

**THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE - WARREN COUNTY, TENNESSEE**

**AUDITED FINANCIAL STATEMENTS AND
AND OTHER FINANCIAL INFORMATION**

Year Ended June 30, 2012

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THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE-WARREN COUNTY, TENNESSEE

LIST OF OFFICIALS

June 30, 2012

Joe Pugh	Chairman
Levoy Knowles	Vice chairman
Mark Brown	Treasurer/Secretary
Greg Brock	Director
Jeff Golden	Director
Joe Hamby	Director
Sandra Haynes	Director
Tommy Foster	Director
Glen Moore	Director
Herschel Wells, Jr.	Director
Jeff McCormick	Director of Economic Development

Denning & Cantrell

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Industrial Development Board of McMinnville-Warren County
McMinnville, Tennessee

We have audited the accompanying financial statements of the governmental activity and the major fund of The Industrial Development Board of McMinnville-Warren County, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise The Industrial Development Board of McMinnville-Warren County, Tennessee's basis financial statements as listed in the table of contents. These financial statements are the responsibility of The Industrial Development Board of McMinnville-Warren County, Tennessee'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 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.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activity, the major fund, and the statement of budgetary comparison of the General Fund of The Industrial Development Board of McMinnville-Warren County, Tennessee, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012, on our consideration of The Industrial Development Board of McMinnville-Warren County, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iv and vi 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 Industrial Development Board of McMinnville-Warren County, Tennessee's financial statements. The schedule of long term debt principal and interest requirements and the schedule of insurance in force are presented for purposes of additional analysis and are not a required part of the financial statements. Such 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 schedule of long term debt principal and interest requirements and the schedule of insurance in force are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Industrial Development Board of McMinnville-Warren County's basic financial statements. The list of officials is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Denning & Cantrell

Certified Public Accountants

McMinnville, Tennessee
October 1, 2012

Industrial Development Board of McMinnville – Warren County, Tennessee

The Industrial Development Board is pleased to present its Annual Financial Report developed in compliance with Government Accounting Standards Board (GASB) Statement No. 34 and other related standards.

Management's Discussion and Analysis

The following discussion and analysis of the Industrial Development Board's activities and financial performance provides an introduction and overview to the Board's basic financial statements for the year ended June 30, 2012. It should be read in conjunction with the Board's financial statements.

Board's Activities and Highlights

- The Board's net assets increased from \$10,425,618 to \$10,917,985.
- The Board began and completed site work for Speculative Building 3 in the Mountain View Industrial Park adjoining the new access road (Brost Dr.).
- The Board assisted Bridgestone Firestone Warren with a \$38M expansion to be complete in 2013 to increase tire production at the local plant.
- The Board through its GROW committee continued retail marketing including updating the marketing material with the Shopping Center Group.
- The Board completed improvements to Speculative Building 2 in preparation for the opening of Miniature Precision Components.
- The Board completed design and layout for the future Speculative Building 3.
- The Board obtained Tier 1 Data Center designation from TVA for two sites in the McMinnville area.
- The Board announced opening of MPC-Inc. in Speculative Building 2.

Overview of the Financial Statements

The Board's basic financial statements include a statement of net assets, statement of activities and changes in net assets, and notes to the financial statements.

The Board's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by GASB.

Statement of Net Assets. The statement of net assets presents the financial position of the Board. It presents information on the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating. In 2012 there was an increase in the Net Assets.

Statement of Activities. The statement of activities presents a comparison between direct expenses and program revenues for each program function of the Board's governmental activities.

Governmental Fund Financial Statement. The Board accounts for its financial activities in governmental funds. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities. Amounts reported for the governmental activity in the statement of activities are different because the net effect of various transactions involving capital assets is to increase net assets. Depreciation expense of capital assets is reported in government-wide statements of activity and changes in net assets but, since they do not require the use of current financial resources, depreciation expense is not reported as an expenditure in the governmental fund. Principal payment of long-term debt consumes financial resources of the governmental fund and is therefore shown as an expenditure.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of data provided in the Board’s financial statements. The notes to the financial statements can be found on pages 11-20.

Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Board, assets exceed liabilities by \$10,917,985 as of June 30, 2012.

A condensed summary of the Board’s statements of net assets of June 30, 2012 is presented below with a comparative analysis from 2010 - 2012.

	2010	2011	2012
Total Assets	\$15,353,821	\$14,660,291	\$14,406,472
Total Liabilities	\$ 4,691,927	\$ 4,234,673	\$ 3,488,487
Net Assets invested in capital assets, net of related debt	\$ 3,416,289	\$ 3,037,313	\$ 3,976,294
Unrestricted	\$ 6,994,184	\$ 6,828,025	\$ 6,389,477
Total Net Assets	\$10,661,894	\$10,425,618	\$10,917,985

The largest portion of the Board’s net assets represents its investments in capital assets such as land and buildings for present and future industrial use. Because the Board uses the capital assets to grow both existing and future industry and thus produce new employment opportunities, these assets are only available for future spending that might enhance their intended use.

Changes in net assets: A condensed summary of the Board’s statements of activities and changes in net assets for the year ending June 30, 2012 is presented below. A comparative analysis from 2010 to 2012 is also included.

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Support & Revenues			
Operating Grants & Contributions	\$2,299,834	\$1,398,677	\$ 784,000
Rent	\$ 43,500	\$ 43,500	\$ 43,500
Interest & Investment Earnings	\$ 81,950	\$ 68,490	\$ 54,231
Miscellaneous	<u>\$ 16,788</u>	<u>\$ 25,081</u>	<u>\$ 24,220</u>
 Total Revenues	 \$2,442,072	 \$1,535,748	 \$ 905,951
 Expenditures			
Industrial Development	<u>\$ 687,274</u>	<u>\$1,772,024</u>	<u>\$ 413,584</u>
 <u>Increase in Fund Balance</u>	 <u>\$1,754,798</u>	 <u>(\$236,276)</u>	 <u>\$ 492,367</u>

Revenue of the Board includes City of McMinnville and Warren County contributions and rent from existing properties. Expenses for all three years consist of the operation of the Board office and expenses associated with owning rental property.

Current Economic Factors

The Board, having recently acquired additional property for the Mountain View Industrial Park, is now tasked with preparing the land for industrial use. This preparation includes planning, design, and construction of infrastructure to the property as well as the construction of suitable buildings. These improvements are under way.

Contacting the Board's Financial Management

This financial report is designed to provide creditors and funding agencies with a general overview of the Board's finances and show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Industrial Development Board of McMinnville-Warren County, Tennessee 110 South Court Square; McMinnville, TN 37110.

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE - WARREN COUNTY, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2012

<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
Current assets:	
Unrestricted cash	\$ 2,920,271
Interest receivable	12,872
Capital lease receivable - current portion	<u>520,553</u>
TOTAL CURRENT ASSETS	3,453,696
Non-current assets:	
Certificate of deposit - restricted	\$ 552,214
Capital lease receivable	3,469,398
Less amount shown as current	<u>(520,553)</u>
Capital assets (net)	<u>7,451,717</u>
	<u><u>14,406,472</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities:	
Accounts payable	588
Interest payable	12,476
Current portion of long term debt	<u>611,017</u>
TOTAL CURRENT LIABILITIES	624,081
Long Term Debt:	
Notes payable	3,475,423
Less portion due within one year shown as current liability	<u>611,017</u>
TOTAL LIABILITIES	3,488,487
Net assets:	
Invested in capital assets, net of related debt	3,976,294
Restricted for economic development	552,214
Unrestricted	<u>6,389,477</u>
	<u><u>\$ 14,406,472</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE - WARREN COUNTY, TENNESSEE

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2012

		<u>General Fund</u>
<u>Assets</u>		
Current assets:		
Unrestricted cash	\$	2,920,271
Interest receivable		12,872
Capital lease receivable		<u>520,553</u>
Total current assets		3,453,696
Non-current assets:		
Certificate of deposit - restricted	552,214	
Capital lease receivable	<u>2,948,845</u>	<u>3,501,059</u>
Total assets		<u>6,954,755</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts Payable		588
Interest payable		<u>12,476</u>
Total current liabilities		13,064
Non-current liability -		
Deferred income on capital lease		<u>3,469,398</u>
Total liabilities		3,482,462
<u>Fund balances</u>		
Restricted for capital outlay		552,214
Unassigned		<u>2,920,079</u>
Total fund balances		<u>3,472,293</u>
Total liabilities and fund balances	\$	<u>6,954,755</u>

See Independent Auditors' Report and Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE-WARREN COUNTY, TENNESSEE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2012

Total Governmental Fund Balances	\$ 3,472,293
Amounts reported for governmental activities in the statement of net assets are different due to:	
Capital leases, not reported in the funds	3,469,398
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	7,451,717
Notes payable, not reported in the funds	<u>(3,475,423)</u>
Net Assets of Governmental Activities	<u>\$ 10,917,985</u>

See Independent Auditors' Report and Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE - WARREN COUNTY, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year ended June 30, 2012

		<u>General Fund</u>
Support and revenues:		
Rents	\$	43,500
Interest income		54,231
Miscellaneous		<u>24,220</u>
TOTAL SUPPORT AND REVENUES		121,951
 Expenses:		
Administrative expenses		120,647
Advertising and promotions		9,774
Seminars and workshops		970
Travel and entertainment		2,104
Insurance expense		9,638
Professional fees		7,027
Office expenses		17,474
Telephone		2,697
Printing and photography		2,348
Auto repair and maintenance		5,675
Dues and subscriptions		2,593
Development		468,162
Interest expense		88,145
Principal paid on notes		613,558
Maintenance on industrial park		1,678
Other expenses		<u>75</u>
TOTAL EXPENSES		<u>1,352,565</u>
EXCESS OF EXPENSES OVER SUPPORT AND REVENUES		(1,230,614)
 Other financing source (uses):		
Payments from primary governments	\$	784,000
Collections on capital leases		<u>508,115</u>
		<u>1,292,115</u>
INCREASE IN FUND BALANCE		61,501
 Fund Balance at July 1, 2011		<u>3,410,792</u>
 Fund Balance at June 30, 2012		<u>\$ <u>3,472,293</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE-WARREN COUNTY, TENNESSEE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ 61,501
Capital assets reported as an expense in the funds, not reflected in the Statement of Changes in Net Assets	468,162
Depreciation expense not reported in the funds	(142,739)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces debt in the Statement of Net Assets	613,558
Capital lease receipts reported as other financing source in the funds, not reflected in the Statement of Changes in Net Assets	<u>(508,115)</u>
Change in Net Assets of Governmental Activities	<u>\$ 492,367</u>

See Independent Auditors' Report and Notes to Financial Statements.

**THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE - WARREN COUNTY, TENNESSEE**

STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND

Year ended June 30, 2012

	Budget		Actual
	Original	Final	
Beginning fund balance July 1, 2011	\$ 3,410,792	\$ 3,410,792	\$ 3,410,792
Resources (inflows):			
Rents	43,500	43,500	43,500
Interest income	50,000	13,500	54,231
Miscellaneous			24,220
Amounts available for appropriation	3,504,292	3,467,792	3,532,743
Expenses:			
Administrative expenses	121,770	121,870	120,647
Advertising and promotions	10,000	10,000	9,774
Seminars and workshops	2,000	1,000	970
Travel and entertainment	8,000	4,000	2,104
Insurance expense	9,500	10,500	9,638
Professional fees	2,000	7,500	7,027
Office expenses	18,600	17,600	17,474
Maintenance on industrial park	1,000	2,500	1,678
Telephone	2,500	2,600	2,697
Printing and photography	3,500	3,000	2,348
Auto repair and maintenance	6,000	6,000	5,675
Dues and subscriptions	2,900	3,000	2,593
Development	1,200,000	700,000	468,162
Interest expense	74,434	79,388	88,145
Principal paid on notes	641,245	619,176	613,558
Other expenses	1,000	1,000	75
Total charges to appropriations	2,104,449	1,589,134	1,352,565
	1,399,843	1,878,658	2,180,178
Other financing source (uses):			
Payments from primary governments	784,000	784,000	784,000
Collections on capital leases	567,313	533,638	508,115
Ending fund balance June 30, 2012	\$ <u>2,751,156</u>	\$ <u>3,196,296</u>	\$ <u>3,472,293</u>

See Independent Auditors' Report and Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE - WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Industrial Development Board of McMinnville - Warren County, Tennessee, Inc. (Board) was organized to promote industrial growth in the McMinnville and Warren County area. This growth is promoted by acquiring industrial real estate for either development or leasing of facilities. The Board complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Financial Reporting Entity

The Industrial Development Board of McMinnville-Warren County, Tennessee is the basic government that has financial accountability and control over all activities related to the recruiting of industry in McMinnville and Warren County. The Board receives funding primarily from McMinnville and Warren County along with other state and federal assistance and must comply with the accompanying requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined by the GASB pronouncement since the Board's directors have decision making authority, the authority to contract, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 that are included in the Board's reporting entity. The Board is considered a joint venture between the City of McMinnville and Warren County, Tennessee. Five board members each are provided by the City of McMinnville and Warren County.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: government, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Board or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE - WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Board and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recored within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the timing of the related cash flows.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resources measurement focus as defined in item (b) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- (a) All governmental funds utilize a "current financial resources" measurment focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- (b) The government-wide statement utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities is presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE - WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Assets, Liabilities, and Equity

Cash

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificate of deposits of the Board.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include appropriations from the City of McMinnville and Warren County.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

Concentrations of Credit Risk

Financial instruments that potentially subject the Board to significant concentrations of credit risk consist principally of cash. The Board places its cash with federally-insured financial institutions and limits the amount of credit exposure to any one institution by requiring collateral, if the deposit is not held by a bank that participates in the Tennessee Collateral Pool.

Capitalized Interest

Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Compensated Absences

The Board's policies regarding vacation time do not permit employees to accumulate earned but unused vacation leave. Therefore there is no liability for these compensated absences in the government-wide statements.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- (a). Invested in capital assets, net of related debt--Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (b). Restricted net assets--Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- (c). Unrestricted net assets--All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE-WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Fund Statements

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committee, assigned or unassigned.

Nonspendable Fund Balance

This category represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance

This category represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance

This category represents amounts that can only be used for specific purposes imposed by a formal action of the Board's highest level of decision-making authority, the Town Council. Committed resources cannot be used for any other purpose unless the Town Council removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

Assigned Fund Balance

This category represents amounts the Town intends to use for specific purposes as expressed by the Board of Directors or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund.

Unassigned Fund Balance

This category represents the residual classification for the general fund or deficit balances in other funds.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Revenues

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

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

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE-WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Budgetary Data

In accordance with the laws of the State of Tennessee, the Board adopts a budget each year. The budget for the next year is usually presented to the Board of Directors for their approval during the last month of the fiscal year. The budget must pass two readings before it is adopted. Once adopted the budget may be amended as the Board deems necessary. The budgetary amounts in these statements are as adopted by the Board. The budget is prepared in accordance with generally accepted accounting principles. The budget is prepared by fund. The legal level of budgetary control is the fund level.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost. The Board has adopted a capitalization threshold of \$2,500.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Buildings	39
Automobiles	5
Improvements	15
Office equipment, furniture and fixtures	5

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long Term Debt

All long term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long term debt consists primarily of notes payable.

Long term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE-WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE E - NOTES PAYABLE

Department of Economic and Community Development of the State of Tennessee commencing November 17, 2005 with an initial interest rate of 1.00% for the first 59 months, 2.00% for the next 59 months and 3.00% for the last 116 months of the note. The note is secured by a deed of trust on the property which is leased to Superior Walls of Tennessee, Inc., referred to in Note D. Monthly payments on this note range from \$3,640 to \$3,837.	\$ 590,581
Department of Economic and Community Development of the State of Tennessee and Warren County commencing October 11, 2005, guaranteed by Ronald J. Wilson, President and CEO of Morrison Tool and Fab, Inc. payable monthly with an initial interest rate of 1.25% graded up to an ultimate rate of 3.2%. This note is secured by a deed of trust on the property which is leased to Morrison Tool and Fab, Inc. referred to in Note D. Monthly payments range from \$3,463 to \$3,905.	530,448
Caney Fork Electric Cooperative, Inc. commencing February 2, 2011, collateralized by a deed of trust and assignment of lease for real estate located in Warren County, payable \$ 2,652 monthly with interest at a rate of 5.0%	126,447
Caney Fork Electric Cooperative, Inc. commencing February 2, 2011, collateralized by a deed of trust and assignment of lease for real estate located in Warren County, payable \$ 2,500 monthly with interest at a rate of 0.0%	130,000
Caney Fork Electric Cooperative, Inc. commencing November 1, 2012 collateralized by a deed of trust and assignment of lease for real estate located in Warren County, payable \$ 6,852 monthly with interest at a rate of 0.0%	390,556
Tennessee Valley Authority commencing May 15, 2012 collateralized by a deed of trust for real estate located in Warren County, payable \$ 8,845 monthly with interest at a rate of 4.0%	465,751
Tennessee Valley Authority commencing April 1, 2003 collateralized by a deed of trust for real estate located in Warren County and a receivable from K & K Properties, payable \$ 6,680 monthly with interest at a rate of 2.75%	59,028
Cumberland Area Investment Corp commencing May, 2012 collateralized by a deed of trust for real estate located in Warren County, payable \$ 2,295 monthly with interest at a rate of 4.5%	218,506
First National Bank of McMinnville commencing April 1, 2003 collateralized by a deed of trust for real estate located in Warren County and a receivable from K & K Properties, payable \$ 11,106 monthly with interest at a rate of 6.0%	97,442
Caney Fork Electric Cooperative, Inc. commencing January 1, 2012 collateralized by a deed of trust and assignment of lease for real estate located in Warren County, payable \$ 2,778 monthly with interest at a rate of 0.0%	250,000

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE-WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE E - NOTES PAYABLE - continued

Caney Fork Electric Cooperative, Inc. commencing January 1, 2012 collateralized by a deed of trust and assignment of lease for real estate located in Warren County, payable \$ 6,852 monthly with interest at a rate of 0.0%	616,664
	<u>\$ 3,475,423</u>

The following is a schedule of changes in long term debt:

Balance at beginning of year	\$ 4,088,981
Less payments made during year	<u>(613,558)</u>
Balance at end of year	<u>\$ 3,475,423</u>

The notes mature as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 611,017	\$ 64,355	\$ 675,372
2014	434,069	47,550	481,619
2015	441,562	40,056	481,618
2016	448,879	33,302	482,181
2017	377,719	32,370	410,089
2018-2022	783,287	103,189	886,476
2023-2027	<u>378,890</u>	<u>27,101</u>	<u>405,991</u>
	<u>\$ 3,475,423</u>	<u>\$ 347,923</u>	<u>\$ 3,823,346</u>

Governmental activities debt is retired by the General Fund.

NOTE F - LEASE FOR FACILITIES

The Board rents its office facilities from the McMinnville - Warren County Chamber of Commerce for functional operations. The rent is \$ 1,350 monthly and is from month to month. The rent expense for the year was \$16,200.

NOTE G - OTHER LEASES

The Board has entered into a lease agreement with Sunbeam Products, Inc., operating as Oster Professional Products. The leased property is the Sunbeam-Oster building located in McMinnville, Tennessee, and the lease term began on July 1, 2002 and will continue for a period of five years ending June 30, 2012. Sunbeam Products, Inc. pays \$ 28,500 annually to the Board for use of the property during the term of the lease. This lease automatically renewed for five years ending June 30, 2017.

The Board has renewed a lease agreement with Metal Products Company. The leased property is the Metal Products Company building located in McMinnville, Tennessee, and the lease term began on March 31, 2012 and will continue for a period of six years ending March 31, 2018. Metal Products Company pays \$ 1,000 monthly for the use of the property to the Board during the term of the lease.

THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE-WARREN COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE G - OTHER LEASES - continued

The Board collected \$3,000 lease on land at the industrial park. This lease was only for a year and expires December 31, 2012.

Future minimum rental receipts under the above leases are scheduled as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2013	\$ 58,500
2014	40,500
2015	40,500
2016	40,500
2017	40,500
2018	<u>9,000</u>
Total	<u>\$ 229,500</u>

NOTE H - NET ASSETS

Net assets represent the difference between assets and liabilities. The net assets are as follows:

Invested in capital assets, net of related debt:

Net property and equipment	\$ 7,451,717
Less: Notes payable	<u>3,475,423</u>
	<u>3,976,294</u>

Restricted for economic development 552,214

Unrestricted 6,389,477

\$ 10,917,985

NOTE I - ADVERTISING

Advertising in the amount of \$ 9,774 was expensed for the year.

NOTE J - CONCENTRATION OF CREDIT RISKS

Accounts receivable are concentrated in Warren County, Tennessee.

NOTE K - CREDIT RISK - DEPOSITS

Various state statues restrict the types of deposits available to the District. Deposits are limited to bank demand deposits, certificates of deposits, governmental overnight repurchase accounts and the State Local Government Investment Pool (SLGIP).

**THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE-WARREN COUNTY, TENNESSEE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE L - CAPITAL LEASE RECEIVABLES

The Board has entered into a lease agreement with K & K Properties for industrial property located in McMinnville, Tennessee. This property was purchased by the Board, on March 3, 2003. The property was purchased from K & K Properties for the purpose of completing a sale-leaseback transaction. The lease was financed by K & K Properties through First National Bank in McMinnville, Tennessee, and includes monthly payments totaling \$ 17,786 beginning April 2003 and ending March 2013. At termination, the lease includes a bargain purchase clause for K & K Properties. If K & K Properties defaults on the loan, the Board would be liable for the remaining balance owed to the bank.

The Board has entered into a capital lease agreement with Superior Walls of East Tennessee, Inc. for a new building constructed on Highway 70S in Warren County, Tennessee. The lease term began on June 1, 2009 and will continue for a period of 20 years. Superior Walls of East Tennessee, Inc. will pay \$ 3,371 per month for the first 60 months (including interest at a rate of 1.0%), \$3,625 for the next 60 months (including interest at a rate of 2.0%) and \$ 3,804 for the remaining 120 months (including interest at a rate of 3.0%) to the Department of Economic and Community Development of the State of Tennessee on behalf of the Board to be applied to the note payable referred to in note E. Superior Walls of East Tennessee, Inc. has an option to purchase the leased property for an amount equal to the total of all unpaid installments under the note associated with the property plus an additional \$ 250.

The Board has entered into a capital lease agreement for the the sale of a manufacturing facility in Morrison, Tennessee to Morrison Tool & Fab., Inc. The lease term began on March 1, 2009 and will continue for 15 years. Under the terms of the lease, monthly payments are \$ 25,850 including interest at a rate of .25%. Morrison Tool & Fab, Inc. has the option to purchase the facility for \$ 1 at the end of the lease.

Future minimum capital lease receivables are as follows:

Fiscal year ending June 30,	Superior Walls of East Tennessee, Inc.	Morrison Tool & Fab, Inc.	K & K Properties	Amount
2013	\$ 60,404	\$ 303,679	\$ 156,470	\$ 520,553
2014	33,377	304,439		337,816
2015	34,050	305,201		339,251
2016	34,576	305,965		340,541
2017	33,658	306,731		340,389
Beyond five years	<u>394,516</u>	<u>1,196,332</u>		<u>1,590,848</u>
TOTAL	\$ <u>590,581</u>	\$ <u>2,722,347</u>	\$ <u>156,470</u>	\$ <u>3,469,398</u>

OTHER SUPPLEMENTARY INFORMATION

THE INDUSTRIAL DEVELOPMENT BOARD OF McMinnville-Warren County, Tennessee

SCHEDULE OF LONG TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS

June 30, 2012

Year Ended June 30,	Caney Fork Electric Cooperative Non-Interest Bearing Loans					
	Principal	Principal	Principal	Principal	Principal	Principal
2013	\$ 30,000	\$ 82,224	\$ 82,224	\$ 82,224	\$ 33,333	\$ 33,333
2014	30,000	82,224	82,224	82,224	33,333	33,333
2015	30,000	82,224	82,224	82,224	33,333	33,333
2016	30,000	82,224	82,224	82,224	33,333	33,333
2017	10,000	61,660	82,224	82,224	33,333	33,333
2018			82,224	82,224	33,333	33,333
2019			82,224	82,224	33,333	33,333
2020			41,096	41,096	16,669	16,669
TOTAL	\$ 130,000	\$ 390,556	\$ 616,664	\$ 616,664	\$ 250,000	\$ 250,000

Year Ended June 30,	TN Dept of Economic & Community Development			TN Dept of Economic & Community Development		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 33,062	\$ 11,596	\$ 44,658	\$ 60,404	\$ 16,947	\$ 77,351
2014	33,814	10,844	44,658	33,377	10,298	43,675
2015	34,583	10,075	44,658	34,050	9,625	43,675
2016	35,071	9,953	45,024	34,576	9,297	43,873
2017	34,564	12,290	46,854	33,658	12,385	46,043
2018	35,704	11,150	46,854	34,682	11,361	46,043
2019	36,882	9,972	46,854	35,737	10,306	46,043
2020	38,099	8,756	46,855	36,824	9,219	46,043
2021	39,356	7,499	46,855	37,944	8,099	46,043
2022	40,654	6,201	46,855	39,098	6,945	46,043
2023	41,995	4,859	46,854	40,287	5,756	46,043
2024	43,381	3,474	46,855	41,513	4,530	46,043
2025	44,812	2,043	46,855	42,775	3,268	46,043
2026	38,471	576	39,047	44,076	1,967	46,043
2027				41,580	628	42,208
TOTAL	\$ 530,448	\$ 109,288	\$ 639,736	\$ 590,581	\$ 120,631	\$ 711,212

THE INDUSTRIAL DEVELOPMENT BOARD OF McMinnville-Warren County, Tennessee

SCHEDULE OF LONG TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS

June 30, 2012

Year Ended June 30,	Cumberland Area Investment Corporation			Tennessee Valley Authority		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 18,077	\$ 9,463	\$ 27,540	\$ 89,133	\$ 17,011	\$ 106,144
2014	18,907	8,633	27,540	92,765	13,380	106,145
2015	19,776	7,764	27,540	96,544	9,600	106,144
2016	20,684	6,855	27,539	100,464	5,680	106,144
2017	21,634	5,905	27,539	86,845	1,608	88,453
2018	22,628	4,911	27,539			
2019	23,668	3,872	27,540			
2020	24,755	2,784	27,539			
2021	25,893	1,647	27,540			
2022	22,484	467	22,951			
TOTAL	\$ 218,506	\$ 52,301	\$ 270,807	\$ 465,751	\$ 47,279	\$ 513,030

Year Ended June 30,	Tennessee Valley Authority			First National Bank		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 59,028	\$ 1,092	\$ 60,120	\$ 97,442	\$ 2,516	\$ 99,958

	Caney Fork Electric Cooperative		
	Principal	Interest	Total
2013	\$ 26,090	\$ 5,730	\$ 31,820
2014	27,425	4,395	31,820
2015	28,828	2,992	31,820
2016	30,303	1,517	31,820
2017	13,801	182	13,983
TOTAL	\$ 126,447	\$ 14,816	\$ 141,263

**THE INDUSTRIAL DEVELOPMENT BOARD OF
McMINNVILLE - WARREN COUNTY, TENNESSEE**

SCHEDULE OF INSURANCE IN FORCE

June 30, 2012

The Board had the following insurance coverage in force at June 30, 2012:

<u>Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date</u>
Property and Crime:		
Personal property	\$ 35,000	August 29, 2012
Employee dishonesty	150,000	
Forgery, theft, computer fraud	150,000	
Spec building	1,537,500	
Equipment breakdown	1,572,500	
Workman's Compensation	Statutory	August 29, 2012
General Liability:		August 29, 2012
Bodily injury	300,000 per incident 700,000 aggregate	
Catastrophic medical	1,000,000	
Accidental medical payments	1,000 per incident 10,000 aggregate	
Fire	100,000	
Impounded property	100,000	
Property damage	100,000	
Errors and omissions	5,000,000	
Automobile Liability:		August 29, 2012
Bodily injury	300,000 per incident 700,000 aggregate	
Property damage	100,000	
Catastrophic medical	1,000,000	
Medical payments	1,000 per incident 10,000 aggregate	
Uninsured motorist:		
Bodily injury	300,000	
Property damage	100,000	
Comprehensive & collision	per schedule	

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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

Board of Directors
The Industrial Development Board of McMinnville-Warren County
McMinnville, Tennessee

We have audited the financial statements of The Industrial Development Board of McMinnville-Warren County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 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

Management of The Industrial Development Board of McMinnville-Warren County, Tennessee is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Industrial Development Board of McMinnville-Warren 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 statement, but not for the purpose of expressing an opinion on the effectiveness of The Industrial Development Board of McMinnville-Warren County, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Industrial Development Board of McMinnville-Warren County, Tennessee's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph 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.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 12-1 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as items 11-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Industrial Development Board of McMinnville-Warren 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 one instance of noncompliance or other matters, identified as item 12-2 in the schedule of findings and responses, that is required to be reported under *Government Auditing Standards*.

The Industrial Development Board of McMinnville-Warren County, Tennessee's response, 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 McMinnville-Warren County, Tennessee's response, and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, the State Comptroller's office and is not intended to be and should not be used by anyone other than these specified parties.

Denning & Cantrell

Certified Public Accountants

McMinnville, Tennessee
October 1, 2012

THE INDUSTRIAL DEVELOPMENT BOARD OF
MCMINNVILLE-WARREN COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012

11-1	Finding -	Internal Control
	Condition and Criteria -	The Board does not have the proper segregation of duties for an effective system of internal control.
	Cause -	The Board is a very small entity with limited resources which only one accounting personnel.
	Effect -	The lack of an adequate internal control system subjects the Town to the possibility of fraud or miss appropriation of assets being committed.
	Recommendation -	The Town should mitigate its exposure by having increased oversight by the Board such as examining bank reconciliations, closely monitoring budgets, etc.
	Management's Response -	"We will increase the oversight performed by the Board."
12-1	Finding -	Compliance
	Condition and Criteria -	Disbursements, other than salary, paid to the Director are not approved prior to payment being made.
	Cause -	Board oversight in this area has not been implemented.
	Effect -	This subjects the Board to possible misappropriation of funds.
	Recommendation -	A Board member should approve all payments, except salary which should be approved in the minutes, to the Director prior to payment being made.
	Management's Response -	"A Board member will approve these disbursements in the future."

12-2 Finding -	Compliance
Condition and Criteria -	The Board has two bank accounts with amounts in excess of FDIC coverage are not collateralized.
Cause -	Management oversight.
Effect -	This is a violation of State law which subjects the Board's bank accounts to possible loss.
Recommendation -	All bank accounts in excess of FDIC coverage should have the proper collateral pledged to secure the accounts.
Management's Response -	"We concur with the auditors' recommendation. This was an oversight and has been corrected for the largest account and will be corrected for the other account.

Finding 11-1 was mentioned in last year's report.