

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Clarksville-Montgomery County Industrial Development Board
Clarksville, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Clarksville-Montgomery County Industrial Development Board (the Board), component unit of Montgomery County, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Board 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 December 21, 2012, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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, as listed in the table of contents, 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 Board's basic financial statements. The other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stone Rudolph & Henry, PLC

December 21, 2012

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012

Our discussion and analysis of the Clarksville-Montgomery County Industrial Development Board's (the Board) financial performance provides an overview of the Board's financial activity for the year ended June 30, 2012. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The Board's total net assets increased more than \$2 million as a result of this year's activities.
 - Most of this increase was due to the addition of the former Jostens building to inventory.
 - The remainder was primarily used to pay down the principal of notes payable (as budgeted).
- The Board incurred industrial park development expenses of \$26 million. (Nearly all of this was funded by State grants.)
 - A large majority of these expenditures were related to the Board's ongoing oversight of site improvements and infrastructure development for the Hemlock Semiconductor, LLC site.
- This year's recruitment and retention efforts resulted in five major announcements:
 - Florim USA expansion: \$60 million capital investment, 33 new jobs
 - Red Knight Distribution (Furniture Connection) new facility: \$4 million investment, 20 new jobs
 - Prax Air new facility: \$300 million investment, 4 new jobs
 - Bridgestone Metalpha expansion: \$75 million investment, 45 new jobs
 - Agero Inc. new facility: \$8.2 million investment, 500 new jobs
- The County provided the full operations funding for the Board for fiscal 2011-2012.

Required Financial Statements

The financial statements of the Board report information about the Board using generally accepted accounting principles. These statements offer financial information about its activities. The Governmental Fund Balance Sheet/Statement of Net Assets include all of the Board's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations (liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities. This statement measures the success of the Board's operations and can be used to determine if the Board recovered all its cost through the funding provided by the Montgomery County government. The final required financial statement is the Budgetary Comparison Schedule. The primary purpose of this statement is to provide information regarding the Board's financial performance versus the adopted budget for this year.

Financial Analysis of the Board

The financial statements of the Board include only activities of the Board. In addition to the actual cash received and expended, the Board receives the benefit of private dollars through the marketing efforts of Aspire Clarksville (the Foundation). For fiscal year 2012, the Foundation spent nearly \$550,000 toward economic development efforts, with more than \$251,000 representing direct industrial development efforts benefiting the Board's activities. Over time, increases or decreases in fund balance/net assets can show whether the business is improving or deteriorating.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2012

However, other non-financial factors such as economic conditions, property available for sale, the focus of the Foundation agenda and changes in legislation and the local legislative agenda should be considered.

Fund Balance/Net Assets

One of the most important questions asked about the Board's finances is "Is the Board as a whole better off or worse off as a result of the year's activities?" The Governmental Fund Balance Sheet/Statement of Net Assets and the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities report information about the Board's activities in a way that will help answer this question. An increase in net assets is an indicator that a business is improving.

In order to more clearly compare with the financial performance of the previous year, summaries of the Statements of Net Assets are presented in Table A-1. As you can see in the table below, total net assets increased by more than \$2 million. By far, the most significant change from the 2011 statement is due to the addition of the former Jostens' building to its inventory of "property held for sale or lease" as a result of a payment-in-lieu-of-tax agreement (\$1.9 million appraised value). The rest of the increase in net assets was from the operations of the Board and intended, in large part, to reduce the principal on non-current liabilities (note the 9.7% reduction from 2011). Another noteworthy change is related to the Board's state-funded industrial site and infrastructure development. This work has largely no effect on the net assets of the Board but is evident in the amount of the Board's state grants receivable (up \$5 million from 2011) and, in large part, accounts payable.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF NET ASSETS (IN THOUSANDS)
JUNE 30, 2012 AND 2011

TABLE A-1

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<u>ASSETS</u>				
Current Assets	\$ 8,902.0	\$ 4,335.8	\$ 4,566.2	105.3%
Notes Receivable	2,357.1	3,376.2	(1,019.1)	-30.2%
Capital Assets (Net)	2,193.8	1,899.4	294.4	15.5%
Property Held for Sale or Lease	<u>16,196.7</u>	<u>14,596.7</u>	<u>1,600.0</u>	11.0%
TOTAL ASSETS	<u>\$ 29,649.6</u>	<u>\$ 24,208.1</u>	<u>\$ 5,441.5</u>	22.5%
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities	\$ 10,294.4	\$ 6,796.9	\$ 3,497.5	51.5%
Non-Current Liabilities	<u>1,454.4</u>	<u>1,610.1</u>	<u>(155.7)</u>	-9.7%
TOTAL LIABILITIES	11,748.8	8,407.0	3,341.8	39.8%
Net Assets Invested in Capital Assets	282.3	214.0	68.3	31.9%
Unrestricted Net Assets	<u>17,618.5</u>	<u>15,587.1</u>	<u>2,031.4</u>	13.0%
TOTAL NET ASSETS	<u>17,900.8</u>	<u>15,801.1</u>	<u>2,099.7</u>	13.3%
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 29,649.6</u>	<u>\$ 24,208.1</u>	<u>\$ 5,441.5</u>	22.5%

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2012

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities

While the Governmental Fund Balance Sheet/Statement of Net Assets shows the change in financial position of net assets, the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities details the nature and source of these changes.

In order to more clearly compare the financial performance to the previous year, summaries in the format of a Statement of Activities are presented in Table A-2 below.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF ACTIVITIES (IN THOUSANDS)
JUNE 30, 2012 AND 2011

TABLE A-2

	2012	2011	Dollar Change	Percent Change
Montgomery County Subsidy	\$ 624.6	\$ 624.6	\$ -	0.0%
Lease and Other Income	452.8	360.8	92.0	25.5%
Gain from Assets Sold	-	159.3	(159.3)	-100.0%
ASPIRE Clarksville Grants	251.1	178.6	72.5	40.6%
State Grants	26,331.4	27,240.3	(908.9)	-3.3%
Non-Operating Revenues	14.6	14.8	(0.2)	-1.4%
Total Revenues	<u>27,674.5</u>	<u>28,578.4</u>	<u>(903.9)</u>	<u>-3.2%</u>
Operating Expenses	1,036.9	931.9	105.0	11.3%
Interest Expense	102.4	110.0	(7.6)	-6.9%
Industrial Park Development	26,363.6	27,297.7	(934.1)	-3.4%
Total Expenses	<u>27,502.9</u>	<u>28,339.6</u>	<u>(836.7)</u>	<u>-3.0%</u>
Change in Net Assets	171.6	238.8	(67.2)	-28.1%
Contributions from City & County	1,928.2	-	1,928.2	
Net Assets - Beginning	15,801.1	15,562.3	238.8	1.5%
Net Assets - Ending	<u>\$ 17,900.9</u>	<u>\$ 15,801.1</u>	<u>\$ 2,099.8</u>	<u>13.3%</u>

Operating revenue for the Board is generated almost entirely by the Montgomery County (County) government. In 2012, County funding remained unchanged. The most noteworthy differences in the activities of the Board from 2011 are the contributions from the City of Clarksville (City) and County. Most noteworthy of these is the contribution of the former Jostens building as part of a payment-in-lieu-of-tax agreement (\$1.9 million) related to the company's relocation to and expansion in the industrial park. Other noteworthy financial activity involved \$26 million of state-funded industrial park development obligations to Hemlock Semiconductor, LLC (\$900,000 less than 2011).

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2012

Other less noteworthy differences from 2011:

- The increase in Foundation grant revenues due to the volume of Aspire initiatives performed (related increases in operating expenses usually nullify any potential impact on the Board's net assets)
- Other income from the sale of industrial park property for the Furniture Connection project (\$54,000 inter-local share)
- Other income from the extension of the Panattoni option agreement to purchase industrial park property (\$50,000)

Overall, the increase in net assets was a bit more than anticipated for the year. This enabled the Board to reduce the principal on long-term liabilities from this year's operations as planned.

Budgetary Comparison Schedule

The Budgetary Comparison Schedule reports the variances between actual revenues and expenses versus the Board's budget. It provides information on the Board's financial performance as compared to expected performance at the beginning of the reporting period.

The Board adopts an Operating and Capital Expenses Budget to assist in planning and forecasting for the fiscal year. The budget is approved first by the Board and then the County. It is in effect for the entire fiscal year. Management uses the budget as a planning tool for the coming year. A Condensed Budgetary Comparison Schedule is shown below in Table A-3. The Board ended the fiscal year with operating revenues 4% over budget and operating expenses 2% under budget. These favorable variances helped fund more than \$32,000 of unbudgeted (Board approved) project expenses that were not funded by state grants.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2012

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED BUDGETARY COMPARISON SCHEDULE (IN THOUSANDS)
JUNE 30, 2012
TABLE A-3

	<u>Budgeted</u> <u>Amounts</u>	<u>Actual</u> <u>Amounts</u>	Variance Favorable (Unfavorable)
Revenues			
County Funding	\$ 624.6	\$ 624.6	\$ -
Other Revenue	347.8	467.4	119.6
ASPIRE Clarksville Grants	319.0	251.1	(67.9)
State Grants	-	26,331.4	26,331.4
Total Revenues	<u>1,291.4</u>	<u>27,674.5</u>	<u>26,383.1</u>
Expenses			
Operating Expenses	1,128.3	1,139.3	(11.0)
Project Expenses	-	26,363.6	(26,363.6)
Total Expenses	<u>1,128.3</u>	<u>27,502.9</u>	<u>(26,374.6)</u>
Revenues In Excess of Expenses	<u>\$ 163.1</u>	<u>\$ 171.6</u> *	<u>\$ 8.5</u>

* before budgeted capital expenditures toward notes payable of \$163k.

The budgeted Revenues in Excess of Expense shown in Table A-3 are designated to service debt obligations incurred to obtain industrial park properties and a company vehicle. Below, in Table A-4, is a schedule of principal payments that are to be funded from current and future operations.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
JUNE 30, 2012
LONG-TERM DEBT
TABLE A-4

<u>Fiscal</u> <u>Year</u>	<u>Note</u> <u>Principal</u>
2013	\$ 154,457
2014	\$ 159,776
2015	\$ 166,291
2016	\$ 175,672
2017	\$ 185,581

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Most companies structure strategic planning with the intent to increase sales to existing customers and to increase the overall customer base thereby producing a higher profit margin and a greater posture for sustained growth. A more appropriate goal for an entity such as the Board is to educate and encourage government officials regarding its efforts to encourage economic growth among both new and existing businesses within our community. External factors such as City and County finances will have a great impact on the Board's growth and effectiveness. It is hoped that recent industrial and economic development announcements demonstrate the Board's ability to expand the workforce in Montgomery County through recruitment of new industries, and that this will lead to a willingness to support the Board as needed in the future.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Board's finances. If you have any questions about this report or need any additional information contact the Vice President of Finance and Human Resources, Clarksville-Montgomery County Economic Development Council, P. O. Box 883, Clarksville, Tennessee 37041-0883.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Fund	Adjustments (Note 11)	Statement of Net Assets
<u>ASSETS</u>			
Cash in banks	\$ 915,013		\$ 915,013
Certificates of deposit	603,386		603,386
Accounts receivable	38,056		38,056
Grant receivable	151,217		151,217
State grants receivable	7,163,184		7,163,184
Notes receivable	2,357,143		2,357,143
Unbilled reimbursable costs	12,775		12,775
Property held for sale or lease	16,196,694		16,196,694
Capital assets:			
Land and other non-depreciated assets	-	\$ 37,641	37,641
Other capital assets - net of accumulated depreciation	-	1,794,490	1,794,490
Construction in progress	361,678		361,678
Due from related party	18,358		18,358
Total assets	<u>\$ 27,817,504</u>	<u>\$ 1,832,131</u>	<u>\$ 29,649,635</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 7,240,186		\$ 7,240,186
Due to City of Clarksville	96,322		96,322
Due to Montgomery County	2,380,475		2,380,475
Unearned state grant revenue	370,511		370,511
Due to related party	33,692		33,692
Land sale options	18,700		18,700
Notes payable:			
Due within one year	-	\$ 154,457	154,457
Due in more than one year	-	1,454,405	1,454,405
Total liabilities	<u>10,139,886</u>	<u>1,608,862</u>	<u>11,748,748</u>
<u>FUND BALANCE/NET ASSETS</u>			
Fund balance (deficit):			
Nonspendable	18,144,801		
Unassigned	(467,183)	223,269	
Total fund balance	<u>17,677,618</u>	<u>223,269</u>	
Total liabilities and fund balance	<u>\$ 27,817,504</u>		
Net assets:			
Invested in capital assets, net of related debt			282,344
Unrestricted			17,618,543
Total net assets		<u>\$ 1,832,131</u>	<u>\$ 17,900,887</u>

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

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	<u>Governmental Fund</u>	<u>Adjustments (Note 11)</u>	<u>Statement of Activities</u>
<u>EXPENDITURES/EXPENSES</u>			
Operating expenses:			
Advertising	\$ 4,526		\$ 4,526
Conferences and trade shows	23,485		23,485
Contributions	15,000		15,000
Depreciation	-	\$ 68,470	68,470
Dues and membership	11,982		11,982
Employee pensions and benefits	54,208		54,208
Entertainment	52,919		52,919
Expenses for sale of land	35,949		35,949
Insurance	4,164		4,164
Miscellaneous	-		-
Office and data processing equipment	4,352		4,352
Office supplies	1,816		1,816
Payroll taxes	29,532		29,532
Postage	949		949
Printing and stationery	1,389		1,389
Professional services	142,474		142,474
Project	26,363,560		26,363,560
Public relations	566		566
Rent	20,586		20,586
Repairs and maintenance	39,791		39,791
Salaries	416,594		416,594
Subscriptions	333		333
Supplies	500		500
Telephone	11,128		11,128
Travel	55,468		55,468
Utilities	40,707		40,707
Total operating expenses	<u>27,331,978</u>	<u>68,470</u>	<u>27,400,448</u>
Capital outlays	1,165	(1,165)	-
Debt service:			
Principal	147,553	(147,553)	-
Interest	102,405	-	102,405
Total expenditures/expenses	<u>27,583,101</u>	<u>(80,248)</u>	<u>27,502,853</u>
<u>PROGRAM REVENUES</u>			
State grants	26,331,435		26,331,435
Grant from Aspire Clarksville	251,083		251,083
Total program revenues	<u>26,582,518</u>	<u>-</u>	<u>26,582,518</u>
Net program expense	<u>1,000,583</u>	<u>(80,248)</u>	<u>920,335</u>

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES (CONT'D)
YEAR ENDED JUNE 30, 2012

	<u>Governmental Fund</u>	<u>Adjustments (Note 11)</u>	<u>Statement of Activities</u>
<u>GENERAL REVENUES</u>			
Lease and other income	452,818		452,818
Montgomery County subsidy	624,616		624,616
Investment income	14,587		14,587
Total general revenues	<u>1,092,021</u>	<u>-</u>	<u>1,092,021</u>
 Excess of revenues over expenditures before contributions	 91,438	 80,248	 171,686
 Contributions from City and County	 <u>1,928,162</u>	 <u>-</u>	 <u>1,928,162</u>
 Change in net assets	 2,019,600	 80,248	 2,099,848
 Fund balance/Net assets:			
Beginning of the year	<u>15,658,018</u>	<u>-</u>	<u>15,801,039</u>
 End of the year	 <u>\$ 17,677,618</u>	 <u>\$ -</u>	 <u>\$ 17,900,887</u>

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

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Clarksville-Montgomery County Industrial Development Board (the Board) is a nonprofit corporate agency and instrumentality of Montgomery County, Tennessee, organized under Title 7, Chapter 53 of the Tennessee Code Annotated. The Board has as its main purpose maintaining and increasing employment opportunities and furthering the use of Montgomery County's agricultural products and natural resources by promoting industry, trade, commerce, and construction by inducing manufacturing, industrial, governmental, educational, financial, service, commercial and recreational enterprises to locate in or remain in this area.

The Board is a component unit of Montgomery County, Tennessee, which is the principal reporting entity and primary government. The Board is treated as a discrete component unit of Montgomery County since Montgomery County may unilaterally control the operations of the Board. The County is responsible for appointing the majority of the Board's board of directors and provides its primary funding support. The financial reporting entity of the Board only includes the assets and operations of the Board and does not include any other fund, organization, institution, agency, department, or office of Montgomery County, the primary government.

In fiscal year 1995, the Clarksville-Montgomery County Tourism Commission (Tourism), the Clarksville Area Chamber of Commerce (Chamber), and the Board jointly organized the Clarksville-Montgomery County Economic Development Council (EDC) to develop, coordinate, and implement a comprehensive marketing plan relating to economic prosperity of Clarksville-Montgomery County and the surrounding area. The Board, Tourism, and Chamber evenly share the cost of the EDC staff's salary, payroll taxes, benefits, and other operating costs and of expenses related to the general administration of the EDC. All other expenses of the EDC are shared based on usage allocations.

Government-wide and Fund Financial Statements

The government-wide financial statements (the governmental fund balance sheet/statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities) report information on all of the nonfiduciary activities of the Board.

The governmental fund financial statements are shown in combination with the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct operating expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Subsidies and other items that are not properly included among program revenues are reported instead as general revenues.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Measurement Focus, Basis of Accounting, and Basis of 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 flow.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when 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 Board considers revenues to be available if they are collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Board's only fund is the general fund. It accounts for all of the financial resources of the Board.

The Board follows all pronouncements of the Governmental Accounting Standards Board (GASB) and pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989. The Board has not elected to follow FASB pronouncements issued after November 30, 1989.

Funding

The Board receives operating subsidies from Montgomery County. A major reduction of funds by this supporting organization could have a significant effect on the future operations of the Board.

Use of 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 in the near term and those variations could have a material effect on the financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject the Board to significant concentrations of credit risk consist principally of cash and receivables. The Board is exposed to credit risk by placing its deposits in financial institutions. The Board has mitigated this risk because the bank balance in excess of the FDIC deposit insurance limit is collateralized by the State of Tennessee bank collateral pool. With respect to receivables, credit risk is primarily limited to amounts due from escrow agents in connection with the sale of property and from grantors including Aspire Clarksville and the State of Tennessee.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed and are depreciated over their estimated useful lives, which range from five years for furniture, fixtures and equipment to thirty-nine years for buildings, using the straight-line method. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs are not capitalized.

Property Held for Sale or Lease

Property held for sale or lease is recorded at cost. The cost of property sold is charged to expense using the specific identification method.

Accrued Compensated Absences

Employees are required to use earned vacation days within the fiscal year and sick days are not paid upon separation. Therefore, there are no accrued compensated absences at the financial statement date.

Fund Balance

The Board has 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 spendable form (such as inventory) or are required to remain 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 Board's governing body, using its highest level of decision-making authority (i.e., the board of directors). To be reported as committed, amounts cannot be used for any other purpose unless the board of directors takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the Board intends to use for a specific purpose. Intent can be expressed by management of the Board.
- Unassigned fund balance – amounts that are available for any purpose.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Fund Balance (Cont'd)

The details of the fund balances are included in the Governmental Fund Balance Sheet and in Note 16.

It is the Board's policy to use restricted funds first as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted or the assignment has been changed by management. Decreases to fund balance first reduce unassigned fund balance; in the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

Uncollectible Accounts

Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles.

Date of Management's Review

Subsequent events have been evaluated through December 21, 2012, which is the date the financial statements were available to be issued.

2. Cash and Cash Equivalents

Cash and other deposits are restricted to deposits with federally insured institutions and must be approved by the board of directors.

Custodial credit risk for the Board's deposits is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As required by state statutes, the Board's policy is to require that financial institutions holding its deposits be members of the State of Tennessee Collateral Pool or pledge collateral of 105% for deposits in excess of federal depository insurance. The collateral is required to be held by the Board or its agent in the Board's name. At June 30, 2012, cash and other deposits reported in the financial statements in the amount of \$1,518,399 were represented by bank balances totaling \$1,527,560, all of which were insured by the Federal Deposit Insurance Corporation (FDIC) or the State of Tennessee Collateral Pool.

The Board considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents. Both cash and cash equivalents are carried at cost which approximated fair value at June 30, 2012.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3. Investments and Other Deposits

Investments and other deposits are restricted by State law to deposits with financial institutions and certain obligations guaranteed by the United States government. Investments and other deposits are stated at cost or amortized cost, which approximates fair value at June 30, 2012. Following is a summary of the Board's certificates of deposit at June 30, 2012, all of which were insured by the FDIC or the State of Tennessee Collateral Pool.

	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of Deposit	\$ 603,386	\$ 603,386

4. Notes Receivable from Sale of Land

The Three C Group, LLC note was a non-interest bearing note receivable, secured by a subordinate deed of trust on the eight acres sold and improvements which was liquidated in the fiscal year ended June 30, 2012. The Hemlock Semiconductor, LLC (HSC) note is a non-interest bearing note receivable received in exchange for land.

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Three C Group, LLC note	\$ -	\$ 233,300
Hemlock Semiconductor, LLC note	2,357,143	3,142,857
	<u>\$ 2,357,143</u>	<u>\$ 3,376,157</u>

The HSC note is due in seven annual installments of \$785,714.29 with the last payment occurring on January 1, 2015.

5. Property Held for Sale or Lease

A summary of property held for sale or lease follows:

		<u>At Cost</u>
Land - Park Expansion	918.208 acres available	\$ 12,781,255
Goodpasture Property	20.190 acres available	125,032
Bell Property	54.180 acres available	199,398
Hamill Property	7.750 acres available	44,602
Homemax Property	2.000 acres available	13,965
Jostens Property	25.00 acres available	1,941,722
Pad-Ready Site	40.000 acres available	<u>1,090,720</u>
Total		<u>\$ 16,196,694</u>

Access property is included in the acres available shown above. All acres are approximate.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

6. Capital Assets

A summary of changes in capital assets and accumulated depreciation follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital Assets				
Equipment	\$ 80,335	\$ 1,165	\$ -	\$ 81,500
Vehicles	36,790	-	-	36,790
Leasehold Improvements	48,793	-	-	48,793
Buildings	1,883,553	-	-	1,883,553
Land	37,641	-	-	37,641
Software	1,385	-	-	1,385
	<u>\$ 2,088,497</u>	<u>\$ 1,165</u>	<u>\$ -</u>	<u>\$ 2,089,662</u>
	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Accumulated Depreciation				
Equipment	\$ 52,939	\$ 10,424	\$ -	\$ 63,363
Vehicles	18,691	7,358	-	26,049
Leasehold Improvements	14,367	3,253	-	17,620
Buildings	102,025	47,089	-	149,114
Software	1,039	346	-	1,385
	<u>\$ 189,061</u>	<u>\$ 68,470</u>	<u>\$ -</u>	<u>\$ 257,531</u>

Land is not depreciated or amortized. Capital assets with net book values totaling \$1,791,692 were pledged as collateral for debt at June 30, 2012.

7. Construction in Progress

A summary of changes in construction in progress follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Rail to Park Expansion	\$ 267,662	\$ 12,775	\$ -	\$ 280,437
Speculative Building	78,472	2,769	-	81,241
	<u>\$ 346,134</u>	<u>\$ 15,544</u>	<u>\$ -</u>	<u>\$ 361,678</u>

Construction in progress is not depreciated until placed in service.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

8. Land Sale Options

The Board had two land sale options from prospective buyers outstanding at June 30, 2012. The first outstanding option, granted in fiscal year 2004, allows the holder to purchase a twenty-acre tract of land at a price of \$16,000 per acre. The option was given for \$6,400 consideration, with \$7,200 additional consideration received in fiscal year 2009 in order to purchase the right of first refusal. This option expires in 2014.

On August 1, 2008, the Board entered into a letter of agreement for the second land sale option in which a developer would purchase or lease a 225-acre lot for the development of approximately two million square feet of Class A bulk warehouse, manufacturing, office and flex distribution space thereon. Once the option is final, the developer will pay \$5,000 initial consideration and \$50,000 earnest money. The purchase price of the lot is \$34,000 per acre. The option will expire five years after being finalized, at which time additional consideration of \$5,000 will be due if the developer has not acquired all of the property. On June 10, 2009, the Board extended the letter of agreement for one year. On June 10, 2010, the Board extended the letter of agreement for an additional year. On May 11, 2011, the Board extended the letter of agreement until December 31, 2011. On March 14, 2012, the Board extended the letter of agreement for ten years with a price increase to \$36,000/acre in exchange for nonrefundable consideration of \$50,000. Additional consideration of \$25,000 is due if the option has not been exercised by September 30, 2013.

9. Unearned State Grant Revenue

During the fiscal year ended June 30, 2009, the Board was required to prepay the estimated costs to move a gas pipeline. Upon completion of the project during the fiscal year ended June 30, 2010, the vendor refunded approximately \$835,000 in project costs which was credited to unearned state grant revenue. The State of Tennessee allowed the Board to keep these funds in anticipation of any future unforeseen nonreimbursable project-related expenses. As of June 30, 2012, the unexpended portion of the unearned state grant revenue was \$370,511.

10. Notes Payable

Notes payable consist of the following:

	2012	2011
Note payable bearing interest at 5.5% secured by land and a building; principal and interest are payable in monthly installments, maturing May 2021.	\$ 1,601,030	\$ 1,743,358
Note payable bearing interest at 3.9% secured by a vehicle; principal and interest are payable in monthly installments, maturing November 2013.	7,832	13,057

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

10. Notes Payable (Cont'd)

	2012	2011
Total notes payable	1,608,862	1,756,415
Less: Current portion	154,457	146,293
Total notes payable excluding current portion	\$ 1,454,405	\$ 1,610,122

Changes in notes payable (including current portions) for the year ended June 30, 2012, were as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Estimated Amount Due in Year Ending June 30, 2013
Notes Payable	\$ 1,756,415	\$ -	\$ 147,553	\$ 1,608,862	\$ 154,457

Future payments on notes payable are as follows:

Year Ending June 30,	Total Principal	Total Interest
2013	\$ 154,457	\$ 87,223
2014	159,776	78,634
2015	166,291	69,732
2016	175,672	60,352
2017	185,581	50,443
2018-2021	767,085	91,095
Total	\$ 1,608,862	\$ 437,479

11. Adjustments to Governmental Fund Statements

Governmental Fund Balance Sheet to the Statement of Net Assets:

When capital assets that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Board, net of related accumulated depreciation. The statement of net assets also includes the debt related to the capital assets and other debt among the liabilities of the Board.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

11. Adjustments to Governmental Fund Statements (Cont'd)

Cost of capital assets	\$ 2,089,662
Less: Accumulated depreciation	<u>257,531</u>
Net capital assets	<u>\$ 1,832,131</u>
Debt related to capital assets:	
Current portion of note payable	\$ 143,256
Long-term portion of note payable	<u>1,406,531</u>
Total debt related to capital assets	<u>1,549,787</u>
Other debt:	
Current portion of note payable	11,201
Long-term portion of note payable	<u>47,874</u>
Total other debt	<u>59,075</u>
Total debt	<u>\$ 1,608,862</u>

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

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 as depreciation expense. Proceeds from the sales of capital assets are excluded from the statement of activities since the proceeds are not a gain or loss associated with the sale. Governmental funds record borrowings as revenue and the principal portion of debt repayment as an expense, while the statement of net assets records borrowings as a liability and the statement of activities records the interest portion of payments as an expense.

Depreciation expense	\$ (68,470)
Capital outlays	1,165
Debt service principal	<u>147,553</u>
	<u>\$ 80,248</u>

12. Operating Leases

Beginning December 2006, the Board began subleasing office space in the Capital Bank building from the EDC under a five-year agreement. Rental expense under the operating lease was \$19,998 for the year ended June 30, 2012. This lease expired in November 2011 and was renewed for an additional five years, ending November 2016.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

12. Operating Leases (Cont'd)

Future payments on lease obligations are as follows:

2013	\$ 24,444
2014	26,667
2015	26,667
2016	26,667
2017	<u>8,889</u>
	<u>\$ 113,334</u>

13. Lease Contracts

On June 27, 2008, the Board entered into a lease contract with the State of Tennessee (the State) for rental of a medical office building. The lease contract began January 1, 2009 and ends December 31, 2020. Under the terms of the lease, the State makes monthly lease payments of \$21,542 to the Board. The State has one option to renew the lease for an additional ten years with monthly rent of \$15,866.

Future cash flows from this lease contract are expected to be as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2013	\$ 258,513
2014	258,513
2015	258,513
2016	258,513
2017	258,513
2018 and Thereafter	<u>646,284</u>
	<u>\$ 1,938,849</u>

14. Retirement Plan

The EDC maintains a defined contribution 401(k) plan administered by American Chamber of Commerce Executives (ACCE) under which employees of the Board can participate. Substantially all employees who have completed one year of service, reached age 21 and work one thousand hours or more per year are eligible to participate. For each plan year that an employee participates, the Board will contribute an amount equal to four percent of the participant's total annual earnings as the employer basic contribution. Employees can make pre-tax contributions from one to one hundred percent of total annual earnings in which they are immediately vested. The Board will match one hundred percent of pre-tax contributions up to a maximum of four percent as the employer matching contribution. With regard to contributions of the Board, vesting occurs immediately.

During the fiscal years ended June 30, 2012 and 2011, contributions totaling \$26,620 and \$31,033, respectively, were paid and expensed by the Board. Employee contributions to the plan were \$25,677 and \$20,857 for the years ended June 30, 2012 and 2011, respectively.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

15. Related Party Transactions

The Board paid EDC \$244,513 for its share of EDC expenses during the year ended June 30, 2012. The Board had related party payables at June 30, 2012 totaling \$33,692, and related party receivables of \$18,358. Included in related party receivables at June 30, 2012 is \$17,000 that was advanced to the EDC to facilitate payment of routine Board expenses and is not expected to be collected within one year.

16. Fund Balance

The Board had unassigned fund balance (deficit) of (\$467,183) and nonspendable fund balance of \$18,144,801 at June 30, 2012. Nonspendable fund balance consisted of the following:

Long-term portion of notes receivable	\$ 1,569,429
Property held for sale or lease	16,196,694
Construction in progress	361,678
Long-term portion of due from related parties	<u>17,000</u>
Total nonspendable fund balance	<u>\$ 18,144,801</u>

17. Conduit Debt Obligations

The Board has participated in several issues of Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The Board is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The principal balances outstanding as of June 30, 2012 totaled \$611,027,241.

18. Annual Budget Procedures

There is no requirement for the Board to legally adopt a budget. However, an annual budget is prepared by management and approved by the board of directors. The budget is prepared using the cash basis of accounting and is primarily used as a cash management tool. The board members review the Board's needs for the year as well as prior year expenditures to arrive at the current year budget. There is no requirement that the budget be amended for variances that are inconsequential and which occur as the result of normal operations. The "encumbrance" method of budgeting and accounting for expenditures is not used.

19. Commitments and Contingencies

Under terms of an interlocal agreement among Montgomery County, Tennessee, the City of Clarksville, Tennessee and the Board, the sales price of property held for sale or lease will be split 90% to the City and 10% to the Board. Any revenue in excess of the first \$10,000 per acre (per transaction) will be split 45% to the City, 45% to the County and 10% to the Board. The splitting of the proceeds will remain in effect until such time as either the City annexes the land being purchased for expansion or the City has recovered its investment, which shall include interest paid.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

19. Commitments and Contingencies (Cont'd)

After such time as the City has either annexed the land being purchased or recovered its investment, the sale of the land shall be divided equally between the City and County after 10% is deducted for the Board. At June 30, 2012, there was an accrued liability of \$96,322 to the City and \$23,332 to the County for sales of land that took place during the fiscal year ended June 30, 2008.

The Board's exposure to property loss and general liability is handled through the purchase of commercial insurance. Insurance coverage was adequate to cover settlements for the past three fiscal years.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2012

<u>State Grantor/Program Title</u>	<u>Contract Period</u>	<u>Grant Number Or Pass Through Grantor's Contract Number</u>	<u>Accrued Receivable July 1, 2011</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2012</u>
<u>State of Tennessee Economic & Community Development</u>						
Community Development	03/12/09 - 06/30/13	BC8311	\$ 2,128,261	\$ 20,983,769	\$ 23,018,692	\$ 4,163,184
Community Development	04/25/11 - 06/30/12	72288	-	-	3,000,000	3,000,000
Community Development	9/25/10 - 6/30/11	GG1135396	-	300,000	300,000	-
Total			<u>\$ 2,128,261</u>	<u>\$ 21,283,769</u>	<u>\$ 26,318,692</u>	<u>\$ 7,163,184</u>

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
DIRECTORY OF BOARD MEMBERS AND MANAGEMENT (UNAUDITED)
JUNE 30, 2012

BOARD MEMBERS

	<u>Term Expires</u>
Dr. Linda Rudolph, Chairman	June 2013
Ms. Kay Drew, Vice Chairman	June 2013
Mr. Don Jenkins, Secretary-Treasurer	June 2015
Mr. Billy Atkins	June 2017
Mr. Mark Briggs	June 2013
Mr. David Chesney	June 2017
Mr. John Wallace Crow	June 2015
Mr. Carl Wilson	June 2015
Ms. Niesha Wolfe	June 2017

Mr. Richard Batson, Legal Counsel, Ex-Officio
County Mayor Carolyn Bowers, Ex-Officio
Mr. James Chavez, Ex-Officio
Mr. Mike Evans, Ex-Officio
Dr. Tim Hall, Ex-Officio
City Mayor Kim McMillan, Ex-Officio

MANAGEMENT

Mr. James Chavez, President and CEO
Mr. Mike Evans, Executive Director
Mr. Shannon Green, Vice President of Finance and Human Resources



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INDEPENDENT AUDITOR'S 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
Clarksville-Montgomery County Industrial Development Board
Clarksville, Tennessee

We have audited the financial statements of the governmental activities and the major fund of the Clarksville-Montgomery County Industrial Development Board (the Board), as of and for the year ended June 30, 2012, which collectively comprise the Board's basic financial statements and have issued our report thereon dated December 21, 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 Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of 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 described in the accompanying schedule of findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 as finding 2012-1 to be a material weakness.

The Board did not resolve prior year finding number 2011-1. The finding recurred in the current year and is reported as finding 2012-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

Stone Rudolph & Henry, PLC

December 21, 2012

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO INTERNAL CONTROL

2012-1 (Recurring Finding) Management Oversight of Financial Reporting

Condition: The Board lacks management oversight over the financial reporting processes for the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). In addition, four adjusting entries were required for the financial statements to be presented in conformity with GAAP. Only one of the four adjusting entries was calculated by management.

Criteria: Proper management oversight over financial reporting should include the preparation of the financial statements and footnote disclosures in conformity with GAAP.

Effect: The financial statements and footnote disclosures may not be in conformity with GAAP.

Recommendation: We recommend that management implement review procedures to ensure that the financial statements are prepared in conformity with generally accepted accounting principles.

Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance to prepare financial statements and footnotes in accordance with generally accepted accounting principles prior to the independent audit. However, we believe that our knowledge and experience enables us to review the report and understand it fully. We take full responsibility for the financial statements and all adjusting and reclassification journal entries.