

**INDUSTRIAL DEVELOPMENT BOARD OF  
STEWART-HOUSTON COUNTIES**

Annual Financial Report

For the Year Ended June 30, 2012

# INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

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## **INTRODUCTORY SECTION**

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

Schedule of Officers

June 30, 2012

<u>Official</u>	<u>Title</u>
Cass Rye	Chairman
Terry Fitzhugh	Vice Chairman
Mark Dortch	Secretary/Treasurer
George Alsobrooks	Board Member
James Fussell	Board Member
Thomas G. Vaughn	Board Member
Marty Grasty	Board Member
Eldon Schmidt	Board Member

## **FINANCIAL SECTION**

**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

134 NORTHLAKE DRIVE  
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**Independent Auditor's Report**

Board of Directors  
Industrial Development Board of Stewart-Houston Counties  
Cumberland City, Tennessee

I have audited the accompanying financial statements of the governmental (operating) activities and the major fund of the Industrial Development Board of Stewart-Houston Counties as of and for the year ended June 30, 2012, which collectively comprise the Industrial Development Board of Stewart-Houston Counties' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Industrial Development Board of Stewart-Houston Counties' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial reporting as contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Industrial Development Board of Stewart-Houston Counties as of June 30, 2012, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 31, 2012 on my consideration of the Industrial Development Board of Stewart-Houston Counties' internal control structure over financial reporting and my 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 my testing of internal controls 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 my audit.

The Industrial Development Board of Stewart-Houston Counties has not prepared the Management's Discussion and Analysis, which is required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The Introductory Section and the Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The Introductory Section and the Supplementary Information have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the Introductory Section and the Supplementary Information, is fairly stated in all material respects in relation to the basic financial statements as a whole.

John R Poole, CPA

August 31, 2012

# **BASIC FINANCIAL STATEMENTS**

**INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES**

**Statement of Net Assets**

**June 30, 2012**

<u>Assets</u>		<u>Total</u>
Cash and cash equivalents	\$321	\$321
Capital assets, net of accumulated depreciation	<u>394,332</u>	<u>394,332</u>
Total Assets	<u>\$394,653</u>	<u>\$394,653</u>
<u>Liabilities</u>		
Liabilities:		
Retainage payable	15,483	15,483
Due to Stewart Houston Industrial Park Board	<u>381,000</u>	<u>381,000</u>
Total Liabilities	<u>396,483</u>	<u>396,483</u>
Net Assets:		
Investment in capital assets, net of related debt	(2,151)	(2,151)
Unrestricted	321	321
Total Net Assets	<u>(\$1,830)</u>	<u>(\$1,830)</u>

See accompanying notes to financial statements.

**INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES**

**Statement of Activities**

**For the Year Ended June 30, 2012**

<u>Function/Programs</u>	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets		Total
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
General government - Industrial Park	1,830	0	0	(1,830)	(1,830)
Total Governmental Activities	<u>1,830</u>	<u>0</u>	<u>0</u>	<u>(1,830)</u>	<u>(1,830)</u>
General Revenues:					
Interest income				0	0
Total general revenues				<u>0</u>	<u>0</u>
Changes in net assets					
Net assets - beginning of year				(1,830)	(1,830)
Net assets - ending of year				0	0
Net assets - ending of year				<u>(1,830)</u>	<u>(1,830)</u>

See accompanying notes to financial statements.

# **FUND FINANCIAL STATEMENTS**

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

Balance Sheet

General Fund

June 30, 2012

	Operating Fund
<u>Assets</u>	
Cash and cash equivalents	\$ 321
Total Assets	<u>\$ 321</u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Retainage payable	15,483
Due to Stewart Houston Industrial Park Board	<u>381,000</u>
Total Liabilities	<u>396,483</u>
Fund Equity:	
Fund balance:	
Unassigned	<u>(396,162)</u>
Total Fund Balance	<u>(396,162)</u>
Total Liabilities and Fund Equity	<u>\$321</u>

The notes accompanying the financial statements are an integral part of these financial statements.

**INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES**

**Reconciliation of the Balance Sheet to the Statement of Net Assets  
of Government Activities**

**June 30, 2012**

Amounts reported for fund balance - total governmental funds	\$ (396,162)
Amounts reported for governmental activities in the statement of net assets are different because the operating funds do not report:	
Investment in capital assets	<u>394,332</u>
Net assets of governmental activities	\$ <u><u>(1,830)</u></u>

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

Governmental Fund  
Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2012

Expenditures:	
Accounting	1,575
Miscellaneous	255
Capital outlay	394,332
Total Expenditures	<u>396,162</u>
Operating income	<u>(396,162)</u>
Net change in fund Balance	<u>(396,162)</u>
Fund Balance, Beginning of year	0
Fund Balance, End of year	<u>(396,162)</u>

See accompanying notes to financial statements.

**INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Fund to the Statement of Activities**

**For the Year Ended June 30, 2012**

Net change in fund balances - total governmental funds: \$ (396,162)

Amounts reported for governmental activities in the statement of net  
assets are different because:

Operating 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.

Acquisition of capital assets	394,332
Depreciation expense	<u>0</u>

Change in net assets of governmental activities \$ (1,830)

## Industrial Development Board of Stewart-Houston Counties

### Notes to Financial Statements

June 30, 2012

#### **(1) Summary of Significant Accounting Policies**

The Industrial Development Board of Stewart-Houston Counties (Board) consists of members appointed by Stewart County and Houston County. As agency for the counties, the Board has been delegated the authority to develop, operate and maintain an industrial site for the benefit of the community. The Board operates in conjunction with the Houston Stewart Industrial Park Board that consists of eight board members appointed by Stewart County and Houston County.

The accounting policies of the Industrial Development Board of Stewart-Houston Counties conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

#### Reporting Entity:

The Industrial Development Board of Stewart-Houston Counties was organized by joint resolution of Houston County and Stewart County. The Board consists of members and has been delegated the authority to develop, operate and maintain an industrial site located on the Stewart-Houston county line near Cumberland City, Tennessee.

Governmental Accounting Standards Board (GASB) Statement Number 14, "The Financial Reporting Entity" requires that financial statements present the reporting entity which consists of the primary government and "Component Unit" organizations for which the primary government is financially accountable and any other "Component Unit" organizations for which the nature and significance of their relationship with the primary government are such that exclusion, could cause the Board's general purpose financial statements to be misleading. There was no component unit requiring blended or discrete presentation under the requirements of GASB Statement Number 14

#### Government -Wide and Fund Financial Statements

The Government-wide financial statements, the statement of net assets and the statement of activities report information on all of the financial activities of the Board.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

#### 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 related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund revenues are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded generally when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

# Industrial Development Board of Stewart-Houston Counties

## Notes to Financial Statements

June 30, 2012

### (1) Summary of Significant Accounting Policies, Continued

The Board reports the following major fund:

General (Operating) Fund - The General (Operating) Fund is the general operating fund of the Industrial Development Board. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

#### Cash and Cash Equivalents

Cash and cash equivalents consist primarily of checking accounts and a money market account. 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. When unrestricted funds are used the Board uses committed, assigned then unassigned funds.

#### Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets consisting of certain improvements other than buildings are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Board as assets with an individual cost of \$2,000 and an estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated useful life in excess of three years. Donated fixed assets are valued at their estimated fair value on the date donated. 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.

Depreciation is provided over the estimated useful lives using the straight line method.

The estimated useful lives are as follows:

Land improvements	10-15 years
Buildings	25-40 years
Machinery and Equipment	5-10 years

#### Budget and Budgetary Accounting

The Board is not legally required to adopt a budget; therefore, no budget comparison is presented in these financial statements.

#### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. There were no such reservations at year end.

#### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Industrial Development Board of Stewart-Houston Counties

### Notes to Financial Statements

June 30, 2012

#### (1) Summary of Significant Accounting Policies, Continued

##### Credit Risk

Financial instruments that potentially subject the Board to significant concentrations of credit risk consist principally of cash and cash equivalents. The Board places its cash with federally-insured financial institutions or institutions participating in the State collateral pool.

##### Deferred Revenue

Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

##### Fund Balance

The Board implemented GASB 54 which addresses issues related to how fund balances are reported. Fund balances are now reported in the following manner:

Nonspendable fund balances – amounts that are not in a spendable form, Restricted fund balance – amounts constrained to specific purposes by their providers, provisions, or by enabling legislation, Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint, Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority, Unassigned fund balance – amounts that are available for any purpose; these amounts are reported only in the general fund.

Only by Board approval can fund balance amounts be classified as committed or assigned.

#### (2) Cash and Cash Equivalents

The Board is authorized to invest funds in Federal treasury bills and notes, State of Tennessee Local Government Investment Pool and financial institution demand deposit accounts and certificates of deposit. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions. The Board has deposit policies to minimize custodial credit risks. The collateral must meet certain requirements and be deposited in an escrow account in a second bank for the benefit of the Board and must total a minimum 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. The Board's deposits with financial institutions are fully insured or collateralized by securities held in the Board's name.

## Industrial Development Board of Stewart-Houston Counties

### Notes to Financial Statements

June 30, 2012

#### (3) Capital Assets

A summary of changes in general capital assets as presented in the governmental activities column of the government-wide financial statements is as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Construction in progress - building	-	394,332	-	394,332
Total	-	394,332	-	394,332
Accumulated depreciation	-			-
Capital assets - net	-			-

The Board is in the process of construction an Industrial site. Completion is expected during the next fiscal year.

#### (4) Note Receivable – Related Party

The Industrial Development Board of Stewart-Houston Counties has received funds from the Stewart Houston Industrial Park Board, who is assisting the Industrial Development Board of Stewart-Houston Counties in constructing a facility within the Industrial Park. The Stewart Houston Industrial Park Board is receiving grant funds to assist in the construction of the facility for the Industrial Development Board of Stewart-Houston Counties. The Industrial Development Board of Stewart-Houston Counties is a related party as the two entities share a common Board of Directors. It is expected that the Industrial Development Board of Stewart-Houston Counties will be managed by a separate Board in the future. The repayment of the note will begin upon completion of the facility.

#### (5) Commitments and Contingencies

##### Litigation:

There are no pending lawsuits in which the Board is involved which are significant to the financial statements.

## **FINANCIAL SCHEDULES**

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

Schedule of Cash and Cash Equivalents  
All Funds

June 30, 2012

	<u>Carrying Value</u>
General Fund:	
Traditions First Bank	\$321
Total General Fund	<u>321</u>
 Total - All funds	 <u><u>\$321</u></u>

**COMPLIANCE AND  
INTERNAL CONTROL**

**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS**  
**AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED**  
**ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED**  
**IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Industrial Development Board of Stewart-Houston Counties  
Cumberland City, Tennessee

I have audited the financial statements (as listed in the table of contents) of Industrial Development Board of Stewart-Houston Counties for the year ending June 30, 2012, and have issued my report thereon dated August 31, 2012. I conducted the audit in accordance with generally accepted auditing standards of 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 Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing the audit, I considered the Industrial Development Board of Stewart-Houston Counties' internal control over financial reporting as a basis for designing the auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Industrial Development Board of Stewart-Houston Counties' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

My 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. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a material weakness (2012-1 Lack of segregation of Duties).

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described below (2012-1) to be a material weakness.

The material weakness is as follows:

**Current Year Comment:**

2012-1 Separation of Duties

Due to the limited number of personnel employed by the Industrial Development Board of Stewart-Houston Counties, several functions, which ideally should be performed by different individuals, are regularly performed by one or two persons. I recommend that the Board strengthen its internal control in cash receipts, cash disbursements, and reconciliation of cash.

Management Response:

Due to the size of the office, a complete separation of duties is not possible. However we are continuing to monitor office responsibilities and segregate duties as needed.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Industrial Development Board of Stewart-Houston Counties' financial statements are free of material misstatement, I 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Industrial Development Board of Stewart-Houston Counties' response to the finding identified in the audit is described above. I did not audit the Management Response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, and State Comptrollers Office and is not intended to be and should not be used by anyone other than these specified parties.

John R Poole, CPA

August 31, 2012