

**The Industrial Development Board
of Franklin County, Tennessee
Audit Report
For the Years Ended
June 30, 2011 and 2010**

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of Franklin County, Tennessee
Audit Report
June 30, 2011 and 2010**

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**The Industrial Development Board
of Franklin County, Tennessee
Introductory Section
June 30, 2011 and 2010**

Roster of Board Members

Board Members

Ben Boswell, Chairman
Winchester, TN

Brenda Cannon, Vice Chairman
Winchester, TN

Joyce Brown
Cowan, TN

Prentice Wilkerson
Belvidere, TN

Jackie Axt
Estill Springs, TN

Claude Henley
Decherd, TN

Donald Langston
Winchester, TN

Kay Caldwell
Estill Springs, TN

Clint Morris
Estill Springs, TN

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Industrial Development Board of
Franklin County, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Industrial Development Board of Franklin County, Tennessee, a component unit of Franklin County, Tennessee, as of and for the years ended June 30, 2011 and 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 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 opinions.

As discussed in Note 1, the financial statements present only the Industrial Development Board of Franklin County, Tennessee and do not purport to, and do not, present fairly the financial position of Franklin County, Tennessee, as of June 30, 2010 and 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Industrial Development Board of Franklin County, Tennessee, as of June 30, 2011 and 2010, and the respective changes in financial position for the years 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 April 24, 2012, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Board has not presented managements' discussion and analysis. The managements' discussion and analysis 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink, appearing to read "Bean, Rhoton & Kelley". The signature is written in a cursive, flowing style.

Bean, Rhoton & Kelley, PLLC
April 24, 2012

The Industrial Development Board
of Franklin County, Tennessee
Government-Wide Statement of Net Assets
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 23,177.41	\$ 13,346.36
Capital assets		
Other capital assets, net of depreciation	116.76	688.57
Total assets	<u>\$ 23,294.17</u>	<u>\$ 14,034.93</u>
LIABILITIES		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 0.00</u>	<u>\$ 91.95</u>
Total liabilities	<u>\$ 0.00</u>	<u>\$ 91.95</u>
NET ASSETS		
Invested in capital assets	\$ 116.76	\$ 688.57
Unrestricted	<u>23,177.41</u>	<u>13,254.41</u>
Total net assets	<u>\$ 23,294.17</u>	<u>\$ 13,942.98</u>

Notes to the financial statements are an integral part of the financial statements.

The Industrial Development Board
of Franklin County, Tennessee
Government-Wide Statement of Activities
Year Ended June 30, 2011 and 2010

	2011		2010	
	Total	Function/ Program:		Total
		Program	Administration	
Expenses:				
Prospect development	\$ 3,262.58	\$ 3,262.58	\$ 0.00	\$ 0.00
Depreciation	571.81	0.00	571.81	0.00
Travel and conferences	84.52	84.52	0.00	0.00
Taxes and licenses	0.00	0.00	0.00	0.00
Fees	0.00	0.00	0.00	0.00
Miscellaneous expenses	194.90	0.00	194.90	0.00
Total expenses	<u>4,113.81</u>	<u>\$ 3,347.10</u>	<u>\$ 766.71</u>	<u>\$ 616.33</u>
Program Specific Operating Grants and Contributions:				
Contributions from County	10,000.00			
Others	3,465.00			
Total program specific operating revenues	<u>13,465.00</u>			<u>14,333.52</u>
Change in net assets	9,351.19			9,796.54
Net assets - beginning	13,942.98			4,146.44
Net assets - ending	<u>\$ 23,294.17</u>			<u>\$ 13,942.98</u>

The Industrial Development Board
of Franklin County, Tennessee
Balance Sheet and Reconciliation of the Balance Sheet to the Statement of Net Assets
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 23,177.41	\$ 13,346.36
Total assets	<u>\$ 23,177.41</u>	<u>\$ 13,346.36</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 0.00	\$ 91.95
Total liabilities	<u>0.00</u>	<u>91.95</u>
Fund balances:		
Unassigned	<u>23,177.41</u>	<u>13,254.41</u>
Total fund balances	<u>23,177.41</u>	<u>13,254.41</u>
Total liabilities and fund balances	<u>\$ 23,177.41</u>	<u>\$ 13,346.36</u>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore not reported in the funds	<u>116.76</u>	<u>688.57</u>
Net assets of governmental activities	<u>\$ 23,294.17</u>	<u>\$ 13,942.98</u>

**The Industrial Development Board
of Franklin County, Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balance
Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
REVENUES		
Contributions from County	\$ 10,000.00	\$ 10,000.00
Miscellaneous income	<u>3,465.00</u>	<u>1,337.36</u>
Total revenues	13,465.00	11,337.36
EXPENDITURES		
Prospect development	3,262.58	3,199.26
Travel and conferences	84.52	75.00
Taxes and licenses	0.00	646.39
Fees	0.00	35.00
Miscellaneous expenses	<u>194.90</u>	<u>0.00</u>
Total expenditures	3,542.00	3,955.65
Excess of revenues over expenditures	<u>9,923.00</u>	<u>7,381.71</u>
Net change in fund balance	9,923.00	7,381.71
Fund balance - beginning	<u>13,254.41</u>	<u>5,872.70</u>
Fund balance - ending	<u>\$ 23,177.41</u>	<u>\$ 13,254.41</u>

Notes to the financial statements are an integral part of the financial statements.

**The Industrial Development Board
of Franklin County, Tennessee
Reconciliation of the Change in Fund Balance of Governmental Funds
to the Statement of Activities
Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Net change in fund balances - total governmental funds	\$ 9,923.00	\$ 7,381.71
Change in liabilities due within one year	0.00	2,996.16
<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>		
Depreciation expense:	<u>(571.81)</u>	<u>(581.33)</u>
Change in net assets of governmental activities	\$ <u>9,351.19</u>	\$ <u>9,796.54</u>

**The Industrial Development Board
of Franklin County, Tennessee
Notes to Financial Statements
June 30, 2011 and 2010**

1. Summary of Significant Accounting Policies -

Business Activity

The Industrial Development Board of Franklin County, Tennessee is responsible for attracting and retaining industrial commerce in Franklin County.

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, as well as the reported revenues and expenses. Actual results could vary from the estimates that were used.

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 Development Board of Franklin County, Tennessee. The Board is a component unit of Franklin County, Tennessee (the primary government). Board members are appointed by the Franklin County Commission to serve for six years. The Board must obtain County Commission approval before the issuance of most debt.

The Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Basic Financial Statements-Government-Wide Statements

The Board's basic financial statements include both government-wide reporting and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as governmental or business type. The Board's general administrative services are classified as governmental activities. There are no business-type activities.

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 Board's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and the net cost of the Board's functions. The functions are also supported by general government 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 net costs (by function) are normally covered by general revenue.

The Board does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Board as an entity and the change in the Board's net assets resulting from the current year's activities.

The Industrial Development Board
of Franklin County, Tennessee
Notes to Financial Statements (continued)
June 30, 2011 and 2010

1. Summary of Significant Accounting Policies (continued) -

Basic Financial Statements-Fund Financial Statements

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 comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Board:

1. Governmental Funds:

The focus of the governmental fund's measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Board:

- General fund is 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.

As of these financial statements, the Board has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

- **Nonspendable**—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- **Restricted**—Amounts that can be spent only for specific purposes because of the Board's Charter, state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed**—Amounts that can be used only for specific purposes determined by a formal action by the Board's ordinance or resolution.
- **Assigned**—Amounts that are designated by the Board for a specific purpose but are not spendable until a budget ordinance is passed by the Board.
- **Unassigned**—All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 5). Any restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by the Board or the Assignment has been changed by the Board. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

The Industrial Development Board of Franklin County, Tennessee has Unassigned Fund Balance of \$23,177.41 and \$13,254.41 at June 30, 2011 and 2010, respectively.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**The Industrial Development Board
of Franklin County, Tennessee
Notes to Financial Statements (continued)
June 30, 2011 and 2010**

1. Summary of Significant Accounting Policies (continued) -

1. Accrual:

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

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 exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Industrial Development Board Fund

The financial statements present only the Industrial Development Board of Franklin County, Tennessee, as of June 30, 2010 and 2011. These financial statements are in no way intended to represent the government wide financial position of Marion County, Tennessee for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Capital Assets

Equipment and property additions are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful life.

2. Cash Deposits -

The Board is authorized to issue its bonds, and otherwise to borrow money from banks or other financial institutions by issuing its notes.

The Board's policy related to deposits and investments requires the financial institution to collateralize deposits over \$250,000 by pledging securities individually or the financial institution being a member of the State of Tennessee Bank Collateral Pool during the time period of the deposit. The Board's deposits at June 30, 2011 and 2010 were entirely covered by federal depository insurance or by collateral held by the Board's custodial bank in the Board's name. The carrying amount of total cash deposits for the year ended June 30, 2011 and 2010, is \$23,177.41 and \$13,346.36, respectively.

3. Capital Assets -

A summary of changes in the capital assets is as follows:

	Balance July 1, 2009	Additions/ Deletions	Balance June 30, 2010	Additions/ Deletions	Balance June 30, 2011
Equipment	\$10,210.88	\$ 0.00	\$ 10,210.88	\$ 0.00	\$ 10,210.88
Total	10,210.88	0.00	10,210.88	0.00	10,210.88
Less: Accumulated depreciation	(8,940.98)	(581.33)	(9,522.31)	(571.81)	(10,094.12)
Total	<u>\$ 1,269.90</u>	<u>\$ (581.33)</u>	<u>\$ 688.57</u>	<u>\$ (571.81)</u>	<u>\$ 116.76</u>

**The Industrial Development Board
of Franklin County, Tennessee
Notes to Financial Statements (continued)
June 30, 2011 and 2010**

4. Contingency -

The Board receives a substantial amount of its support from local governments. 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.

5. Budget -

The Board does not operate under a mandated budget. A request is submitted to the County Commission for funds based on certain appropriations. The funds are then remitted to the Board by the Commission on a monthly basis.

6. Exposure -

The Board is included under the County coverage for the risks of losses to which it is exposed. These risks include general liability and property and casualty. Settlement claims have not exceeded coverage in the past three years, and there are currently no lawsuits.

7. Reduction in Funding -

Beginning July 1, 2009 the Board received a dramatic reduction in contribution revenue from the County. In addition, all salaries and the majority of the expenditures were paid by the Franklin County General Fund during the years ended June 30, 2010 and 2011.

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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*

To the Board of Directors
The Industrial Development Board of
Franklin County, Tennessee

We have audited the financial statements of the governmental activities and major fund of the Industrial Development Board of Franklin County, Tennessee, a component unit of Franklin County, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Industrial Development Board of Franklin County, Tennessee's basic financial statements and have issued our report thereon dated April 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Industrial Development Board of Franklin County, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Industrial Development Board of Franklin County, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Industrial Development Board of Franklin County, Tennessee'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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting (09-1, 09-2, 10-2 and 10-3). 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 Development Board of Franklin County, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our

tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* (10-1 and 11-1).

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

This report is intended solely for the information and use of management, State of Tennessee, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Bean, Rhoton and Kelley". The signature is written in a cursive, flowing style.

Bean, Rhoton and Kelley, PLLC
April 24, 2012

The Industrial Development Board of Franklin County, Tennessee
Schedule of Audit Findings and Responses
June 30, 2011 and 2010

I. Summary of Auditors' Results

- A. The auditors' report expresses an unqualified opinion on the financial statements of the Industrial Development Board of Franklin County, Tennessee.
- B. Significant deficiencies in internal control were disclosed by the audit and are discussed below in findings 09-1, 09-2, 10-2 and 10-3.
- C. Findings in compliance were disclosed by the audit and are discussed below in findings 10-1 and 11-1.

09-1 In our review of the overall accounting controls of the Board's accounting system, we found several areas where proper segregation of duties might be obtained. - This problem still exists.

Recommendation:

Because of the lack of office staff, we do not believe a complete segregation of duties is possible that would eliminate all weaknesses in the Board's accounting system. However, a thorough study of the internal control aspect of the accounting system should be considered by the Board. Certain additional procedures and segregation of proper duties could increase the control over the assets.

Board's Comment:

Because we have no employees, segregation of duties is a rough task. However, as time permits we hope to add additional controls over the accounting system in the future.

09-2 There was a lack of documentation for some expenditures. - This problem still exists.

Recommendation:

We suggest invoices, receiving reports (signed), and other documents should be obtained for all purchases, including reimbursements. They should be attached together and filed in such a way that they can be easily found for future reference and audit. Each invoice should be stamped paid when each check is written along with the date and amount of the payment. Statements should be reconciled to invoices when payments are made.

Board's Comment:

We will address this problem and improve our documentation systems.

10-1 A financial institution that is being used for the checking account will not allow two signatures to withdraw funds.

Recommendation:

The State of Tennessee and the Board's policy of requiring two signatures to withdraw funds on financial accounts is not being adhered to by this financial institution.

Board's Comment:

This problem will be corrected.

10-2 Testing revealed that some expenditures were not being posted to the Board's General Ledger.

Recommendation:

In order for the financial statements to properly reflect the Board's activity, it is imperative that all information be posted to the General Ledger in its entirety.

Board's Comment:

We approved an adjusting journal entry to post this activity for 2010 and 2011.

10-3 In our review of disbursements, it was noted that dual signatures are not being used on all checks.

Recommendation:

The use of dual signatures for check writing is recommended in the *Internal Control and Compliance Manual for Tennessee Municipalities*. Dual signatures ensure a review of disbursements and additional examination of invoices about to be paid.

Board's Comment:

We will correct this problem.

11-1 During the course of the audit, it was noted that sales tax was being paid or reimbursed on some expenditures.

Recommendation:

Vendors should be notified of the Board's exempt status relative to sales and use tax.

Board's Comment:

We will correct this problem.