

**THE INDUSTRIAL DEVELOPMENT
BOARD OF THE COUNTY OF
HAMILTON, TENNESSEE**

Chattanooga, Tennessee

FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

JOHNSON, HICKEY & MURCHISON, P.C.
Certified Public Accountants
Chattanooga, Tennessee

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS:	
Statements of net assets	4
Statements of revenues, expenses and changes in net assets	5
Statements of cash flows	6
Notes to financial statements	7-10
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	12-13
SCHEDULE OF FINDINGS AND RESPONSES	14



INDEPENDENT AUDITORS' REPORT

**To the Members of the Board
The Industrial Development Board of the County of Hamilton, Tennessee
Chattanooga, Tennessee**

We have audited the accompanying statements of net assets of The Industrial Development Board of the County of Hamilton, Tennessee (The IDB), as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of The IDB'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 audits 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Industrial Development Board of the County of Hamilton, Tennessee as of June 30, 2011 and 2010, and the results of its operation and its cash flows 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 January 10, 2012, on our consideration of The Industrial Development Board of the County of Hamilton, Tennessee'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 IDB has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to supplement, although not be part of, the basic financial statements.

Johnson, Wiley & Meucham, P.C.

January 10, 2012

**THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF
HAMILTON, TENNESSEE
STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash	\$ 16,221	\$ 28,738
Certificates of deposit	250,000	250,000
Interest receivable	<u>2,195</u>	<u>2,668</u>
	<u>\$ 268,416</u>	<u>\$ 281,406</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable	<u>2,178</u>	<u>1,459</u>
NET ASSETS:		
Unrestricted	<u>266,238</u>	<u>279,947</u>
	<u>\$ 268,416</u>	<u>\$ 281,406</u>

(The accompanying notes are an integral part of these statements.)

**THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF
HAMILTON, TENNESSEE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING EXPENSES:		
Office expense	\$ 841	\$ 423
Professional fees	17,228	18,192
Recording cost	<u>171</u>	<u>-</u>
	<u>18,240</u>	<u>18,615</u>
LOSS FROM OPERATIONS	<u>(18,240)</u>	<u>(18,615)</u>
NON-OPERATING INCOME:		
Interest income	<u>4,531</u>	<u>3,508</u>
CHANGE IN NET ASSETS	(13,709)	(15,107)
NET ASSETS:		
Beginning	<u>279,947</u>	<u>295,054</u>
Ending	<u>\$ 266,238</u>	<u>\$ 279,947</u>

(The accompanying notes are an integral part of these statements.)

**THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF
HAMILTON, TENNESSEE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash paid to suppliers	\$ (17,521)	\$ (18,015)
Net cash used by operating activities	(17,521)	(18,015)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	5,004	840
Net cash provided by investing activities	5,004	840
NET DECREASE IN CASH	(12,517)	(17,175)
CASH:		
Beginning	28,738	45,913
Ending	\$ 16,221	\$ 28,738
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (18,240)	\$ (18,615)
Net increase in - Accounts payable	719	600
Net cash used by operating activities	\$ (17,521)	\$ (18,015)

(The accompanying notes are an integral part of these statements.)

**THE INDUSTRIAL DEVELOPMENT BOARD
OF THE COUNTY OF HAMILTON, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS JUNE 30, 2011 AND 2010**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity –

The Industrial Development Board of the County of Hamilton, Tennessee was incorporated August 3, 1981, under the provisions of the Tennessee General Corporations Act. The IDB has the following functions as authorized by its charter: to maintain and increase employment opportunities, to increase the quantity of housing available in affected municipalities and further the use of its agricultural products and natural resources, and to promote control and elimination of pollution.

Based upon the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, it has been determined that The Industrial Development Board of the County of Hamilton, Tennessee is a related organization of the County of Hamilton, Tennessee due to the control it exercises over the appointments of The IDB's Board of Directors.

There are no governmental units that would qualify as a component unit of The IDB.

Basis of Accounting –

The financial statements of The IDB have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, The IDB has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

On July 1, 2003, The IDB adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement 34) and Statement 38, *Certain Financial Statement Disclosures* (Statement 38). Statements 34 and 38 establish standards for external financial reporting and disclosures for all state and local governmental entities, which include a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows. Statement 34 requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are 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 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 the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

**THE INDUSTRIAL DEVELOPMENT BOARD
OF THE COUNTY OF HAMILTON, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS JUNE 30, 2011 AND 2010**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of Accounting (continued) –

Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislations.

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 adoption of Statement 34 and 38 had no effect on the financial statements except for the classification of net assets.

Tax Exemption –

The Industrial Development Board of the County of Hamilton, Tennessee is exempt from taxation under Title 7, Chapter 53 of the Tennessee Code.

Risk Management –

The Industrial Development Board of the County of Hamilton, Tennessee has errors and omission insurance for its Board of Directors through the County. There were no significant reductions in insurance coverage in the prior two years. Additionally, there were no significant settlements which exceeded insurance coverage for each of the past three years.

Estimates and Uncertainties –

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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 of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

(2) CASH AND CASH CERTIFICATES OF DEPOSIT:

Effective July 1, 2003, The IDB implemented GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. This statement eliminated or modified portions of the disclosure previously required by GASB Statement No. 3.

Cash and certificates of deposit are carried at cost which approximates fair value. There were no amounts uninsured or uncollateralized for 2011 and 2010.

**THE INDUSTRIAL DEVELOPMENT BOARD
OF THE COUNTY OF HAMILTON, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS JUNE 30, 2011 AND 2010**

(2) CASH AND CASH CERTIFICATES OF DEPOSIT (Continued):

Interest Rate Risk –

The IDB presents its exposure to interest rate changes using the weighted average maturity method. The IDB's investment portfolio did not experience any significant fluctuations in fair value for the years ended June 30, 2011 and 2010.

Custodial Credit Risk –

The IDB's investment policy limits deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by The IDB's agent in the Board's name, or by the Federal Reserve Banks acting as third-party agents. State statutes also authorize the Board to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a fair value at least equal to the amount of funds invested in the repurchase transaction.

Credit Risk –

The IDB's investment policy is designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws.

(3) CONDUIT DEBT OBLIGATIONS:

From time to time, The IDB has issued Industrial Development Bonds to provide assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon payment of the bonds, the security interest in the property is released and ownership of any facilities acquired by IDB transfers to the private-sector entity served by the bond issuance. Neither The IDB, the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statement of net assets.

Since its inception, The IDB has assisted in issuing approximately \$231,951,000 of industrial development bonds. As of June 30, 2011 and 2010, the aggregate outstanding amount payable under these bonds was \$21,290,578 and \$3,000,000, respectively..

**THE INDUSTRIAL DEVELOPMENT BOARD
OF THE COUNTY OF HAMILTON, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS JUNE 30, 2011 AND 2010**

(4) SUBSEQUENT EVENTS:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 10, 2012, the date which this financial statement was available for issue.

INTERNAL CONTROL AND COMPLIANCE REPORT



**INDEPENDENT AUDITORS' 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 of
The Industrial Development Board of the
County of Hamilton, Tennessee
Chattanooga, Tennessee**

We have audited the financial statements of The Industrial Development Board of the County of Hamilton, Tennessee (The IDB) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated January 10, 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 IDB's internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The IDB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The IDB's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding 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 no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be 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 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 item 2009-1 described in the accompanying schedule of findings and responses to be a material weakness in internal control over financial reporting.

In accordance with professional standards, we have issued a report to the Board of Directors of The IDB in a separate report dated January 10, 2012

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the financial statements of The Industrial Development Board of the County of Hamilton, Tennessee 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 that are required to be reported under *Government Auditing Standards*.

IDB's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit IDB's response and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, governmental regulatory and granting agencies, 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.

Johnson, Niskey & Meucham, P.C.

Chattanooga, Tennessee
January 10, 2012

**MID-CUMBERLAND HUMAN RESOURCE AGENCY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND QUESTIONED COSTS
JUNE 30, 2011**

Finding 2009-1 – Preparation of financial statements

Condition and Criteria:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America is a significant function of The IDB's internal control system. For the years ended June 30, 2011 and 2010, The IDB did not employ a qualified accountant to prepare the financial statements and, accordingly, such financial statements have been prepared by the auditor. The IDB's auditor cannot be part of the internal control over financial reporting, and financial statement preparation by the auditor does not compensated for this material weakness.

Effect:

The condition does not allow the Board, in the normal course of performing their assigned functions, to prevent or detect misstatements in financial reporting on a timely basis.

Auditor's Recommendations:

The Board should consider outsourcing the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

IDB Response:

The limited number of financial transactions and their routine nature provide a sufficient level of comfort to the Board that the benefits to be gained by having its financial statements prepared by a qualified accountant do not outweigh the increased expenses which would be associated with such a change.