

**Economic Development
Board**



Johnson City
Jonesborough
Washington County

**Johnson City
Jonesborough
Washington County**

Economic Development Board, Inc.

AUDITED FINANCIAL STATEMENTS

2011



JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2011

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
TABLE OF CONTENTS
June 30, 2011

	<u>Page Number</u>
I. INTRODUCTORY SECTION	
Roster of Management Officials	i
Roster of Board Members	ii
II. FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Assets	7
Statement of Activities	8
Balance Sheet - Governmental Fund	9
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	11
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	12
Notes to Financial Statements	14
Supplementary Information	
Capital Assets Used in the Operation of the Governmental Fund - Schedule by Source	22
Capital Assets Used in the Operation of the Governmental Fund - Schedule by Function and Activity	23
Capital Assets Used in the Operation of the Governmental Fund - Schedule of Changes by Function and Activity	24
III. INTERNAL CONTROL AND COMPLIANCE SECTION	
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>	25
Schedule of Findings and Responses	27

SECTION I

INTRODUCTORY SECTION

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
ROSTER OF MANAGEMENT OFFICIALS
For the Fiscal Year Ended June 30, 2011

P.C. Snapp – Executive Director

Ruth Roberts – Director of Corporate Services

Alan Bridwell – Director of Marketing and Technical Services

Estelle Vance – Administrative Assistant

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
ROSTER OF BOARD MEMBERS
For the Fiscal Year Ended June 30, 2011

Representing Johnson City:

Clayton Stout
Jeff Banyas – Executive Committee
Jane Myron – Executive Committee
Ralph Van Brocklin

Representing Washington County:

Mark Larkey – Executive Committee
Dan Eldridge – Executive Committee
Joe Corso
Pat Wolfe – Executive Committee

Representing Johnson City Power Board:

Bill Coleman
Wendell Messimer
Phil Carriger – Executive Committee

Representing Atmos Energy:

Jim Pugh – Executive Committee

Representing CenturyLink:

Lottie Ryans – Chairman

Representing the Johnson City Chamber of Commerce:

Chuck Mason
Scott Folsom – Executive Committee
John Marshall
Robert White

Representing Jonesborough:

Chuck Vest

Members-At-Large:

Wayne Anderson
Warren Broyles
Mark Ferguson
R.T. Summers
Walter E. Tittle, Sr.
Guy Wilson

Representing Greenbelt:

Dan Cross

SECTION II
FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Johnson City/Jonesborough/Washington County
Economic Development Board, Inc.
Johnson City, Tennessee 37601

We have audited the accompanying financial statements of the governmental activities and the major fund of the Johnson City/Jonesborough/Washington County Economic Development Board, Inc. (the Economic Development Board), a nonprofit organization, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Economic Development Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Economic Development Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Accounting 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.

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 Economic Development Board as of June 30, 2011, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13, the Economic Development Board has adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which became effective for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011, on our consideration of the Economic Development 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Economic Development Board's financial statements as a whole. The introductory section and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Blackburn, Childers and Steagall, PLLC
BLACKBURN, CHILDERS & STEAGALL, PLC

November 28, 2011

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

Discussion on Basic Financial Statements

The JC/J/WC Economic Development Board is a 501(c)(6) non-profit corporation that is funded by the City of Johnson City, Washington County, Johnson City Power Board and to a lesser degree, Town of Jonesborough, Atmos Energy and CenturyLink.

The bylaws of the corporation state that any funds remaining at fiscal year end are to be transferred to reserves. The board has the option of transferring reserve funds to the current operation budget. The funds that are transferred at year end are designated by the Board as to their future use. Minutes of the Executive Committee and the Board are recorded and kept indefinitely.

Due to the nature of the business, the Economic Development Board has limited assets aside from bank accounts. All bank accounts are secured by the FDIC. Most capital assets are for office equipment and furniture and are fully depreciated. Their value is based on historical costs. Depreciation is updated monthly. The capitalization threshold for recording fixed assets is at \$1,000 or greater. Items under \$1,000 are expensed. The Board has no long-term debt.

Income and expense are internally controlled. Monthly contributions are made by the funding organizations except the city which pays quarterly. The checks are deposited within three working days of receipt. Expenses and liabilities are accounted for when incurred. Invoices are checked for accuracy and proper documentation before expense coding and approval for payment. All checks require two signatures. Assets are accounted for when acquired. The financial statements are prepared monthly by a CPA firm and approved by both the Executive Committee and the Board. The operating budget is approved by the EDB Finance Committee, the Executive Committee and the Board.

We are presenting the overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2011.

Financial Highlights

- The Board ended the fiscal year with \$804,150 in total net assets.
- The year ended with a decrease in net assets of \$116,454 due to the acceptance of severance packages by three EDB employees.
- There was a \$129 increase in contributions/funding from the prior year.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

Most of the increases are out of the control of the Economic Development Board. Existing Business, Advertisement and Marketing can be controlled and every effort is made to do so. The EDB teams with other local organizations to attend trade shows and share costs. Wages were not increased in 2010-2011, but severance packages were offered and accepted by three EDB employees which resulted in a significant change from the previous year for personnel related expenses.

Budget Discussion

Reserve funds were utilized this budget year to cover additional expenses. Marketing, Existing Business and Advertising ended the year with favorable variances. Some programs and events were delayed to minimize the amount needed from reserves. Interest paid on accounts was very low this budget year. The primary increase in expenses is due to the one-time expenditures for severance packages.

Overview of Financial Statements

The Management's Discussion and Analysis serves as an introduction to the Board's basic financial statements, which are the statement of net assets, statement of activities, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The statement of net assets provides information on the Board's assets versus liabilities that result in net assets. It is a useful indicator of the financial position of the Board and will indicate if the Board is improving or deteriorating.

The statement of activities provides information on the breakdown of expenses and income. It allots expenses into the major categories and shows the ending net assets. It is a general indicator of where the funds are spent and how expenses relate to income.

The fund level financial statements include the general fund's balance sheet, the statement of revenues, expenditures, and changes in fund balances and the statement of revenues, expenditures and changes in fund balance – budget and actual. The balance sheet lists the board assets and liabilities as well as fund balance. The fund balance shows designation of reserved funds and any unreserved. It also contains notes of explanation. The general fund statement of revenues, expenditures, and changes in fund balances – budget and actual provides more detailed information about the Board's revenues and expenditures. The statement is grouped into related accounts that are used as an indicator of how the resources are being used. They are a short-term view of the Board's operations.

The Economic Development Board has total net assets in the amount of \$804,150. Most of the assets are cash and are invested in money market accounts. Interest earned is added back to the account but is used to balance the operating budget. The amount of return on the money is subject to fluctuation as interest fluctuates. The 2010 total net assets amount was \$920,604. The EDB has no significant liabilities.

The statement of activities shows a change in net assets of \$116,454 from 2010.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
 ECONOMIC DEVELOPMENT BOARD, INC.
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2011

Condensed Net Assets

The following details the types of assets owned by the Board and the liabilities associated with these assets. The report represents a quantitative view of the Board's financial condition as of the years ending June 30, 2011 and 2010.

	2011	2010
Assets		
Non-Capital Assets	\$ 804,431	\$ 972,383
Capital Assets	-	93
Total Assets	804,431	972,476
 Liabilities		
Accounts Payable	243	2,413
Compensated Absences	-	49,425
Other Liabilities	38	34
Total Liabilities	281	51,872
 Net Assets		
Invested in Capital Assets	-	93
Unrestricted Net Assets	804,150	920,511
Total Net Assets	\$ 804,150	\$ 920,604

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

This is a more detailed report for the Statement of Activities. This financial report specifically identifies sources of revenue and types of operating expenses and their impact on the Board's assets in a format that is used to prepare the statement of revenues, expenditures, and changes in fund balances – budget and actual.

	<u>2011</u>	<u>2010</u>
Revenue		
Contributions - City of Johnson City, Washington County, Power Board, and Jonesborough	\$ 358,192	358,063
Other Operating Revenues		
Atmos Energy, CenturyLink	15,815	15,815
Total Program Revenue	<u>374,007</u>	<u>373,878</u>
Operating Expenses		
General Administrative:		
Wages	231,780	199,700
Bonuses	12,900	6,400
Temporary Help	4,600	2,202
Health Insurance	7,813	7,667
Retirement	70,342	49,314
Payroll Taxes	23,969	17,037
EDB Insurance	1,790	1,773
Auto Allowance	9,379	9,067
Travel	1,366	3,103
Entertainment	441	334
Office Supplies	3,482	1,824
Telephone/Communication	6,123	6,218
Postage	380	368
Rent	12,017	12,017
Gift/Flower Fund	414	186
Membership Dues/Subscriptions	5,986	6,220
Staff Development	832	1,754
Board Expense	1,734	1,248
Accounting Fees	10,924	9,358
Depreciation	93	180
Corporate Services	-	954
Professional Fees	-	500
Advertising/Promotion	22,555	23,167
Marketing	6,594	11,929
Existing Business Services	4,678	-
Land Account	1,500	-
Industrial Development (FastTrack)	51,534	-
Total Operating Expenses	<u>493,226</u>	<u>372,520</u>
General Revenues		
Interest Income	2,765	8,662
Total General Revenues	<u>2,765</u>	<u>8,662</u>
Change in Net Assets	(116,454)	10,020
Total Net Assets - Beginning	<u>920,604</u>	<u>910,584</u>
Total Net Assets - Ending	<u><u>\$ 804,150</u></u>	<u><u>\$ 920,604</u></u>

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
 ECONOMIC DEVELOPMENT BOARD, INC.
 STATEMENT OF NET ASSETS
 June 30, 2011

	Total Governmental Activities
ASSETS	
Cash	\$ 804,431
TOTAL ASSETS	804,431
LIABILITIES	
Accounts Payable	243
Accrued Payroll Taxes	38
TOTAL LIABILITIES	281
NET ASSETS	
Unrestricted	804,150
TOTAL NET ASSETS	\$ 804,150

The notes to the financial statements are an integral part of this statement.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
 ECONOMIC DEVELOPMENT BOARD, INC.
 STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
GOVERNMENTAL ACTIVITIES					
General Administrative	\$ 457,899	-	374,007	-	(83,892)
Corporate Services	4,678	-	-	-	(4,678)
Marketing	30,649	-	-	-	(30,649)
TOTAL GOVERNMENTAL ACTIVITIES	493,226	0	374,007	0	(119,219)
GENERAL REVENUES					
					2,765
					2,765
					(116,454)
					920,604
					\$ 804,150

The notes to the financial statements are an integral part of this statement.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
 ECONOMIC DEVELOPMENT BOARD, INC.
 GOVERNMENTAL FUND
 BALANCE SHEET
 June 30, 2011

	General Fund
ASSETS	
Cash	\$ 804,431
TOTAL ASSETS	\$ 804,431
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 243
Accrued Payroll Taxes	38
TOTAL LIABILITIES	281
 FUND BALANCE	
Assigned for	
Land Purchase	500,000
Industrial Development	154,150
Unassigned	150,000
TOTAL FUND BALANCE	\$ 804,150

The notes to the financial statements are an integral part of this statement.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
 ECONOMIC DEVELOPMENT BOARD, INC.
 GOVERNMENTAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 For the Fiscal Year Ended June 30, 2011

	General Fund
REVENUES	
Intergovernmental	\$ 358,192
Operating Contributions	15,815
Revenue from Use of Money or Property	2,765
TOTAL REVENUES	376,772
EXPENDITURES	
General Administrative	508,731
Corporate Services	4,678
Marketing	29,149
TOTAL EXPENDITURES	542,558
Deficiency of Revenues	
Under Expenditures	(165,786)
Fund Balance, July 1, 2010	969,936
Fund Balance, June 30, 2011	\$ 804,150

The notes to the financial statements are an integral part of this statement.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balance - governmental fund \$ (165,786

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$93 exceeded capital outlays of \$0 in the current period. (93)

Compensated absences are not recorded at the fund level but are reported in the Statement of Activities. This is the amount by which current year compensated absences were reduced from the prior period. 49,425

Change in Net Assets of Governmental Activities \$ (116,454)

The notes to the financial statements are an integral part of this statement.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
INTERGOVERNMENTAL REVENUE				
City of Johnson City	\$ 139,244	139,244	139,244	-
Washington County	139,244	139,244	139,244	-
Johnson City Power Board	77,000	77,000	77,000	-
Town of Jonesborough	2,704	2,704	2,704	-
TOTAL INTERGOVERNMENTAL REVENUE	358,192	358,192	358,192	0
OPERATING CONTRIBUTIONS				
Atmos Energy	10,815	10,815	10,815	-
CenturyLink	5,000	5,000	5,000	-
TOTAL OPERATING CONTRIBUTIONS	15,815	15,815	15,815	0
REVENUE FROM USE OF MONEY OR PROPERTY				
Investment Earnings	6,000	6,000	2,765	(3,235)
TOTAL REVENUE FROM USE OF MONEY OR PROPERTY	6,000	6,000	2,765	(3,235)
TOTAL REVENUES	380,007	380,007	376,772	(3,235)
EXPENDITURES				
GENERAL ADMINISTRATIVE				
Salaries	198,903	198,903	281,205	(82,302)
Bonuses	6,800	6,800	12,900	(6,100)
Temporary Help	5,325	5,325	4,600	725
Payroll Taxes	17,245	17,245	23,969	(6,724)
Retirement	49,806	49,806	70,342	(20,536)
Employee Insurance	8,155	8,155	7,813	342
Liability Insurance	1,773	1,773	1,790	(17)
Auto Allowance	9,105	9,105	9,379	(274)
Travel	3,400	3,400	1,366	2,034
Entertainment	400	400	441	(41)
Telephone	6,388	6,388	6,123	265
Postage	600	600	380	220
Office Supplies	3,650	3,650	3,482	168
Dues and Subscriptions	7,610	7,610	5,986	1,624
Rent for Chamber	12,017	12,017	12,017	-

(Continued)

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES (CONTINUED)				
GENERAL ADMINISTRATIVE (CONTINUED)				
Accounting Fees	10,000	16,930	10,924	6,006
Meetings	1,400	1,400	1,734	(334)
Gift / Flower Fund	300	300	414	(114)
Industrial Development	-	-	51,534	(51,534)
Land Account	-	-	1,500	(1,500)
Staff Development	1,754	1,754	832	922
TOTAL GENERAL ADMINISTRATIVE	344,631	351,561	508,731	(157,170)
CORPORATE SERVICES				
Corporate Services	7,300	7,300	4,678	2,622
TOTAL CORPORATE SERVICES	7,300	7,300	4,678	2,622
MARKETING				
Advertising / Promotion	25,000	25,000	22,555	2,445
Marketing	16,500	16,500	6,594	9,906
TOTAL MARKETING	41,500	41,500	29,149	12,351
TOTAL EXPENDITURES	393,431	400,361	542,558	(142,197)
Deficiency of Revenues Under Expenditures	(13,424)	(20,354)	(165,786)	(145,432)
Fund Balance, July 1, 2010	13,424	20,354	969,936	949,582
Fund Balance, June 30, 2011	\$ 0	0	804,150	804,150

The notes to the financial statements are an integral part of this statement.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Johnson City/Jonesborough/Washington County Economic Development Board, Inc. (EDB) is a joint venture between the City of Johnson City, Town of Jonesborough, and Washington County, Tennessee established on November 26, 1984. EDB is a non-profit organization under IRC Section 501(c)(6). However, due to the fact that EDB's Board of Directors is appointed by these local governments, the EDB uses governmental fund accounting and does not follow the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC).

Effective June 30, 2011, the operations of the EDB were moved under the Washington County Economic Development Council (WCEDC) and all employees were offered a severance package. One employee elected to become an employee of the WCEDC effective July 1, 2011, but all others accepted the severance package.

EDB's primary goal is to promote economic development in the Washington County, Tennessee area by working with and encouraging businesses to locate in the area.

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the EDB. *Governmental activities*, which normally are supported by intergovernmental revenues and taxes, are reported separately. The EDB has no *business-type* activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers, who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items which do not meet this definition are reported as *general revenues*.

Separate fund level financial statements are provided for governmental funds. EDB has one governmental fund, which is the general fund.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the EDB considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest and reimbursements associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the EDB.

The government reports the following major governmental fund:

The *general fund* is the EDB's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the EDB's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. Cash and Deposits

Cash includes deposits with financial institutions in checking and savings accounts and petty cash. Cash is reported at carrying value, which reasonably estimates fair value. Certificates of deposit with an original maturity date greater than three months have been reflected in the financial statements as Certificates of Deposit and are not included in cash equivalents. As of 6/30/2011 there are no Certificates of Deposit.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Capital Assets

Capital assets, which include office equipment and furniture, are reported in the governmental column in the government-wide financial statements. Equipment and furniture are recorded at historical cost. Donated equipment and furniture items are recorded at estimated fair market value at the date of donation. EDB capitalizes equipment and furniture which costs \$1,000 or more. Items less than that amount are expensed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Equipment and furniture are depreciated using the straight-line method over the following estimated useful lives:

Leased Equipment	3 years
Equipment	5 years
Furniture	7 years

E. Fund Equity

Beginning with fiscal year 2011, the EDB implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the EDB itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the EDB takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the EDB intends to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the EDB. All annual appropriations lapse at fiscal year end. Any budget amendments require Board approval. There was one amendment made to the 2010-2011 budget regarding income from reserves.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

The EDB has various deposits at banks at June 30, 2011. All deposits are insured by Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000. Amounts in excess of \$250,000 are secured by the banks through the State Collateral Pool. Various restrictions on deposits and investments, including repurchase agreements, are imposed by state statutes. These restrictions are summarized as follows:

DEPOSITS – All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits.

INVESTMENTS – State statutes authorize EDB to invest in treasury bonds, notes or bills of the United States; nonconvertible debt securities of the Federal Home Loan Bank, The Federal National Mortgage Association, The Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies; Certificates of Deposit and other evidences of deposit at State and Federal chartered banks and Savings and Loan Associations; obligations of the United States or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; The State of Tennessee Local Government Investment Pool; obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority.

The EDB does not have a policy for interest rate risk or for credit risk other than pledging securities for amounts in excess of the FDIC coverage.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
 ECONOMIC DEVELOPMENT BOARD, INC.
 NOTES TO FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

The EDB had the following balances in the banks at June 30, 2011:

	Per Books	Per Bank
Bank (1)	\$ 693,293	737,612
Bank (2)	111,138	111,138
	\$ 804,431	848,750

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities:				
Capital Assets, Being Depreciated:				
Office Equipment and Furniture	\$ 26,404	-	-	26,404
Total Capital Assets, Being Depreciated	26,404	0	0	26,404
Less: Accumulated Depreciation for				
Office Equipment and Furniture	(26,311)	(93)	-	(26,404)
Total Accumulated Depreciation	(26,311)	(93)	0	(26,404)
Total Capital Assets, Being Depreciated, Net	93	(93)	0	0
Governmental Activities, Capital Assets, Net	\$ 93	(93)	0	0

Depreciation expense of \$93 was charged to the general administrative function in the Statement of Activities.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

NOTE 4 - LEASES

Operating Leases

The EDB leases office space on a year-to-year basis from the Chamber of Commerce. Total rent paid for the fiscal year was \$12,017.

NOTE 5 - RETIREMENT

Effective January 24, 1995, the EDB established a Simplified Employee Pension Plan (SEP), which is a defined contribution plan. The plan was established under section 408 (k) of the Internal Revenue Code. Employees who are at least 18 years old and have completed 60 days of service are eligible to be included in the plan. The plan does not cover temporary employees. The EDB had four employees covered by the plan. All contributions were made by the employer. Each year the organization decided the percentage of payroll contributed to the SEP. As of June 30, 2011, the EDB contributed 25% of eligible payroll, or \$70,342 to the SEP.

NOTE 6 - DESIGNATED FUND BALANCE

The Board has approved \$500,000 to be designated for the purchase of land and \$154,150 to be designated for industrial development within the General Fund.

NOTE 7 - RISK MANAGEMENT ACTIVITIES

The EDB carries insurance coverage for general liability and contents. The EDB decided to drop the workman's compensation insurance in prior years since they are not required to carry it. They do not believe the risk will be material to the organization. There have been no claims in the current year, or in the past five years, which were not covered by insurance. The EDB does not currently provide health insurance to its employees, but reimburses them for out-of-pocket costs spent to purchase individual health insurance policies.

NOTE 8 - ECONOMIC DEPENDENCY

The EDB has a significant dependence on three other entities. Those entities and their related portion of revenue are as follows:

City of Johnson City	35%
Johnson City Power Board	20%
Washington County	35%

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

NOTE 9 - COMPENSATED ABSENCES

Compensated absences were made up of sick leave and vacation pay in the prior years. Sick leave was earned on the basis of one day per month per year of service up to a maximum of 90 days. It was not the Board's intention to pay out the sick leave, but to use it instead of short-term disability coverage. Because of the severance package paid to the terminating employees at June 30, 2011, the need for compensated absences was eliminated and therefore the balance at June 30, 2011 was \$0.

NOTE 10 - BUDGETARY COMPARISON

Certain line items within the General Fund were over budget for the year. A list of the line items and the amount overspent based upon the budget is as follows:

Salaries	\$ 82,302
Bonuses	6,100
Payroll Taxes	6,724
Retirement	20,536
Liability Insurance	17
Auto Allowance	274
Entertainment	41
Meetings	334
Gift / Flower Fund	114
Industrial Development	51,534
Land Account	1,500

Although these line items were overspent, in total, the Economic Development Board was under budget for the fiscal year. The salaries and retirement were over budget due to the severance packages given and the Industrial Development was planned to be paid from the prior year reserves.

NOTE 11 – UNCERTAIN TAX POSITIONS

Even though the EDB does not follow FASB guidance for their accounting, they do follow the FASB guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. As of June 30, 2011, the Economic Development Board had no uncertain tax positions that qualify for either recognition or disclosure in the Economic Development Board's financial statements. The Economic Development Board's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the financial statements. No interest or penalties were recorded during the fiscal year ended June 30, 2011. Generally, the tax years before 2008 are no longer subject to examination by federal taxing authorities.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

NOTE 12 - SUBSEQUENT EVENTS

As of July 1, 2011, there were no longer any employees of the EDB and the activities were moved under the Washington County Economic Development Council. Also, subsequent to year end, the Board voted to use the \$500,000 reserved for Land toward the purchase of land in the industrial park in Washington County, Tennessee. Subsequent events have been evaluated by management through November 28, 2011, the date of this audit report.

NOTE 13 – ACCOUNTING CHANGE

Provision of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* became effective for the year ended June 30, 2011.

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications include nonspendable, restricted, committed, assigned, and unassigned and are based on the relative strength of the constraints that control how specific amounts can be spent. Also, Statement No. 54 clarified the definitions of the General Fund and the special revenue, capital projects, debt service, and permanent fund types. The EDB has implemented provisions of this statement in the financial statements of this report for their governmental funds.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
CAPITAL ASSETS USED IN THE OPERATION OF THE GOVERNMENTAL FUND
SCHEDULE BY SOURCE
June 30, 2011

GOVERNMENTAL FUND CAPITAL ASSETS	
Office Equipment and Furniture	<u>\$ 26,404</u>
 TOTAL GOVERNMENTAL FUND CAPITAL ASSETS	 <u><u>\$ 26,404</u></u>
 INVESTMENTS IN GOVERNMENTAL FUND CAPITAL ASSETS BY SOURCE	
General Fund	<u>\$ 26,404</u>
 TOTAL GOVERNMENTAL FUND CAPITAL ASSETS	 <u><u>\$ 26,404</u></u>

See Independent Auditors' Report.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
CAPITAL ASSETS USED IN THE OPERATION OF THE GOVERNMENTAL FUND
SCHEDULE BY FUNCTION AND ACTIVITY
June 30, 2011

FUNCTION AND ACTIVITY	<u>Total Office Equipment and Furniture</u>
General Administrative	<u>\$ 26,404</u>
TOTAL GOVERNMENTAL FUND CAPITAL ASSETS	<u><u>\$ 26,404</u></u>

See Independent Auditors' Report.

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
 ECONOMIC DEVELOPMENT BOARD, INC.
 CAPITAL ASSETS USED IN THE OPERATION OF THE GOVERNMENTAL FUND
 SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
 For the Fiscal Year Ended June 30, 2011

FUNCTION AND ACTIVITY	Governmental Fund Capital Assets <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	Governmental Fund Capital Assets <u>June 30, 2011</u>
General Administrative	\$ 26,404	-	-	26,404
TOTAL GOVERNMENTAL FUND CAPITAL ASSETS	<u>\$ 26,404</u>	<u>0</u>	<u>0</u>	<u>26,404</u>

See Independent Auditors' Report.

SECTION III

INTERNAL CONTROL AND COMPLIANCE SECTION

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*

Board of Directors
Johnson City/Jonesborough/Washington County
Economic Development Board, Inc.
Johnson City, Tennessee 37601

We have audited the financial statements of the governmental activities and the major fund of the Johnson City/Jonesborough/Washington County Economic Development Board, Inc. (Economic Development Board), a nonprofit organization, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Johnson City/Jonesborough/Washington County Economic Development Board, Inc.'s basic financial statements and have issued our report thereon dated November 28, 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 Economic Development Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Economic Development Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Economic Development Board'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Economic Development Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Economic Development Board in a separate letter dated November 28, 2011.

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

Blackburn, Childers and Steagall, PLLC
BLACKBURN, CHILDERS & STEAGALL, PLC

November 28, 2011

JOHNSON CITY/JONESBOROUGH/WASHINGTON COUNTY
ECONOMIC DEVELOPMENT BOARD, INC.
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2011

FINDINGS – FINANCIAL STATEMENT AUDIT

Current Year Significant Deficiencies

None

Prior Year Significant Deficiencies – Not Implemented

None

Prior Year Significant Deficiencies – Implemented

None