

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2013

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CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
DIRECTORY OF BOARD MEMBERS AND MANAGEMENT (UNAUDITED)
JUNE 30, 2013

BOARD MEMBERS

	<u>Term Expires</u>
Ms. Kay Drew, Chairman	June 2013
Mr. Don Jenkins, Vice Chairman	June 2015
Mr. John Wallace Crow, Secretary-Treasurer	June 2015
Mr. Billy Atkins	June 2017
Mr. Mark Briggs	June 2013
Mr. David Chesney	June 2017
Dr. Linda Rudolph	June 2013
Mr. Carl Wilson	June 2015
Ms. Niesha Wolfe	June 2017
Mr. Richard Batson, Legal Counsel, Ex-Officio	
County Mayor Carolyn Bowers, Ex-Officio	
Mr. Mike Evans, Ex-Officio	
Mr. Tim Hall, Ex-Officio	
City Mayor Kim McMillan, Ex-Officio	

MANAGEMENT

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



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Board as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed on 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The introductory section and other information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The directory of board members and management 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2013, 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* in considering the Board’s internal control over financial reporting and compliance.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee
December 23, 2013

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2013

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, 2013. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The Board's total net position decreased by nearly \$1 million as a result of this year's activities.
 - This decrease was due primarily to a nonmonetary land swap with Montgomery County (see Note 6).
- The Board incurred industrial park development expenses of over \$7 million. (Nearly all of this was funded by State grants).
 - Most 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 three major announcements:
 - Jostens expansion: \$10 million capital investment, 350 new jobs;
 - Akebono Brake Corporation expansion: \$82 million investment, 94 new jobs;
 - Florim USA expansion: \$60 million investment, 33 new jobs.
- The County provided the full operations funding for the Board for fiscal 2012-2013.

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 Position 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 2013, the Foundation spent nearly \$642,000 toward economic development efforts, with more than \$228,000 representing direct industrial development efforts benefiting the Board's activities. Over time, increases or decreases in fund balance/net position can show whether the business is improving or deteriorating.

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 also be considered.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013

Fund Balance/Net Position

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 Position 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 position is an indicator that an entity is improving.

In order to more clearly compare with the financial performance of the previous year, summaries of the Statements of Net Position are presented in Table A-1. As you can see in the table below, the Board's total net position decreased by nearly \$1 million. By far, the most significant change from the 2012 statement is due to the Board's state-funded industrial site and infrastructure development work. This work has largely no effect on the net position of the Board but is evident in the amount of the Board's state grants receivable (down \$6.6 million from 2012) and, in large part, accounts payable.

The increase in non-current liabilities is due to an Economic Impact Development note related to the Madison Street Commons development. This note is completely offset by amounts due from the City of Clarksville (City) and Montgomery County (County) (funded by increased tax revenue to each government) and therefore results in no net change in position (see Note 5).

A more noteworthy change is related to the \$1.3 million impairment of the value of property received by the Board as part of a nonmonetary land swap with Montgomery County (see Note 6).

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF NET POSITION (IN THOUSANDS)
JUNE 30, 2013 AND 2012

TABLE A-1

	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<u>ASSETS AND DEFERRED</u>				
<u>OUTFLOWS OF RESOURCES</u>				
Current assets	\$ 2,632.8	\$ 8,902.0	\$ (6,269.2)	-70.4%
Due from City and County	842.5	-	842.5	-
Notes receivable	1,571.4	2,357.1	(785.7)	-33.3%
Capital assets (net)	1,764.5	2,193.8	(429.3)	-19.6%
Property held for sale or lease	14,816.2	16,196.7	(1,380.5)	-8.5%
<u>TOTAL ASSETS</u>	<u>21,627.4</u>	<u>29,649.6</u>	<u>(8,022.2)</u>	<u>-27.1%</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
	-	-	-	N/A
<u>TOTAL ASSETS AND DEFERRED</u>				
<u>OUTFLOWS OF RESOURCES</u>				
	<u>\$ 21,627.4</u>	<u>\$ 29,649.6</u>	<u>\$ (8,022.2)</u>	<u>-27.1%</u>
<u>LIABILITIES, DEFERRED INFLOWS</u>				
<u>OF RESOURCES AND NET POSITION</u>				
Current liabilities	\$ 2,661.8	\$ 10,294.4	\$ (7,632.6)	-74.1%
Non-current liabilities	2,045.4	1,454.4	591.0	40.6%
<u>TOTAL LIABILITIES</u>	<u>4,707.2</u>	<u>11,748.8</u>	<u>(7,041.6)</u>	<u>-59.9%</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
	-	-	-	N/A
Net investment in capital assets	357.9	282.3	75.6	26.8%
Unrestricted net position	16,562.3	17,618.5	(1,056.2)	-6.0%
<u>TOTAL NET POSITION</u>	<u>16,920.2</u>	<u>17,900.8</u>	<u>(980.6)</u>	<u>-5.5%</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS</u>				
<u>OF RESOURCES, AND NET POSITION</u>				
	<u>\$ 21,627.4</u>	<u>\$ 29,649.6</u>	<u>\$ (8,022.2)</u>	<u>-27.1%</u>

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

While the Governmental Fund Balance Sheet/Statement of Net Position shows the change in financial position of net position, 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 on the next page.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF ACTIVITIES (IN THOUSANDS)
JUNE 30, 2013 AND 2012

TABLE A-2

	2013	2012	Dollar Change	Percent Change
Montgomery County subsidy	\$ 600.4	\$ 624.6	\$ (24.2)	-3.9%
Lease and other income	422.7	452.8	(30.1)	-6.6%
ASPIRE Clarksville grants	228.3	251.1	(22.8)	-9.1%
State grants	7,353.6	26,331.4	(18,977.8)	-72.1%
Non-operating revenues	2.8	14.6	(11.8)	-80.8%
Total revenues	<u>8,607.8</u>	<u>27,674.5</u>	<u>(19,066.7)</u>	-68.9%
Operating expenses	1,079.7	1,036.9	42.8	4.1%
Interest expense	85.6	102.4	(16.8)	-16.4%
Industrial Park development	7,162.0	26,363.6	(19,201.6)	-72.8%
Inventory impairment	1,363.7	-	1,363.7	
Total expenses	<u>9,691.0</u>	<u>27,502.9</u>	<u>(17,811.9)</u>	-64.8%
Contributions from City & County	<u>102.5</u>	<u>1,928.2</u>	<u>(1,825.7)</u>	-94.7%
Change in net position	(980.7)	2,099.8	(3,080.5)	-146.7%
Net position - beginning	<u>17,900.9</u>	<u>15,801.1</u>	<u>2,099.8</u>	13.3%
Net position - ending	<u>\$ 16,920.2</u>	<u>\$ 17,900.9</u>	<u>\$ (980.7)</u>	-5.5%

Operating revenue for the Board is generated almost entirely by the County government. For 2013, the allocated County funding was reduced due to the Street Department taking over the responsibility for lighting the Industrial Park. The most noteworthy differences in the activities of the Board from 2012 are:

- Industrial Park Development - The financial activity related to over \$7 million in state-funded park development obligations to Hemlock Semiconductor, LLC is \$19 million less than all such development costs in 2012. This activity resulted in essentially no change in Net Position.
- Inventory Write-down – The \$1.3 million write-down of the value of property received by the Board as part of a nonmonetary land swap with the County (see Note 6).
- Contributions from City and County – Contributed capital for industrial park development declined significantly as compared to the 2012 contribution of the former Jostens building as part of a Payment-In-Lieu-Of-Tax agreement (\$1.9 million) related to their relocation and expansion into the industrial park.

The overall decrease in net position was largely due to the nonmonetary inventory impairment and still enabled the Board to reduce the principal on long-term liabilities from this year's operations as planned.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013

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 8% over budget and operating expenses 7.2% under budget. The overall unfavorable budget variance for the year of over \$1.2 million is primarily due to the impairment of the property value related to the nonmonetary land swap referred to previously.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
CONDENSED BUDGETARY COMPARISON SCHEDULE (IN THOUSANDS)
JUNE 30, 2013
TABLE A-3

	<u>Budgeted</u> <u>Amounts</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Revenues			
County funding	\$ 600.4	\$ 600.4	\$ -
Other revenue	349.1	425.5	76.4
ASPIRE Clarksville grants	256.5	228.4	(28.1)
State grants	-	7,353.6	7,353.6
Total revenues	<u>1,206.0</u>	<u>8,607.9</u>	<u>7,401.9</u>
Expenses			
Operating expenses	1,104.9	1,097.7	7.2
Depreciation expense	-	67.6	(67.6)
Project expenses	-	7,162.0	(7,162.0)
Inventory impairment	-	1,363.7	(1,363.7)
Total expenses	<u>1,104.9</u>	<u>9,691.0</u>	<u>(8,586.1)</u>
Revenues in excess of expenses	<u>\$ 101.1</u>	<u>\$ (1,083.1)</u>	<u>\$ (1,184.2)</u>

The budgeted revenues in excess of expenses shown in Table A-3 are designated to service debt obligations incurred to obtain industrial park properties and a company vehicle. On the next page, 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
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
JUNE 30, 2013
LONG-TERM DEBT PRINCIPAL
(SCHEDULE FOR NEXT 10 YEARS)
TABLE A-4

2014	\$	249,811
2015		256,291
2016		265,672
2017		275,581
2018		286,049
2019		297,108
2020		308,790
2021		233,414
2022		90,000
2023		32,485
Total		<u>\$ 2,295,201</u>

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 POSITION
JUNE 30, 2013

	Governmental Fund	Adjustments (Note 13)	Statement of Net Position
<u>ASSETS</u>			
Cash in banks	\$ 694,791		\$ 694,791
Certificates of deposit	605,662		605,662
Accounts receivable	22,900		22,900
Grant receivable	204,083		204,083
State grants receivable	560,575		560,575
Due from City of Clarksville	255,042		255,042
Due from Montgomery County	587,443		587,443
Note receivable	1,571,429		1,571,429
Unbilled reimbursable costs	70,267		70,267
Property held for sale or lease	14,816,163		14,816,163
Capital assets:			
Land and other non-depreciated assets	-	\$ 37,641	37,641
Other capital assets - net of accumulated depreciation	-	1,726,846	1,726,846
Construction in progress	444,928		444,928
Due from related party	17,754		17,754
Prepaid expenses	11,902		11,902
Total assets	19,862,939	1,764,487	21,627,426
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>			
	-	-	-
 Total assets and deferred outflows of resources	 \$ 19,862,939	 \$ 1,764,487	 \$ 21,627,426

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

	<u>Governmental Fund</u>	<u>Adjustments (Note 13)</u>	<u>Statement of Net Position</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 599,998		\$ 599,998
Due to Montgomery County	1,571,429		1,571,429
Unearned state grant revenue	173,194		173,194
Due to related party	48,731		48,731
Land sale options	18,700		18,700
Notes payable:			
Due within one year	-	\$ 249,811	249,811
Due in more than one year	-	2,045,390	2,045,390
Total liabilities	<u>2,412,052</u>	<u>2,295,201</u>	<u>4,707,253</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
	-	-	-
<u>FUND BALANCE/NET POSITION</u>			
Fund balance:			
Nonspendable	16,816,291		
Unassigned	634,596	(530,714)	
Total fund balance	<u>17,450,887</u>	<u>(530,714)</u>	
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 19,862,939</u>		
Net position:			
Net investment in capital assets			357,938
Unrestricted			16,562,235
Total net position		<u>\$ 1,764,487</u>	<u>\$ 16,920,173</u>

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Governmental Fund	Adjustments (Note 13)	Statement of Activities
<u>EXPENDITURES/EXPENSES</u>			
Operating expenses:			
Advertising	\$ 16,140		\$ 16,140
Conferences and trade shows	32,262		32,262
Contributions	19,000		19,000
Depreciation	-	\$ 67,644	67,644
Dues and membership	14,047		14,047
Employee pensions and benefits	60,602		60,602
Entertainment	34,815		34,815
Expenses for sale of land	36,787		36,787
Insurance	4,066		4,066
Inventory write-down (Note 6)	1,363,722		1,363,722
Miscellaneous	99		99
Office and data processing equipment	8,784		8,784
Office supplies	1,591		1,591
Payroll taxes	31,699		31,699
Postage	783		783
Printing and stationery	1,727		1,727
Professional services	90,655		90,655
Project	7,161,981		7,161,981
Public relations	1,226		1,226
Rent	25,021		25,021
Repairs and maintenance	31,968		31,968
Salaries	461,261		461,261
Subscriptions	45		45
Supplies	628		628
Telephone	9,590		9,590
Travel	90,664		90,664
Utilities	38,637		38,637
Total operating expenses	<u>9,537,800</u>	<u>67,644</u>	<u>9,605,444</u>
Debt service:			
Principal	213,661	(213,661)	-
Interest	85,587	-	85,587
Total expenditures/expenses	<u>9,837,048</u>	<u>(146,017)</u>	<u>9,691,031</u>
<u>PROGRAM REVENUES</u>			
State grants	7,353,611		7,353,611
Grant from Aspire Clarksville	228,352		228,352
Total program revenues	<u>7,581,963</u>	<u>-</u>	<u>7,581,963</u>
Net program expense	<u>2,255,085</u>	<u>(146,017)</u>	<u>2,109,068</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, 2013

	<u>Governmental Fund</u>	<u>Adjustments (Note 13)</u>	<u>Statement of Activities</u>
<u>GENERAL REVENUES</u>			
Lease and other income	422,655		422,655
Montgomery County subsidy	600,404		600,404
Investment income	2,803		2,803
Total general revenues	<u>1,025,862</u>	<u>-</u>	<u>1,025,862</u>
<u>OTHER FINANCING SOURCES</u>			
Promissory note issued	<u>900,000</u>	<u>(900,000)</u>	<u>-</u>
Excess of expenditures over revenue before contributions	(329,223)	(753,983)	(1,083,206)
Contributions from City and County	<u>102,492</u>	<u>-</u>	<u>102,492</u>
Change in net position	(226,731)	(753,983)	(980,714)
Fund balance/Net position:			
Beginning of the year	<u>17,677,618</u>	<u>-</u>	<u>17,900,887</u>
End of the year	<u>\$ 17,450,887</u>	<u>\$ -</u>	<u>\$ 16,920,173</u>

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

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, (the County) organized under Title 7, Chapter 53 of the Tennessee Code Annotated. The Board's main purpose is to maintain and increase employment opportunities and further the use of the 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 the County since the 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.

Use of Estimates

The Board's financial statements are presented in accordance with accounting principles generally accepted in the United States of America which require the use of management's estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from these estimates in the near term and these variations can have a material effect on these 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 depositing its cash in financial institutions. The Board's risk is mitigated 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)
JUNE 30, 2013

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

Government-wide and Fund Financial Statements

The government-wide financial statements (the governmental fund balance sheet/statement of net position 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.

Measurement Focus, Basis of Accounting, and Basis of Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

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 the related liabilities are 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.

Cash and Cash Equivalents

The Board considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents.

Uncollectible Accounts

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

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

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

Capital Assets

Capital assets are valued at cost for assets purchased. All assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years are capitalized. Depreciation of capital assets is provided over the estimated useful lives of the respective assets on a straight-line basis. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs is not capitalized.

Property Held for Sale or Lease

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

Accrued Compensated Absences

Employees are required to take earned vacation days within the fiscal year and sick days are not paid upon separation. Therefore, compensated absences are not accrued.

Fund Balance

The Board has implemented Governmental Accounting Standards Board (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., by majority vote of the board of directors at an official meeting). 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.

The details of the fund balances are included in the Governmental Fund Balance Sheet and in Note 18.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

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

Fund Balance (Cont'd)

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.

Funding

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

Date of Management's Review

Subsequent events have been evaluated through December 23, 2013, 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 financial institutions holding its deposits to be members of the State of Tennessee Bank 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, 2013, cash and other deposits reported in the financial statements in the amount of \$1,300,453 were represented by bank balances totaling \$1,297,933, all of which were insured by the Federal Deposit Insurance Corporation (FDIC) or the State of Tennessee Bank Collateral Pool.

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, 2013. Following is a summary of the Board's certificates of deposits at June 30, 2013, all of which were insured by the FDIC or the State of Tennessee Bank Collateral Pool.

	Carrying Amount	Market Value
Certificates of deposit	\$ 605,662	\$ 605,662

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

4. Due from City of Clarksville and Montgomery County

In accordance with the Montgomery County Impact Plan/City of Clarksville Capital Project Revenue District Plan, the City of Clarksville (the City) and the County agreed to reimburse the Board for \$900,000 in financial assistance provided to the developer of Madison Street Commons. The reimbursements received during the year ended June 30, 2013 totaled \$57,515. The remaining balance is due in combined annual installments of \$90,000 from the City and County.

5. Note Receivable from Sale of Land

The note receivable is a \$5.5 million non-interest bearing note received in exchange for land.

	June 30,	
	2013	2012
Hemlock Semiconductor, LLC (HSC) note	\$ 1,571,429	\$ 2,357,143

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

6. Property Held for Sale or Lease

A summary of property held for sale or lease follows:

		At Cost
Land - Park Expansion	918.208 acres available	\$ 12,801,232
Goodpasture Property	20.190 acres available	125,032
Bell Property	54.180 acres available	199,398
Hamill Property	1.640 acres available	7,815
Homemax Property	2.000 acres available	13,965
Lafayette Property	42.830 acres available	578,000
Pad-Ready Site	40.000 acres available	1,090,721
Total		\$ 14,816,163

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

During the year ended June 30, 2013, the Board entered into a nonmonetary exchange with another component unit of the County. The Board exchanged a parcel of land and commercial building for a different parcel of land. The property received was recorded at the cost basis of the land and commercial building exchanged. After the exchange, the carrying value of the land received was written down to its market value, which was lower than the cost basis of the property exchanged. The inventory write-down loss was \$1,363,722.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

7. Capital Assets

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

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets				
Equipment	\$ 81,500	\$ -	\$ 6,084	\$ 75,416
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>\$ 2,089,662</u>	<u>\$ -</u>	<u>\$ 6,084</u>	<u>\$ 2,083,578</u>
	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Accumulated depreciation				
Equipment	\$ 63,363	\$ 9,944	\$ 6,084	\$ 67,223
Vehicles	26,049	7,358	-	33,407
Leasehold improvements	17,620	3,252	-	20,872
Buildings	149,114	47,090	-	196,204
Software	1,385	-	-	1,385
	<u>\$ 257,531</u>	<u>\$ 67,644</u>	<u>\$ 6,084</u>	<u>\$ 319,091</u>

Land is not depreciated or amortized. Capital assets with net book values totaling \$1,732,021 were pledged as collateral for debt at June 30, 2013.

8. Construction in Progress

A summary of changes in construction in progress follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Rail to Park Expansion	\$ 280,437	\$ 82,515	\$ -	\$ 362,952
Speculative Building	81,241	735	-	81,976
	<u>\$ 361,678</u>	<u>\$ 83,250</u>	<u>\$ -</u>	<u>\$ 444,928</u>

Construction in progress is not depreciated until placed in service.

9. Land Sale Options (see Note 22)

The Board had two land sale options from prospective buyers outstanding at June 30, 2013. The first outstanding option, granted in fiscal year 2004, allows the holder to purchase a twenty-acre tract of land at a price of \$6,000 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.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

9. Land Sale Options (see Note 22) (Cont'd)

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.

10. 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, 2013, the unexpended portion of the unearned state grant revenue was \$173,194.

11. Notes Payable

Notes payable consist of the following:

	2013	2012
Note payable bearing interest at 5.5% secured by land and a building; principal and interest are payable in monthly installments, maturing May 2021.	\$ 1,450,317	\$ 1,601,030
Note payable bearing interest at 3.9% secured by a vehicle; principal and interest are payable in monthly installments, maturing November 2013.	2,399	7,832
Non-interest bearing note payable; payable in annual installments of \$90,000, maturing in 2023. The annual installment payments will be reimbursed by the City and County (Note 4)	842,485	-
Total notes payable	2,295,201	1,608,862
Less: Current portion	249,811	154,457
Total notes payable excluding current portion	\$ 2,045,390	\$ 1,454,405

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

11. Notes Payable (Cont'd)

Changes in notes payable (including current portions) for the year ended June 30, 2013, were as follows:

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Estimated</u> <u>Amount Due</u> <u>in Year Ending</u>
	<u>July 1, 2012</u>			<u>June 30, 2013</u>	<u>June 30, 2014</u>
Notes Payable	<u>\$ 1,608,662</u>	<u>\$ 900,000</u>	<u>\$ 213,461</u>	<u>\$ 2,295,201</u>	<u>\$ 249,811</u>

Future payments on notes payable are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Total</u> <u>Principal</u>	<u>Total</u> <u>Interest</u>
2014	\$ 249,811	\$ 78,634
2015	256,291	69,732
2016	265,672	60,352
2017	275,581	50,443
2018	286,049	39,974
2019-2023	<u>961,797</u>	<u>51,121</u>
Total	<u>\$ 2,295,201</u>	<u>\$ 350,256</u>

12. Due to Montgomery County

At June 30, 2013, the Board owed \$1,571,429 to the County in connection with funds that were contributed by the County to the Board for the HSC project during the fiscal year ended June 30, 2009. The Board holds a corresponding note receivable from HSC (see Note 5). Both the payable to the County and the note receivable from HSC are reduced as payments are received from HSC and are then remitted to the County.

13. Adjustments to Governmental Fund Statements

Governmental Fund Balance Sheet to the Statement of Net Position:

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 position includes those capital assets among the assets of the Board, net of related accumulated depreciation. The statement of net position also includes the debt related to the capital assets and other debt among the liabilities of the Board.

Cost of capital assets	\$ 2,083,578
Less: Accumulated depreciation	<u>319,091</u>
Net capital assets	<u>\$ 1,764,487</u>
Debt related to capital assets:	
Current portion of note payable	\$ 147,978
Long-term portion of note payable	<u>1,258,571</u>
Total debt related to capital assets	<u>1,406,549</u>

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

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

Other debt:	
Current portion of note payable	101,833
Long-term portion of note payable	<u>786,819</u>
Total other debt	<u>888,652</u>
Total debt	<u>\$ 2,295,201</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 position records borrowings as a liability and the statement of activities records the interest portion of payments as an expense.

Depreciation expense	\$ (67,644)
Debt service principal	213,661
Promissory note issued	<u>(900,000)</u>
	<u>\$ (753,983)</u>

14. 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 \$24,442 for the year ended June 30, 2013. This lease expired in November 2011 and was renewed for an additional five years ending November 2016.

Future payments on lease obligations are as follows:

2014	\$ 26,667
2015	26,667
2016	26,667
2017	<u>8,889</u>
	<u>\$ 88,890</u>

15. 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.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

15. Lease Contracts (Cont'd)

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

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2014	\$ 258,513
2015	258,513
2016	258,513
2017	258,513
2018	258,513
2019 and Thereafter	<u>387,770</u>
	<u>\$ 1,680,335</u>

16. 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. 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, 2013 and 2012, contributions totaling \$28,878 and \$26,620, respectively, were paid and expensed by the Board. Employee contributions to the plan were \$28,716 and \$25,677 for the years ended June 30, 2013 and 2012, respectively.

17. Related Party Transactions

The Board paid EDC \$298,691 for its share of EDC expenses during the year ended June 30, 2013. The Board had related party payables at June 30, 2013 totaling \$48,731, and related party receivables of \$17,754. Included in related party receivables at June 30, 2013 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.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

18. Fund Balance

The Board had unassigned fund balance of \$634,596 and nonspendable fund balance of \$16,816,291 at June 30, 2013. Nonspendable fund balance consisted of the following:

Long-term portion of Due from City of Clarksville	\$ 228,042
Long-term portion of Due from Montgomery County	524,443
Long-term portion of note receivable	785,715
Property held for sale or lease	14,816,163
Construction in progress	444,928
Long-term portion of due from related parties	<u>17,000</u>
Total nonspendable fund balance	<u>\$ 16,816,291</u>

19. 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, 2013 totaled \$1,944,723,745.

20. 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.

21. 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.

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, 2013, there was an accrued liability of \$-0- to the City and \$-0- to the County.

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
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

22. Subsequent Event

On October 14, 2013, the Board entered into an agreement with a company to build a manufacturing facility on the Board's property. In connection with this agreement, the company will utilize the property in the second land sale option described in Note 9, and as such, the land sale option was terminated. The Company holding the option is requesting damages due to the early termination of the option. The ultimate amount to be paid to the Company is not expected to be material to the Board.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2013

<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, 2012</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2013</u>
<u>State of Tennessee Economic & Community Development</u>						
Community Development	03/12/09 - 06/30/13	BC8311	\$ 4,163,184	\$ 10,758,902	\$ 7,108,918	\$ 513,200
Community Development	04/25/11 - 06/30/12	30440	3,000,000	3,000,000	-	-
Community Development	5/31/13 - 6/30/18	7072	-	-	47,375	47,375
Total			<u>\$ 7,163,184</u>	<u>\$ 13,758,902</u>	<u>\$ 7,156,293</u>	<u>\$ 560,575</u>



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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, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated December 23, 2013.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control 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 and responses as finding 2013-001 to be a material weakness.

The Board did not resolve prior year finding number 2012-1. The finding recurred in the current year and is reported as finding 2013-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from 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 Finding

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee
December 23, 2013

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013

FINDINGS RELATED TO INTERNAL CONTROL

2013-001 (Recurring Finding) Management Oversight of Financial Reporting

Condition: The Board lacks proper management oversight over financial reporting which includes the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP).

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.