

**THE INDUSTRIAL DEVELOPMENT  
BOARD OF THE COUNTY OF  
HAMILTON, TENNESSEE**

**Chattanooga, Tennessee**

**FINANCIAL STATEMENTS**

**Years Ended June 30, 2013 and 2012**

**JOHNSON, HICKEY & MURCHISON, P.C.**  
Certified Public Accountants  
Chattanooga, Tennessee

# TABLE OF CONTENTS

	<b><u>Page</u></b>
<b>INTRODUCTORY INFORMATION:</b>	
Roster of board members	2
<b>INDEPENDENT AUDITORS' REPORT</b>	3-4
<b>FINANCIAL STATEMENTS:</b>	
Statements of net position	5
Statements of revenues, expenses and changes in net position	6
Statements of cash flows	7
Notes to basic financial statements	8-12
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	14-15
<b>SCHEDULE OF FINDINGS AND RESPONSES</b>	16

## **INTRODUCTORY INFORMATION**

**THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF HAMILTON, TENNESSEE  
ROSTER OF BOARD MEMBERS  
FOR THE YEARS JUNE 30, 2013 AND 2012**

**BOARD MEMBERS FOR YEAR ENDED JUNE 30, 2012:**

Dan Mayfield	Chairman
Annie Hall	Vice Chairman
Leroy Grant	Secretary
Daniel Calhoun	Board Member
Bobby Hudgens	Board Member
Alan Richelson	Board Member
Mike Landguth	Board Member
Bob Lyons	Board Member
Tom Francescon	Board Member
Lamar McDaniel	Board Member
Peter Murphy	Board Member
Grady Rhoden	Board Member
Gary Watkins	Board Member

**BOARD MEMBERS FOR YEAR ENDED JUNE 30, 2013:**

Dan Mayfield	Chairman
Annie Hall	Vice Chairman
Leroy Grant	Secretary
Alan Richelson	Board Member
Mike Landguth	Board Member
Tom Francescon	Board Member
Lamar McDaniel	Board Member
Peter Murphy	Board Member
Grady Rhoden	Board Member
Daniel Calhoun	Board Member
Gary Watkins	Board Member



## INDEPENDENT AUDITORS' REPORT

**To the Members of the Board  
The Industrial Development Board  
of the County of Hamilton, Tennessee  
Chattanooga, Tennessee:**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Industrial Development Board of the County of Hamilton, Tennessee (The IDB or the Board), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 Board'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 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 opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of The Industrial Development Board of the County of Hamilton, Tennessee as of June 30, 2013 and 2012, and the respective changes in financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate, operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2013, on our consideration of The Industrial Development Board of the County of Hamilton, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Industrial Development Board of the County of Hamilton, Tennessee's internal control over financial reporting and compliance.

*Johnson, Wickey & Meucham, P.C.*

September 9, 2013

**THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF HAMILTON, TENNESSEE  
STATEMENTS OF NET POSITION  
JUNE 30, 2013 AND 2012**

**ASSETS**

	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>CURRENT ASSETS:</b>		
Cash	\$ 24,051	\$ 27,239
Certificates of deposit	225,000	225,000
Interest receivable	<u>1,032</u>	<u>-</u>
	<b><u>\$ 250,083</u></b>	<b><u>\$ 252,239</u></b>

**LIABILITIES AND NET POSITION**

<b>LIABILITIES:</b>		
Accounts payable	<u>\$ 960</u>	<u>\$ 1,158</u>
<b>NET POSITION:</b>		
Unrestricted	<u>\$ 249,123</u>	<u>\$ 251,081</u>

(The accompanying notes are an integral part of these statements.)

**THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF HAMILTON, TENNESSEE  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES  
IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING EXPENSES:</b>		
Office expense	\$ 356	\$ 459
Professional fees	4,897	15,387
Recording cost	<u>-</u>	<u>250</u>
	<u>5,253</u>	<u>16,096</u>
<b>LOSS FROM OPERATIONS</b>	<u>(5,253)</u>	<u>(16,096)</u>
<b>NON OPERATING INCOME:</b>		
Interest income	<u>3,295</u>	<u>939</u>
<b>CHANGE IN NET POSITION</b>	(1,958)	(15,157)
<b>NET POSITION:</b>		
Beginning	<u>251,081</u>	<u>266,238</u>
Ending	<u>\$ 249,123</u>	<u>\$ 251,081</u>

(The accompanying notes are an integral part of these statements.)

**THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF HAMILTON, TENNESSEE  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash paid to suppliers	\$ (5,451)	\$ (17,116)
Net cash used by operating activities	(5,451)	(17,116)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received	2,263	3,134
Net cash provided by investing activities	2,263	3,134
<b>NET DECREASE IN CASH</b>	(3,188)	(13,982)
<b>CASH:</b>		
Beginning	252,239	266,221
Ending	\$ 249,051	\$ 252,239
<b>CASH CONSISTS OF:</b>		
Cash	\$ 24,051	\$ 27,239
Certificates of deposit	225,000	225,000
	\$ 249,051	\$ 252,239
<b>RECONCILIATION OF OPERATING LOSS TO NET</b>		
<b>CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (5,253)	\$ (16,096)
Net decrease in -		
Accounts payable	(198)	(1,020)
Net cash used by operating activities	\$ (5,451)	\$ (17,116)

(The accompanying notes are an integral part of these statements.)

**THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF HAMILTON, TENNESSEE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS JUNE 30, 2013 AND 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Reporting entity –**

The Industrial Development Board of the County of Hamilton, Tennessee was incorporated August 3, 1981, under the provisions of the Tennessee General Corporations Act. The IDB has the following functions as authorized by its charter: to maintain and increase employment opportunities, to increase the quantity of housing available in affected municipalities and further the use of its agricultural products and natural resources, and to promote control and elimination of pollution.

The Industrial Development Board of the County of Hamilton, Tennessee is a related organization of the County of Hamilton, Tennessee due to the control the County exercises over the appointments of The IDB's Board of Directors. The County assumes no responsibility for the day-to-day operating expenses of the Board.

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No.34*. This statement requires that the financial statements present the The Industrial Development Board of the County of Hamilton, Tennessee (the primary government) and any component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting one of the following criteria: the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board and the primary government is able to impose its will upon the potential component unit); or there is a possibility that the potential component unit may provide specific benefits or impose specific financial burdens on the primary government.

Based on the foregoing criteria, there are no entities which meet the above criteria for inclusion in the Board's financial statements.

**Basis of presentation –**

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF HAMILTON, TENNESSEE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS JUNE 30, 2013 AND 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Measurement focus, basis of accounting -**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Board's funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the Statement of Net Position. Net Position (i.e. total assets – net of total liabilities) are segregated into net investment in capital assets, restricted for debt service, and unrestricted components.

The financial records are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operation. The principal operating revenues of the Board's enterprise fund are charges to applicants for funding financing and related expenses. Operating expenses for the enterprise fund include administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

**Tax exemption –**

The Industrial Development Board of the County of Hamilton, Tennessee is exempt from taxation under Title 7, Chapter 53 of the Tennessee Code.

**Risk management –**

The Industrial Development Board of the County of Hamilton, Tennessee has errors and omission insurance for its Board of Directors through the County. There were no significant reductions in insurance coverage in the prior two years. Additionally, there were no significant settlements which exceeded insurance coverage for each of the past three years.

**Estimates and uncertainties –**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF HAMILTON, TENNESSEE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS JUNE 30, 2013 AND 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Cash and cash equivalents –**

For purposes of these financial statements, the Board considers money market accounts with banks and the State of Tennessee Local Government Pool, as well as certificates of deposit, to be cash equivalents.

**Net position –**

Net position represents the residual of all elements presented in a statement of financial position. Net investment in capital assets, if applicable, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted, if applicable, for restricted assets reduced by any related outstanding debt. All other net position is reported as unrestricted.

**Deferred outflows/inflows of resources -**

During the year ended June 30, 2013, the Board adopted the provisions of GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Under this Statement, GASB has defined deferred outflows of resources and deferred inflows of resources as follows:

Deferred outflows of resources - a consumption of net assets by the government that is applicable to a future reporting period.

Deferred inflows of resources - an acquisition of net assets by the government that is applicable to a future reporting period.

As of June 30, 2013, the Board did not have any deferred outflows or inflows of resources. This statement had no significant impact on the Board.

**(2) CASH AND CERTIFICATES OF DEPOSIT:**

The Board reports its cash and cash equivalents under GASB Statement Number 40, which is designed to improve financial reporting of deposit and investment risks.

**THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF HAMILTON, TENNESSEE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS JUNE 30, 2013 AND 2012**

**(2) CASH AND CERTIFICATES OF DEPOSIT (Continued):**

At June 30, 2013, the Board reports cash equivalents as follows –

	<b>Weighted Average Maturity (Years)</b>	<b>Fair Value</b>
	<u>          </u>	<u>          </u>
Money market accounts	0.00	\$ 20,178
Certificates of deposit	<u>0.65</u>	<u>225,000</u>
 Total	 <u>0.27</u>	 <u>\$ 245,178</u>

Cash and certificates of deposit are carried at cost which approximates fair value. There were no amounts uninsured or uncollateralized for 2013 and 2012.

**Interest Rate Risk –**

The IDB presents its exposure to interest rate changes using the weighted average maturity method. The IDB’s investment portfolio did not experience any significant fluctuations in fair value for the years ended June 30, 2013 and 2012.

**Custodial Credit Risk –**

The IDB’s policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal deposit insurance or the Tennessee Bank Collateral Pool, by collateral held by the Board’s agent in the Board’s name, or by Federal Reserve Banks acting as third party agents. State statutes also authorize the types of investments in which the Board may participate. The Board limits its investments to certificates of deposit and savings and money market accounts with local banks and the State of Tennessee local government pooled investment fund.

**Credit Risk –**

The IDB’s policies are designed to maximize its earnings, while protecting the security and providing maximum liquidity, in accordance with all applicable state laws. The State of Tennessee Local Government Investment Pool is a 2a7–like pool, which is not rated.

**THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF HAMILTON, TENNESSEE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS JUNE 30, 2013 AND 2012**

**(2) CASH AND CERTIFICATES OF DEPOSIT (Continued):**

At June 30, 2013, certificates of deposit and bank money market funds consist of the following –

<u>Financial Institution</u>	<u>Type of Instrument</u>	<u>Interest</u>	<u>Maturity Date</u>	<u>Amount</u>
Capitalmark Bank & Trust	Certificate	0.65%	October 16, 2013	\$ 45,000
Capitalmark Bank & Trust	Certificate	0.65%	October 16, 2013	90,000
Capitalmark Bank & Trust	Certificate	0.65%	October 16, 2013	90,000
Regions Bank	Money market	Variable	NA	<u>20,178</u>
				<u>\$ 245,178</u>

**(3) CONDUIT DEBT OBLIGATIONS:**

From time to time, The IDB has issued Industrial Development Bonds to provide assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon payment of the bonds, the security interest in the property is released and ownership of any facilities acquired by The IDB transfers to the private-sector entity served by the bond issuance. Neither The IDB, the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statement of net assets.

Since its inception, The IDB has assisted in issuing approximately \$303,236,000 of industrial development bonds. As of June 30, 2013 and 2012, the aggregate outstanding amount payable under these bonds was \$20,224,955 and \$20,769,849, respectively.

**(4) SUBSEQUENT EVENTS:**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 9, 2013, the date which these financial statements were available for issue.

**INTERNAL CONTROL AND COMPLIANCE REPORT**



**INDEPENDENT AUDITORS' 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**

**To the Board of Directors of  
The Industrial Development Board of the  
County of Hamilton, Tennessee  
Chattanooga, 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 Industrial Development Board of the County of Hamilton, Tennessee (The IDB), which comprise the statements of net position as of and for the years ended June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated September 9, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The IDB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The IDB's internal control. Accordingly, we do not express an opinion on the effectiveness of The IDB'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 certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in 2009-1 in the accompanying schedule of findings and responses to be a material weakness. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As a part of obtaining reasonable assurance about whether The IDB'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 that are required to be reported under *Government Auditing Standards*.

### **The IDB's Response to Findings**

The IDB's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The IDB'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 IDB'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 IDB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Johnson, Niskey & Meucham, P.C.*

September 9, 2013

**THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE COUNTY OF HAMILTON, TENNESSEE  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013 AND 2012**

**CURRENT YEAR FINDINGS:**

None

**PRIOR YEAR FINDING NOT CORRECTED:**

Finding 2009-1 – Preparation of financial statements

**Condition:**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America is a significant function of The IDB's internal control system. Our consideration of the internal control structure disclosed The IDB did not employ a qualified accountant to prepare the financial statements and the related footnotes in accordance with generally accepted accounting principles. The IDB's auditor cannot be part of the internal control over financial reporting, and financial statement preparation by the auditor does not compensate for this material weakness.

**IDB Response:**

The finding was not corrected in 2013. The limited number of financial transactions and their routine nature provide a sufficient level of comfort to The IDB that the benefits to be gained by having its financial statements prepared by a qualified accountant do not outweigh the increased expenses which would be associated with such a change.

