

**THE INDUSTRIAL BOARD OF
COFFEE COUNTY, TENNESSEE, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2012

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
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INTRODUCTORY SECTION

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
SCHEDULE OF BOARD OFFICIALS
JUNE 30, 2012**

Board Members:

Karl Boehm
George Brown
Buster Bush
William Comer
Jeff Fishman
Bill Johnson
Dr. Richard Kulp
Marvin McKee
Elmer Morris
Mary Niederhauser
Dr. Jesse Overall
Roland Segroves

FINANCIAL SECTION

Board of Directors
The Industrial Board of Coffee County, Tennessee, Inc.

We have audited the accompanying financial statements of the governmental activities and major fund of The Industrial Board of Coffee County, Tennessee, Inc., a component unit of Coffee 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of The Industrial Board of Coffee County, Tennessee, Inc. 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*, we have also issued our report dated December 30, 2012 on our consideration of the Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants 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 read in conjunction with this report in considering 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 A-1 through A-4 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 Board of Coffee County, Tennessee, Inc.'s financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Housholder Artman PLLC

December 30, 2012

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

The Industrial Board of Coffee County, Tennessee, Inc. (Board) is a component unit of Coffee County, Tennessee (the primary government). The primary government appoints members of the board of directors, and is funded primarily by appropriations from the county. The purpose of the Board is to promote industry and develop trade for Coffee County, Tennessee.

FINANCIAL HIGHLIGHTS

1. The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$1,373,680 (net assets). Of this amount, \$944,385 is considered unrestricted funds and may be used to meet the government's ongoing obligations to citizens and creditors.
2. The Board's total net assets increased by \$47,244.
3. As of the close of the current fiscal year, the Board's governmental funds reported ending fund balances of \$944,385 representing an increase of \$7,271 from the previous year. \$944,385 or 100%, of this total amount is available for spending at the government's discretion (unassigned fund balances).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Industrial Board of Coffee County's basic financial statements. The Board's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements These financial statements are designed to provide readers with a broad overview of the Industrial Board of Coffee County's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The statement of activities presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide Statement of Activities reports both the gross and the net cost of the Board's programs. The functions are also supported by general governmental revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function.

Fund Financial Statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Board are governmental funds.

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the Board-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a Board's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of the Board's financial position. The Industrial Board of Coffee County, Tennessee, Inc.'s assets exceeded liabilities by \$1,373,680 at June 30, 2012.

THE INDUSTRIAL BOARD OF COFFEE COUNTY'S NET ASSETS

	Governmental Activities		Total	
	2012	2011	2012	2011
Current and other assets	\$ 944,385	\$ 950,374	\$ 944,385	\$ 950,374
Capital assets	1,391,295	1,403,822	1,391,295	1,403,822
Total assets	<u>2,335,680</u>	<u>2,354,196</u>	<u>2,335,680</u>	<u>2,354,196</u>
Long-term liabilities	902,000	500,000	902,000	500,000
Other liabilities	60,000	527,760	60,000	527,760
Total liabilities	<u>962,000</u>	<u>1,027,760</u>	<u>962,000</u>	<u>1,027,760</u>
Net assets:				
Invested in capital assets, net of related debt	429,295	389,322	429,295	389,322
Unrestricted	944,385	937,114	944,385	937,114
Total net assets	<u>\$ 1,373,680</u>	<u>\$ 1,326,436</u>	<u>\$ 1,373,680</u>	<u>\$ 1,326,436</u>

31% of the Board's net assets reflect its investment in capital assets (for example – land improvements, vehicles, equipment, and construction in progress); less any related debt used to acquire those assets that are still outstanding. The Board uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Board's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

The following is a summary of financial activities for the Board during the fiscal year ended June 30, 2012 and 2011:

THE INDUSTRIAL BOARD OF COFFEE COUNTY'S CHANGE IN NET ASSETS

	Governmental Activities		Total	
	2012	2011	2012	2011
General revenues:				
Contributions from county	\$ 251,761	\$ 251,761	\$ 251,761	\$ 251,761
Sign lease	1,750	1,750	1,750	1,750
Investing earnings	23,212	34,762	23,212	34,762
Land sale	20,000	36,240	20,000	36,240
Miscellaneous income	-	730	-	730
Total general revenues	<u>296,723</u>	<u>325,243</u>	<u>296,723</u>	<u>325,243</u>
Expenses:				
Administration	<u>249,479</u>	<u>266,276</u>	<u>249,479</u>	<u>266,276</u>
Total expenses	<u>249,479</u>	<u>266,276</u>	<u>249,479</u>	<u>266,276</u>
Change in net assets	47,244	58,967	47,244	58,967
Net assets, beginning of year	1,326,436	1,267,469	1,326,436	1,267,469
Net assets, end of year	<u>\$ 1,373,680</u>	<u>\$ 1,326,436</u>	<u>\$ 1,373,680</u>	<u>\$ 1,326,436</u>

Governmental activities increased the Board's net assets by \$47,244.

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

Capital Asset and Debt Administration

Capital Assets The City's investment in capital assets for its governmental activities as of June 30, 2012 amounted to \$1,391,295. This investment includes land improvements, vehicles, equipment, and construction in progress.

THE INDUSTRIAL BOARD OF COFFEE COUNTY'S CAPITAL ASSETS

	Governmental		Total	
	Activities			
	2012	2011	2012	2011
Equipment	\$ 23,891	\$ 23,891	\$ 23,891	\$ 23,891
Land improvements	45,080	45,080	45,080	45,080
Construction in progress	1,190,459	1,190,459	1,190,459	1,190,459
Vehicles	199,705	199,705	199,705	199,705
Accumulated depreciation	(67,840)	(55,313)	(67,840)	(55,313)
Total capital assets	<u>\$ 1,391,295</u>	<u>\$ 1,403,822</u>	<u>\$ 1,391,295</u>	<u>\$ 1,403,822</u>

Long-term Debt At the end of the fiscal year, the Board's total debt was \$962,000.

THE INDUSTRIAL BOARD OF COFFEE COUNTY'S LONG TERM LIABILITIES

	Governmental		Total	
	Activities			
	2012	2011	2012	2011
Due within one year	\$ 60,000	\$ 500,000	\$ 60,000	\$ 500,000
Due in more than one year	902,000	514,500	902,000	514,500
	<u>\$ 962,000</u>	<u>\$ 1,014,500</u>	<u>\$ 962,000</u>	<u>\$ 1,014,500</u>

Requests for Information

This financial report is designed to provide a general overview of The Industrial Board of Coffee County's finances for all those with an interest in such. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Industrial Board of Coffee County, 1329 McArthur Street, Suite 4, Manchester, TN 37355.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 863,195	\$ 863,195
Interest receivable	2,061	2,061
Note receivable	79,129	79,129
	944,385	944,385
Non-current assets:		
Capital assets, net of depreciation	1,391,295	1,391,295
Total assets	\$ 2,335,680	\$ 2,335,680
LIABILITIES		
Non-current liabilities:		
Due within one year	\$ 60,000	\$ 60,000
Due in more than one year	902,000	902,000
Total liabilities	962,000	962,000
NET ASSETS		
Invested in capital assets, net of debt	429,295	429,295
Unrestricted	944,385	944,385
Total net assets	1,373,680	1,373,680
Total liabilities and net assets	\$ 2,335,680	\$ 2,335,680

The accompanying notes are an integral part of this financial statement.

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

	Governmental Activities	Total
Function/Program:		
Administration	\$ 249,479	\$ 249,479
General revenues:		
Contributions from county	251,761	251,761
Sign lease	1,750	1,750
Investment earnings	23,212	23,211
Land sale	20,000	20,000
Total general revenues	296,723	296,722
Change in net assets	47,244	47,243
Net assets, beginning	1,326,436	1,326,436
Net assets, ending	\$ 1,373,680	\$ 1,373,679

The accompanying notes are an integral part of this financial statement.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 863,195	\$ 863,195
Interest receivable	2,061	2,061
Note receivable	79,129	79,129
	\$ 944,385	\$ 944,385
	\$ 944,385	\$ 944,385
 LIABILITIES AND FUND BALANCE		
Liabilities:	\$ -	\$ -
Fund balance:		
Unassigned	944,385	944,385
	\$ 944,385	\$ 944,385
	\$ 944,385	\$ 944,385

The accompanying notes are an integral part of this financial statement.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

Total fund balance per fund financial statements	\$ 944,385
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in governmental funds.	1,391,295
Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds.	(962,000)
Net assets of governmental activities	<u>\$ 1,373,680</u>

The accompanying notes are an integral part of this financial statement.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General	Total Governmental Funds
REVENUES		
Contributions from county	\$ 251,761	\$ 251,761
Investment earnings	23,212	23,211
Miscellaneous income	1,750	1,750
	276,723	276,722
EXPENDITURES		
Salaries	136,477	136,477
Payroll taxes	9,632	9,632
Employee benefits	25,767	25,767
Executive director expense	2,344	2,344
Board members expense	5,789	5,789
Office operation	8,073	8,073
Memberships and subscriptions	2,848	2,848
Telephone	1,759	1,759
Auto expense	5,948	5,948
Prospect development/travel	7,640	7,640
Promotion	5,965	5,965
Professional services	686	686
Existing industries	1,280	1,280
Industrial park maintenance	22,744	22,744
	236,952	236,952
Excess of revenues over expenditures	39,771	39,770
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of land	20,000	20,000
Principal payments on debt	(52,500)	(52,500)
	(32,500)	(32,500)
Net change in fund balance	7,271	7,270
Fund balance, beginning	937,114	937,114
Fund balance, ending	\$ 944,385	\$ 944,384

The accompanying notes are an integral part of this financial statement.

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net change in fund balance - governmental funds	\$	7,271
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Depreciation expense		(12,527)
Repayment of principal on notes payable is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets.		52,500
		52,500
Change in net assets of governmental activities	\$	47,244

The accompanying notes are an integral part of this financial statement.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Industrial Board of Coffee County, Tennessee, Inc. was incorporated in 1969. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Industrial Board of Coffee County, Tennessee, Inc. The Board is a component unit of Coffee County, Tennessee (the primary government). The primary government appoints members of the board of directors, and is funded primarily by appropriations from the county. The purpose of the Board is to promote industry and develop trade for Coffee County, Tennessee.

The financial statements of the Industrial Board of Coffee County, Tennessee, Inc. (Board) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standard Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below:

Government-Wide Statements

In the government-wide Statement of Net Assets, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The government-wide Statement of Activities reports both the gross and the net cost of the Board's programs. The functions are also supported by general governmental revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function.

The Board adopted the provisions of Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e. both measurable and available). Available means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

The financial transactions of the Board are reported in individual funds in the fund financial statement. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures. The Board reports the following fund:

General Fund – This fund is used as the general operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund.

The Board adopts a budget for the General Fund as a management control device. The budget is adopted on a basis consistent with generally accepted accounting principles.

Date of Management's Subsequent Review

Management has evaluated subsequent events through December 30, 2012, which is the date the financial statements were available to be issued.

Estimates

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

Equipment

Equipment is stated at cost, less accumulated depreciation, which is computed by the straight-line method over an estimated useful life of 5-20 years. Major expenditures for equipment and for repairs which substantially increase the useful lives are capitalized. Maintenance, minor repairs and minor acquisitions are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in revenue or expense.

Cash and Cash Equivalents

For purpose of reporting cash flows, cash equivalents include all short-term highly liquid investments with maturities of three months or less.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

The Board considers accounts receivable to be fully collectible at June 30, 2012; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged off when that determination is made.

Compensated Absences

There are no compensated absences to be accrued.

Federal Income Taxes

The Industrial Board of Coffee County is exempt from federal and state income tax.

Pension Plan

The Board does not provide a pension plan for its employees; however, they are covered under the plan for Coffee County. Employees of Coffee County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS).

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

NOTE 2 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The Board is authorized to deposit its funds in banks, trust companies, or other depositories as the Board may select. Deposits are carried at cost. At year-end the carrying amount of deposits was \$863,194, and the bank balance was \$881,800. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance. At June 30, 2012, all deposits were insured.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 – CAPITAL ASSETS

Property, plant and equipment consist of various office machines and improvements which are being depreciated over 5-20 years using the straight-line method.

A summary of changes in the capital assets is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Capital assets, being depreciated:				
Equipment	\$ 23,891	\$ -	\$ -	\$ 23,891
Land improvements	45,080	-	-	45,080
Construction in progress	1,190,459	-	-	1,190,459
Vehicles	199,705	-	-	199,705
Total capital assets being depreciated	<u>1,459,135</u>	<u>-</u>	<u>-</u>	<u>1,459,135</u>
Less accumulated depreciation:				
Equipment	(15,372)	(2,542)	-	(17,914)
Vehicles	(39,941)	(9,985)	-	(49,926)
Total accumulated depreciation	<u>(55,313)</u>	<u>(12,527)</u>	<u>-</u>	<u>(67,840)</u>
Total capital assets being depreciated, net	<u>\$ 1,403,822</u>	<u>\$ (12,527)</u>	<u>\$ -</u>	<u>\$ 1,391,295</u>

Depreciation expense for the year ended June 30, 2012 was \$12,527.

NOTE 4 – NOTES PAYABLE

A. Transaction Summary

Note obligation activity for the year ended June 30, 2012 was as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Notes payable:					
DREMC	\$ 360,000	\$ -	\$ (37,500)	\$ 322,500	\$ 45,000
Construction loan	500,000	-	(15,000)	485,000	15,000
City of Manchester	154,500	-	-	154,500	-
	<u>\$ 1,014,500</u>	<u>\$ -</u>	<u>\$ (52,500)</u>	<u>\$ 962,000</u>	<u>\$ 60,000</u>

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – NOTES PAYABLE (continued)

B. Description of Amounts Payable

Notes payable as of June 30, 2012:

Note payable with DREMC at no interest. No principal payments for 24 months, then 96 monthly principal payments of \$3,750.	\$ 322,500
Construction loan with bank. No principal payments for 24 months, then 2 annual principal payments of \$15,000 with no interest. If the building has not been sold after two years, the loan will be amortized over an eight-year term at an interest rate of 3%.*	485,000
Note payable with City of Manchester, due when speculative building is sold.**	154,500
	\$ 962,000

* This is a construction loan and terms of the loan will be finalized when construction is complete.

C. Annual Debt Service Requirements

Annual debt service requirements for notes outstanding to maturity are as follows:

Year	DREMC Note		Construction Loan*		Construction Loan*		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 45,000	\$ -	\$ 58,870	\$ 11,259	\$ -	\$ -	\$ 103,870	\$ 11,259
2014	45,000	-	54,111	12,043	-	-	99,111	12,043
2015	45,000	-	55,757	10,398	-	-	100,757	10,398
2016	45,000	-	57,453	8,702	-	-	102,453	8,702
2017	45,000	-	59,200	6,955	-	-	104,200	6,955
After 2017	97,500	-	199,609	9,882	154,500	-	451,609	9,882
	\$ 322,500	\$ -	\$ 485,000	\$ 59,239	\$ 154,500	\$ -	\$ 962,000	\$ 59,239

* Since the terms of this loan have not been finalized, the \$15,000 payment due is included and then Amortized over 96 months at 3%.

** Since this note is not due until the speculative building is sold, it is included only in the total.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

The Board receives a substantial amount of its support from the local county government. A significant reduction in the level of such support, if this were to occur, may have an effect on the Board's programs and activities.

The Board had entered in an agreement to build a speculative building in the City of Manchester Industrial Park. The infrastructure is to be partially paid with a Fast Tract Grant of \$750,000 obtained by the City of Manchester. The Industrial Board will fund \$135,000 of the cost. These funds will be reimbursed by the City to the Industrial Board upon sale of the property. The total cost of the spec building project is estimated now to be \$1,835,000 (not including land cost). The City of Manchester sold 10.3 acres of land for the building to the Industrial Board for \$154,500. This amount is to be reimbursed when the building is sold. Funding for the project will be from loans through local banks, grant funds to the City of Manchester, DREMC loan and TVA loan. Construction costs as of June 30, 2012 total \$1,190,459.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6 – NOTE RECEIVABLE

The Board has a note receivable due from an individual dated September 28, 2006 to sell 17.42 acres located in the Coffee County Interstate Industrial Park. The gross sales price was \$104,520, with \$42,000 paid to the Board at closing, and a note receivable for the remainder of \$62,520. The note is due September 28, 2013 and is secured by a deed of trust on the property. No monthly payments were due until September 28, 2010, at which time payments of \$633 were commenced for not more than three years, with the remainder being due at September 28, 2013. According to the term of the note, interest is added to the principal balance annually. The interest rate is 5.5%. The balance of the note receivable at June 30, 2012 was \$79,129. No payments have been received during 2012 fiscal year; however, the note is considered to be collectible; therefore, no provision for loss has been recorded.

Schedule of changes to note receivable during the year follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Note receivable:					
Teal note	\$ 74,904	\$ 4,225	\$ -	\$ 79,129	\$ 2,659
	<u>\$ 74,904</u>	<u>\$ 4,225</u>	<u>\$ -</u>	<u>\$ 79,129</u>	<u>\$ 2,659</u>

NOTE 7 – LEASE AGREEMENT

The Board purchased a fire truck in July 2007 for \$199,705. The truck is to be leased to the Hickerson Station Fire Department. There is no stated monthly lease payment with the fire station responsible for insurance, maintenance and service on the truck with ownership remaining with the Industrial Board. The lease is for continuous twelve month periods with sixty (60) day notice by either party required to terminate the lease agreement.

SUPPLEMENTARY INFORMATION

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
SCHEDULE OF DEBT SERVICE REQUIREMENTS
JUNE 30, 2012

<u>Year</u>	<u>DREMC Note</u>		<u>Construction Loan*</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 45,000	\$ -	\$ 15,000	\$ -	\$ 60,000	\$ -
2014	45,000	-	-	-	45,000	-
2015	45,000	-	-	-	45,000	-
2016	45,000	-	-	-	45,000	-
2017	45,000	-	-	-	45,000	-
2013	45,000	-	-	-	45,000	-
2014	45,000	-	-	-	45,000	-
2015	7,500	-	-	-	7,500	-
	<u>\$ 322,500</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ -</u>	<u>\$ 337,500</u>	<u>\$ -</u>

* Since the terms of this loan have not been finalized, only the second of two annual principal payments of \$15,000 is included in the schedule above.

Since the note payable with City of Manchester of \$154,500 is not due until the speculative building is sold, it is not included in the schedule above.

See accompanying accountant's report.

**THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
SCHEDULE OF PUBLIC OFFICIALS AND BONDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Official</u>	<u>Name</u>	<u>Bond Amount</u>
All employees	All employees	\$150,000 each and every loss \$500 deductible

See accompanying accountant's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

**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***

December 30, 2012

To the Board of Directors
The Industrial Board of Coffee County, Tennessee, Inc.

We have audited the financial statements of the governmental activities and general fund of The Industrial Board of Coffee County, Tennessee, Inc., a component unit of Coffee County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 30, 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 Board of Coffee County, Tennessee, Inc., is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Industrial Board of Coffee County, Tennessee, Inc.'s internal control over financial reporting as a basis for designing our 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 Board of Coffee County, Tennessee, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Industrial Board of Coffee County, Tennessee, Inc.'s internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed in the following schedule of audit findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of audit findings and responses as items 2011-01 to 2011-02 to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

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

We noted certain matters that we reported to management of The Industrial Board of Coffee County, Tennessee, Inc. in a separate letter dated December 30, 2012.

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

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

Housholder Artnma PLLC

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2012

Item 2012-01: Segregation of Duties

The size of the Board's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation: Exercise proper segregation of duties to the extent possible with limited employees.

Management's response: We concur with the auditors' finding and recommendation.

Item 2012-02: Financial Statement Preparation

Under professional standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the Board possesses an accounting department that is staffed with personnel with requisite skills and training to perform such function and the function was performed by the auditor as an accommodation to management. For this engagement, financial statements were submitted to us which were generated as a by-product of the bookkeeping system. We proposed certain adjustments to these financial statements as a result of our audit and we drafted the financial disclosures required by professional standards.

Recommendation: Management may wish to acknowledge and accept this deficiency or develop compensating controls.

Management's response: Although alternative options will be explored, due to the nature and size of our organization, it may not be feasible or possible to perform these functions internally.

THE INDUSTRIAL BOARD OF COFFEE COUNTY, TENNESSEE, INC.
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2012

Item 2011-01: Segregation of Duties

The size of the Board's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation: Exercise proper segregation of duties to the extent possible with limited employees.

Management's response: We concur with the auditors' finding and recommendation.

Update: See current year finding 2012-01.

Item 2011-02: Financial Statement Preparation

Under professional standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the Board possesses an accounting department that is staffed with personnel with requisite skills and training to perform such function and the function was performed by the auditor as an accommodation to management. For this engagement, financial statements were submitted to us which were generated as a by-product of the bookkeeping system. We proposed certain adjustments to these financial statements as a result of our audit and we drafted the financial disclosures required by professional standards.

Recommendation: Management may wish to acknowledge and accept this deficiency or develop compensating controls.

Management's response: Although alternative options will be explored, due to the nature and size of our organization, it may not be feasible or possible to perform these functions internally.

Update: See current year finding 2012-02.