

**THE INDUSTRIAL BOARD OF
COFFEE COUNTY, TENNESSEE, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2010

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
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INTRODUCTORY SECTION

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
SCHEDULE OF BOARD OFFICIALS
JUNE 30, 2010**

Board Members:

**George Brown
John Greeter
Bill Johnson
Ben Spaulding
Bill Comer
Jesse Overall
Buster Bush
Mary Niederhauser
Brent Parsley
Elmer Morris
Roland Segroves
James McKenzie
Jeff Fishman
Jasper Smith
Marvin McKee**

FINANCIAL SECTION

Independent Auditors' Report

December 27, 2010

Board of Directors
The Industrial Board of Coffee County, Tennessee, Inc.

We have audited the accompanying financial statements of the governmental activities and major fund of The Industrial Board of Coffee County, Tennessee, Inc., a component unit of Coffee 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 Industrial Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of The Industrial Board of Coffee County, Tennessee, Inc. as of June 30, 2010, and the respective changes in financial position 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 our test of its compliance with certain provisions of laws, regulations, contracts and grants 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 read in conjunction with this report in considering the results of our audit.

The Industrial Board of Coffee County, Tennessee, Inc. has not presented management's discussion and analysis, which 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.

Housholder Artman PLLC

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 852,394	\$ 852,394
Interest receivable	8,133	8,133
Note receivable	76,442	76,442
	936,969	936,969
Non-current assets:		
Capital assets, net of depreciation	1,260,388	1,260,388
	2,197,357	2,197,357
Total assets	\$ 2,197,357	\$ 2,197,357
LIABILITIES		
Notes payable	\$ 875,417	\$ 875,417
Accrued payroll and liabilities	12,751	12,751
Retainage payable	41,720	41,720
	929,888	929,888
Total liabilities	929,888	929,888
NET ASSETS		
Invested in capital assets, net of debt	343,251	343,251
Unrestricted	924,218	924,218
	1,267,469	1,267,469
Total net assets	1,267,469	1,267,469
Total liabilities and net assets	\$ 2,197,357	\$ 2,197,357

The accompanying notes are an integral part of this financial statement.

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

	Governmental Activities	Total
Function/Program:		
Administration	\$ 317,336	\$ 317,336
General revenues:		
Contributions from county	258,258	258,258
Sign lease	1,750	1,750
Investment earnings	41,697	41,697
Land sale	8,250	8,250
Miscellaneous income	-	-
	309,955	309,955
Change in net assets	(7,381)	(7,381)
Net assets, beginning	1,288,392	1,288,392
Prior period adjustment (see Note 8)	(13,542)	(13,542)
	1,267,469	1,267,469
Net assets, ending	\$ 1,267,469	\$ 1,267,469

The accompanying notes are an integral part of this financial statement.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 852,394	\$ 852,394
Interest receivable	8,133	8,133
Note receivable	76,442	76,442
	\$ 936,969	\$ 936,969
Total assets	\$ 936,969	\$ 936,969
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accrued payroll and liabilities	\$ 12,751	\$ 12,751
 Fund balance:		
Unreserved	924,218	924,218
	\$ 936,969	\$ 936,969
Total liabilities and fund balance	\$ 936,969	\$ 936,969

The accompanying notes are an integral part of this financial statement.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2010

Total fund balance per fund financial statements	\$ 924,218
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds	1,260,388
Spec building loan	(875,417)
Retainage payable	(41,720)
Net assets of governmental activities	<u>\$ 1,267,469</u>

The accompanying notes are an integral part of this financial statement.

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Total Funds</u>
REVENUES		
Contributions from county	\$ 258,258	\$ 258,258
Investment earnings	41,697	41,697
Miscellaneous income	1,750	1,750
	<hr/>	<hr/>
Total revenues	301,705	301,705
EXPENDITURES		
Salaries	132,503	132,503
Payroll taxes	9,797	9,797
Employee benefits	22,556	22,556
Executive director expense	3,000	3,000
Board members expense	5,463	5,463
Office operation	11,365	11,365
Memberships and subscriptions	1,963	1,963
Telephone	1,794	1,794
Auto expense	7,608	7,608
Prospect development/travel	12,567	12,567
Promotion	9,876	9,876
Education	202	202
Office equipment	1,858	1,858
Capital outlay	723,864	723,864
Existing industries	1,217	1,217
Engineering services	2,839	2,839
Industrial park maintenance	12,055	12,055
	<hr/>	<hr/>
Total expenditures	960,527	960,527
Excess of revenues over (under) expenditures	(658,822)	(658,822)
OTHER FINANCING SOURCES		
Proceeds from sale of land	8,250	8,250
Proceeds from the issuance of notes payable	712,637	712,637
Grant matching funds	(69,044)	(69,044)
	<hr/>	<hr/>
Total other financing sources	651,843	651,843
Net change in fund balance	(6,979)	(6,979)
Fund balance, beginning	931,197	931,197
	<hr/>	<hr/>
Fund balance, ending	\$ 924,218	\$ 924,218
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of this financial statement.

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Net change in fund balance - governmental funds	\$	(6,979)
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Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period , these amounts are:

Acquisition of capital assets that meet criteria for capitalization		723,864
Depreciation expense		(11,629)
Proceeds of notes payable treated as income on the governmental income statement		(670,917)
Retainage payable		(41,720)
		(7,381)
Change in net assets of governmental activities	\$	(7,381)

The accompanying notes are an integral part of this financial statement.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Industrial Board of Coffee County, Tennessee, Inc. was incorporated in 1969. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Industrial Board of Coffee County, Tennessee, Inc. The Board is a component unit of Coffee County, Tennessee (the primary government). The primary government appoints members of the board of directors, and is funded primarily by appropriations from the county. The purpose of the Board is to promote industry and develop trade for Coffee County, Tennessee.

The financial statements of the Industrial Board (Board), of Coffee County, Tennessee, Inc. have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standard Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below:

Government-Wide Statements

In the government-wide Statement of Net Assets, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The government-wide Statement of Activities reports both the gross and the net cost of the Board's programs. The functions are also supported by general governmental revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function.

The Board adopted the provisions of Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e. both measurable and available). Available means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

The financial transactions of the Board are reported in individual funds in the fund financial statement. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures. The Board reports the following fund:

General Fund – This fund is used as the general operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund.

The Board adopts a budget for the General Fund as a management control device. The budget is adopted on a basis consistent with generally accepted accounting principles.

Date of Management's Subsequent Review

Management has evaluated subsequent events through December 27, 2010, which is the date the financial statements were available to be issued.

Estimates

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

Equipment

Equipment is stated at cost, less accumulated depreciation, which is computed by the straight-line method over an estimated useful life of 5-20 years. Major expenditures for equipment and for repairs which substantially increase the useful lives are capitalized. Maintenance, minor repairs and minor acquisitions are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in revenue or expense.

Cash and Cash Equivalents

For purpose of reporting cash flows, cash equivalents include all short-term highly liquid investments with maturities of three months or less.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

The Board considers accounts receivable to be fully collectible at June 30, 2010; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged off when that determination is made.

Compensated Absences

There are no compensated absences to be accrued.

Federal Income Taxes

The Industrial Board of Coffee County is exempt from federal and state income tax.

Pension Plan

The Board does not provide a pension plan for its employees; however, they are covered under the plan for Coffee County. Employees of Coffee County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS).

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

NOTE 2 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The Board is authorized to deposit its funds in banks, trust companies, or other depositories as the Board may select. Deposits are carried at cost. At year-end the carrying amount of deposits was \$852,394, and the bank balance was \$914,019. Of the banks balances, \$624,033 were covered by federal deposit insurance, \$249,986 were collateralized with securities pledged that comply with statutes as acceptable collateral, and \$40,000 were unsecured as of June 30, 2010.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 – CAPITAL ASSETS

Property, plant and equipment consist of various office machines and improvements which are being depreciated over 5-20 years using the straight-line method.

A summary of changes in the capital assets is as 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, being depreciated:				
Equipment	\$ 16,324	\$ -	\$ -	\$ 16,324
Land improvements	45,080	-	-	45,080
Construction in progress	318,585	723,864	-	1,042,449
Vehicles	199,705	-	-	199,705
Total capital assets being depreciated	<u>579,694</u>	<u>723,864</u>	<u>-</u>	<u>1,303,558</u>
Less accumulated depreciation:				
Equipment	(11,570)	(1,644)	-	(13,214)
Vehicles	(19,971)	(9,985)	-	(29,956)
Total accumulated depreciation	<u>(31,541)</u>	<u>(11,629)</u>	<u>-</u>	<u>(43,170)</u>
Total capital assets being depreciated, net	<u>\$ 548,153</u>	<u>\$ 712,235</u>	<u>\$ -</u>	<u>\$ 1,260,388</u>

Depreciation expense for the year ended June 30, 2010 was \$11,629.

NOTE 4 – NOTES PAYABLE

Changes in notes payable consist of:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One Year</u>
Notes payable:					
Construction line of credit	\$ 50,000	\$ 50,000	\$ (100,000)	\$ -	\$ -
DREMC	-	360,000	-	360,000	-
Short term construction loan	-	360,917	-	360,917	360,917
City of Manchester*	154,500	-	-	154,500	-
	<u>\$ 204,500</u>	<u>\$ 770,917</u>	<u>\$ (100,000)</u>	<u>\$ 875,417</u>	<u>\$ 360,917</u>

*restated beginning balance - see Note 8

Notes payable consists of:

Note payable with DREMC, no interest or principal for 24 months, then 2 annual principal payments of \$15,000 and 8 annual payments of \$67,076.08 at 3% interest	\$ 360,000
Short term loan with bank, 4.75% interest	360,917
Note payable with City of Manchester, due when speculative building is sold	154,500
	<u>\$ 875,417</u>

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5 – COMMITMENTS AND CONTINGENCIES

The Board receives a substantial amount of its support from the local county government. A significant reduction in the level of such support, if this were to occur, may have an effect on the Board's programs and activities.

The Board had entered in an agreement to build a speculative building in the City of Manchester Industrial Park. The infrastructure is to be partially paid with a Fast Tract Grant of \$750,000 obtained by the City of Manchester. The Industrial Board will fund \$135,000 of the cost. These funds will be reimbursed by the City to the Industrial Board upon sale of the property. The total cost of the spec building project is estimated now to be \$1,835,000 (not including land cost). The City of Manchester sold 10.3 acres of land for the building to the Industrial Board for \$154,500. This amount is to be reimbursed when the building is sold. Funding for the project will be from loans through local banks, grant funds to the City of Manchester, DREMC loan and TVA loan. Construction costs as of June 30, 2010 total \$1,042,449.

NOTE 6 – NOTE RECEIVABLE

The Board has a note receivable due from an individual dated September 28, 2006 to sell 17.42 acres located in the Coffee County Interstate Industrial Park. The gross sales price was \$104,520, with \$42,000 paid to the Board at closing, and a note receivable for the remainder of \$62,520. The note is due September 28, 2013 and is secured by a deed of trust on the property. No monthly payments are due until September 28, 2010, at which time payments of \$633 will commence for not more than three years, with the remainder being due at September 28, 2013. According to the term of the note, interest is added to the principal balance annually. The interest rate is 5.5%. The balance of the note receivable at June 30, 2010 was \$76,442.

NOTE 7 – LEASE AGREEMENT

The Board purchased a fire truck in July 2007 for \$199,705. The truck is to be leased to the Hickerson Station Fire Department. There is no stated monthly lease payment with the fire station responsible for insurance, maintenance and service on the truck with ownership remaining with the Industrial Board. The lease is for continuous twelve month periods with sixty (60) day notice by either party required to terminate the lease agreement.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to restate the amount of the note payable to the City of Manchester. The note was reduced in the prior year in error by the amount of grant funds paid on a project. It has since been learned that those payments do not reduce the amount of the loan.

INTERNAL CONTROL AND COMPLIANCE SECTION

**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***

December 27, 2010

To the Board of Directors
The Industrial Board of Coffee County, Tennessee, Inc.

We have audited the financial statements of the governmental activities and general fund of The Industrial Board of Coffee County, Tennessee, Inc., a component unit of Coffee County, Tennessee, as of and for the year ended June 30, 2010, 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 Industrial Board of Coffee County, Tennessee, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Industrial Board of Coffee County, Tennessee, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Industrial Board of Coffee County, Tennessee, Inc.'s internal control over financial reporting.

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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed in the following schedule of audit findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of audit findings and recommendations as items 2010-01 to 2010-04 to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Industrial Board of Coffee County, Tennessee, Inc.'s financial statements are free of material misstatements, 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 Industrial Board of Coffee County, Tennessee, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Industrial Board of Coffee County, Tennessee, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Directors, management and government regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Honsholder Aitman PLLC

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2010

Item 2010-01: Segregation of Duties

The size of the Board's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation: Exercise proper segregation of duties to the extent possible with limited employees.

Management's response: We concur with the auditors' finding and recommendation.

Item 2010-02: Financial Statement Preparation

Under professional standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the Board possesses an accounting department that is staffed with personnel with requisite skills and training to perform such function and the function was performed by the auditor as an accommodation to management. For this engagement, financial statements were submitted to us which were generated as a by-product of the bookkeeping system. We proposed certain adjustments to these financial statements as a result of our audit and we drafted the financial disclosures required by professional standards.

Recommendation: Management may wish to acknowledge and accept this deficiency or develop compensating controls.

Management's response: Although alternative options will be explored, due to the nature and size of our organization, it may not be feasible or possible to perform these functions internally.

Item 2010-03: Adjusting Entries

During fieldwork it was discovered that entries to accrue interest income receivable and accrued payroll had not been entered in the general ledger.

Recommendation: We recommend that management implement more stringent review procedures to identify all receivables and payables in order to accurately reflect assets and liabilities.

Management's response: We concur with the auditors' finding and recommendation.

Item 2010-04: Unsecured Deposits

During fieldwork it was discovered that \$40,000 of deposits were not insured or collateralized.

Recommendation: Management should monitor the collateralization of cash deposits on a continuing basis to ensure that the funds are in compliance with regulations that require funds to be insured 105%. We recommend pledging more securities or moving the unsecured funds to another financial institution where they would be covered by either FDIC insurance or state collateral pool coverage.

Management's response: We concur with the auditors' finding and recommendation.

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2010**

Item 2009-01: Segregation of Duties

The size of the Board's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation: Exercise proper segregation of duties to the extent possible with limited employees.

Management's response: We concur with the auditors' findings and recommendations.

See current year findings.

Item 2009-02: Financial Statement Preparation

Under professional standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the Board possesses an accounting department that is staffed with personnel with requisite skills and training to perform such function and the function was performed by the auditor as an accommodation to management. For this engagement, financial statements were submitted to us which were generated as a by-product of the bookkeeping system. We proposed certain adjustments to these financial statements as a result of our audit and we drafted the financial disclosures required by professional standards.

Recommendation: Management may wish to acknowledge and accept this deficiency or develop compensating controls.

Management's response: Although alternative options will be explored, due to the nature and size of our organization, it may not be feasible or possible to perform these functions internally.

See current year findings.

Item 2009-03: Budgets

It was noted that the capital outlay expenditures for the speculative building were not included in the budget for the Board.

Recommendation: The budget adopted by the Board should include all capital outlay expenditures.

Management's response: We will attempt to comply and include capital outlay expenditures in our budget.

Implemented