	1,090,720
Total		\$ 14,330,420

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)

6. Capital Assets

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

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital Assets				
Equipment	\$ 74,497	\$ 5,838	\$ -	\$ 80,335
Vehicles	36,790	-	-	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
	<u>\$ 2,082,659</u>	<u>\$ 5,838</u>	<u>\$ -</u>	<u>\$ 2,088,497</u>

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Accumulated Depreciation				
Equipment	\$ 33,134	\$ 9,576	\$ -	\$ 42,710
Vehicles	3,975	7,358	-	11,333
Leasehold Improvements	7,861	3,253	-	11,114
Buildings	7,848	47,088	-	54,936
Software	115	462	-	577
	<u>\$ 52,933</u>	<u>\$ 67,737</u>	<u>\$ -</u>	<u>\$ 120,670</u>

Land is not depreciated or amortized. Capital assets with net book values totaling \$1,883,337 were pledged as collateral for debt at June 30, 2010.

7. Construction in Progress

A summary of changes in construction in progress follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Rail to Park Expansion	\$ 201,406	\$ 66,256	\$ -	\$ 267,662
Speculative Building	73,501	1,836	-	75,337
	<u>\$ 274,907</u>	<u>\$ 68,092</u>	<u>\$ -</u>	<u>\$ 342,999</u>

Construction in progress is not depreciated until placed in service.

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

8. Land Sale Options

The Board had three land sale options from prospective buyers outstanding at June 30, 2010. 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 in order to purchase the right of first refusal. This option expires in 2014.

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. On June 10, 2010, the Board extended the letter of agreement for an additional year for \$1,000 additional consideration.

9. Unearned State Grant Revenue

During the fiscal year ended June 30, 2009, the Board was required to prepay the estimated costs to move a gas pipeline. Upon completion of the project during the fiscal year ended June 30, 2010, the vendor refunded approximately \$835,000 in project costs which was credited to unearned state grant revenue. The State of Tennessee allowed the Board to keep these funds in anticipation of any future unforeseen nonreimbursable project-related expenses. As of June 30, 2010, the unexpended portion of the unearned state grant revenue was \$516,163.

10. Notes Payable

Notes payable consists of the following:

	2010	2009
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.	\$ 105,632	\$ 140,227
Note payable bearing interest at 5.5% secured by land and a building; principal and interest paid in monthly installments, maturing May 2021.	1,926,647	2,041,194

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

10. Notes Payable (Cont'd)

	2010	2009
Note payable bearing interest at 3.9% secured by a vehicle; principal and interest are payable in monthly installments, maturing November 2013.	18,082	22,916
Total Notes Payable	2,050,361	2,204,337
Less Current Portion	175,003	165,735
Total Notes Payable Excluding Current Portion	\$ 1,875,358	\$ 2,038,602

Changes in notes payable (including current portions) for the year ended June 30, 2010, were as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Estimated Amount Due in Year Ending June 30, 2011
Notes Payable	\$ 2,204,337	\$ -	\$ 153,976	\$ 2,050,361	\$ 175,003

Future payments on notes payable are as follows:

Year Ending June 30.	Total Principal	Total Interest
2011	\$ 175,003	\$ 108,272
2012	184,790	98,484
2013	185,249	88,127
2014	159,743	78,634
2015	166,291	69,732
2016-2020	983,199	196,918
2021	196,086	4,972
Total	\$ 2,050,361	\$ 645,139

11. 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.

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

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

Cost of capital assets	\$ 2,088,497
Less: Accumulated depreciation	<u>120,670</u>
Net capital assets	<u>\$ 1,967,827</u>
Debt related to capital assets:	
Current portion of note payable	\$ 128,524
Long-term portion of note payable	<u>1,685,442</u>
Total debt related to capital assets	<u>1,813,966</u>
Other debt:	
Current portion of note payable	46,479
Long-term portion of note payable	<u>189,916</u>
Total other debt	<u>236,395</u>
Total debt	<u>\$ 2,050,361</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.

Capital outlays	\$ 5,838
Depreciation expense	(67,737)
Debt service principal	<u>153,976</u>
	<u>\$ 92,077</u>

12. 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 \$19,023 for the year ended June 30, 2010. 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:

2011	\$ 18,700
2012	<u>6,233</u>
	<u>\$ 24,933</u>

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

13. 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>
2011	\$ 258,513
2012	258,513
2013	258,513
2014	258,513
2015	258,513
2016 and Thereafter	1,421,822

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, 2010 and 2009, contributions totaling \$15,176 and \$17,507, respectively, were paid and expensed by the Board. Employee contributions to the plan were \$18,999 and \$19,491 for the years ended June 30, 2010 and 2009, respectively.

15. Related Party Transactions

The Board paid EDC \$227,311 for its share of EDC expenses during the year ended June 30, 2010. The Board had related party payables at June 30, 2010 totaling \$27,282, and related party receivables of \$18,478. Included in related party receivables at June 30, 2010 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.

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

16. 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, 2010 totaled \$101,329,361.

17. Annual Budget Procedures

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

18. Commitments and Contingencies

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, 2010, there was an accrued liability of \$141,322 to the City and \$68,332 to the County for sales of land that took place during the fiscal year ended June 30, 2008.

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, 2010

<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, 2009</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2010</u>
<u>State of Tennessee Economic & Community Development</u>						
Community Development	08/30/06 - 06/30/11	GG-07-12830-00	\$ 88,706	\$ 648,978	\$ 560,272	\$ -
Community Development	03/12/09 - 06/30/13	BC8311	839,350	26,539,823	31,601,900	5,901,427
Community Development	02/09/09 - 01/31/14	GG-09-273.00-00	429,142	429,142	25,585	25,585
Community Development	01/26/10 - 12/31/14	GG-10-314.11-00	-	-	85,154	85,154
Community Development	09/15/08 - 06/30/09	Z-09-217184-00	1,500	1,500	-	-
Total			<u>\$ 1,358,698</u>	<u>\$ 27,619,443</u>	<u>\$ 32,272,911</u>	<u>\$ 6,012,166</u>

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
DIRECTORY OF BOARD MEMBERS AND MANAGEMENT (UNAUDITED)
JUNE 30, 2010

BOARD MEMBERS

	<u>Term Expires</u>
Mr. Bryce Sanders, Chairman	June 2011
Mr. Mark Briggs, Vice Chairman	June 2013
Dr. Linda Rudolph, Secretary-Treasurer	June 2013
Mr. John Wallace Crow	June 2015
Ms. Kay Drew	June 2013
Mr. Don Jenkins	June 2015
Mr. William B. Linscott	June 2011
Mr. Carl Wilson	June 2015
Ms. Niesha Wolfe	June 2011
Mr. Richard Batson, Legal Counsel, Ex-Officio	
County Mayor Carolyn Bowers, Ex-Officio	
Mr. Mike Evans, Ex-Officio	
Dr. Tim Hall, Ex-Officio	
City Mayor Johnny Piper, Ex-Officio	

MANAGEMENT

Mr. James Chavez, President and CEO
Mr. Mike Evans, Executive Director
Mr. 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
Clarksville-Montgomery County Industrial Development Board
Clarksville, Tennessee

We have audited the financial statements of the governmental activities and the major fund of the Clarksville-Montgomery County Industrial Development Board (the Board), as of and for the year ended June 30, 2010, which collectively comprise the Board's basic financial statements and have issued our report thereon dated December 27, 2010. 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there can be assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described on the following page, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency* in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described on the following page as finding 2010-1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Board did not resolve prior year finding number 2009-1. The finding recurred in the current year and is reported as finding 2010-1.

2010-1 (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). Twelve adjusting entries and three reclassifying entries were required for the financial statements to be presented in conformity with GAAP. One of the twelve 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.

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 response to the finding identified in our audit is described above. We did not audit the Board's response and, accordingly, we express no opinion on it.

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 27, 2010