

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

FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011**

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 30, 2011

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, 2011, 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, 2011, 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 30, 2011 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, 2011

	Governmental Activities	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 873,253	\$ 873,253
Interest receivable	2,217	2,217
Note receivable	74,904	74,904
	950,374	950,374
Non-current assets:		
Capital assets, net of depreciation	1,403,822	1,403,822
Total assets	\$ 2,354,196	\$ 2,354,196
LIABILITIES		
Notes payable	\$ 1,014,500	\$ 1,014,500
Accrued payroll and liabilities	13,260	13,260
Total liabilities	1,027,760	1,027,760
NET ASSETS		
Invested in capital assets, net of debt	389,322	389,322
Unrestricted	937,114	937,114
Total net assets	1,326,436	1,326,436
Total liabilities and net assets	\$ 2,354,196	\$ 2,354,196

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, 2011**

	Governmental Activities	Total
Function/Program:		
Administration	\$ 266,276	\$ 266,276
General revenues:		
Contributions from county	251,761	251,761
Sign lease	1,750	1,750
Investment earnings	34,762	34,762
Land sale	36,240	36,240
Miscellaneous income	730	730
Total general revenues	325,243	325,243
Change in net assets	58,967	58,967
Net assets, beginning	1,267,469	1,267,469
Net assets, ending	\$ 1,326,436	\$ 1,326,436

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, 2011

	General	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 873,253	\$ 873,253
Interest receivable	2,217	2,217
Note receivable	74,904	74,904
	\$ 950,374	\$ 950,374
Total assets	\$ 950,374	\$ 950,374
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accrued payroll and liabilities	\$ 13,260	\$ 13,260
Fund balance:		
Unreserved	937,114	937,114
	\$ 950,374	\$ 950,374
Total liabilities and fund balance	\$ 950,374	\$ 950,374

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, 2011

Total fund balance per fund financial statements	\$ 937,114
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	1,403,822
Spec building loan	(1,014,500)
Net assets of governmental activities	<u>\$ 1,326,436</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, 2011

	General	Total Funds
REVENUES		
Contributions from county	\$ 251,761	\$ 251,761
Investment earnings	34,762	34,762
Miscellaneous income	2,479	2,479
	289,002	289,002
EXPENDITURES		
Salaries	136,444	136,444
Payroll taxes	9,990	9,990
Employee benefits	24,739	24,739
Executive director expense	2,415	2,415
Board members expense	6,079	6,079
Office operation	9,109	9,109
Memberships and subscriptions	1,803	1,803
Telephone	1,600	1,600
Auto expense	4,869	4,869
Prospect development/travel	9,196	9,196
Promotion	5,853	5,853
Professional Services	4,026	4,026
Office equipment	7,567	7,567
Capital outlay	189,730	189,730
Existing industries	3,915	3,915
Engineering services	212	212
Industrial park maintenance	15,322	15,322
	432,869	432,869
Excess of revenues over (under) expenditures	(143,867)	(143,867)
OTHER FINANCING SOURCES		
Proceeds from sale of land	36,240	36,240
Proceeds from the issuance of notes payable	139,084	139,084
Grant matching funds	(18,561)	(18,561)
	156,763	156,763
Net change in fund balance	12,896	12,896
Fund balance, beginning	924,218	924,218
Fund balance, ending	\$ 937,114	\$ 937,114

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, 2011**

Net change in fund balance - governmental funds	\$	12,896
<p>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:</p>		
Acquisition of capital assets that meet criteria for capitalization		155,577
Depreciation expense		(12,143)
Proceeds of notes payable treated as income on the governmental income statement		(139,083)
Retainage payable		41,720
Change in net assets of governmental activities	\$	58,967

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, 2011

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, 2011

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 30, 2011, 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, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

The Board considers accounts receivable to be fully collectible at June 30, 2011; 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 \$873,253, and the bank balance was \$872,985. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance. At June 30, 2011, all deposits were insured.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets, being depreciated:				
Equipment	\$ 16,324	\$ 7,567	\$ -	\$ 23,891
Land improvements	45,080	-	-	45,080
Construction in progress	1,042,449	148,010	-	1,190,459
Vehicles	199,705	-	-	199,705
Total capital assets being depreciated	<u>1,303,558</u>	<u>155,577</u>	<u>-</u>	<u>1,459,135</u>
Less accumulated depreciation:				
Equipment	(13,214)	(2,158)	-	(15,372)
Vehicles	(29,956)	(9,985)	-	(39,941)
Total accumulated depreciation	<u>(43,170)</u>	<u>(12,143)</u>	<u>-</u>	<u>(55,313)</u>
Total capital assets being depreciated, net	<u>\$ 1,260,388</u>	<u>\$ 143,434</u>	<u>\$ -</u>	<u>\$ 1,403,822</u>

Depreciation expense for the year ended June 30, 2011 was \$12,143.

NOTE 4 – NOTES PAYABLE

Changes in notes payable consist of:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Notes payable:					
DREMC	\$ 360,000	\$ -	\$ -	\$ 360,000	\$ -
Short term construction loan	360,917	139,083	-	500,000	500,000
City of Manchester	154,500	-	-	154,500	-
	<u>\$ 875,417</u>	<u>\$ 139,083</u>	<u>\$ -</u>	<u>\$ 1,014,500</u>	<u>\$ 500,000</u>

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	500,000
Note payable with City of Manchester, due when speculative building is sold	154,500
	<u>\$ 1,014,500</u>

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011 total \$1,190,459.

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 were due until September 28, 2010, at which time payments of \$633 were 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, 2011 was \$74,904. The note was current as of June 30; however, no payments have been received since year end. The note is considered to be collectible; therefore, no provision for loss has been recorded.

Schedule of changes to note receivable during the year follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Note receivable:					
Teal note	\$ 76,442	\$ 1,009	\$ (2,547)	\$ 74,904	\$ 3,563
	<u>\$ 76,442</u>	<u>\$ 1,009</u>	<u>\$ (2,547)</u>	<u>\$ 74,904</u>	<u>\$ 3,563</u>

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.

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 30, 2011

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, 2011, and have issued our report thereon dated December 30, 2011. 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 2011-01 to 2011-02 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*.

We noted certain matters that we reported to management of The Industrial Board of Coffee County, Tennessee, Inc. in a separate letter dated December 30, 2011.

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.

Householder Armstrong PLLC

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011

Item 2011-01: 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 2011-02: 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.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2011

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' findings and recommendations.

Update: See current year findings 2011-01.

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.

Update: See current year findings 2011-02.

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.

Update: See current year management letter.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2011

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

Update: Implemented