INDUSTRIAL DEVELOPMENT BOARD OF

STEWART-HOUSTON COUNTIES

Annual Financial Report

For the Year Ended June 30, 2014

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

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Financial Section

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CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

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

Report on the Financial Statements
I have audited the accompanying financial statements of the governmental activities and the major fund of the Industrial Development Board of Stewart-Houston Counties as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Industrial Development 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
My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting policies made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the audit opinions.

Opinions
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund of the Industrial Development Board of Stewart-Houston Counties as of June 30, 2014, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters -Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 historic context. My opinion on the basic financial statements is not affected by this missing information.

Other Matters -Other Information

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Industrial Development Board of Stewart-Houston Counties' basic financial statements. The Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Supplementary 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 Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 15, 2014 on the consideration of the Board's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of the 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 entity's internal control over financial reporting and compliance.

Jah R Poole, CPA

December 15, 2014

Basic Financial Statements

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

Statement of Net Position

June 30, 2014

Assets		Total
Cash and cash equivalents	$117,042	$117,042
Construction in progress	1,699,280	1,699,280
Total Assets	$1,816,322	$1,816,322
Liabilities		
Liabilities:		
Accounts payable	0	0
Due to Stewart Houston Industrial Park Board	892,971	892,971
Line of credit	799,401	799,401
Total Liabilities	1,692,372	1,692,372
Net Position:		
Net investment in capital asset	6,908	6,908
Unrestricted	117,042	117,042
Total Net Position	$123,950	$123,950

See accompanying notes to financial statements.

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

Statement of Activities

For the Year Ended June 30, 2014

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position: Governmental Activities	Net (Expenses) Revenue and Changes in Net Position: Total
General government - Industrial Park	39,947	0	0	97,055	57,108	57,108
Total Governmental Activities	39,947	0	0	97,055	57,108	57,108
General Revenues:						
Interest income					137	137
Total general revenues					137	137
Changes in net position					57,245	57,245
Net position - beginning of year					66,705	66,705
Net position - ending of year					123,950	123,950

See accompanying notes to financial statements.

Fund Financial Statements

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

Balance Sheet

General Fund

June 30, 2014

	Operating Fund
Assets	
Cash and cash equivalents	$ 117,042
Total Assets	$ 117,042
Liabilities and Fund Balance	
Liabilities:	
Retainage payable	0
Due to Stewart Houston Industrial Park Board	892,971
Total Liabilities	892,971
Fund balance:	
Unassigned	(775,929)
Total Fund Balance	(775,929)
Total Liabilities and Fund Balance	$117,042

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

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

Reconciliation of the Balance Sheet to the Statement of Net Position of Government Activities

June 30, 2014

Amounts reported for fund balance - total governmental funds	$	(775,929)
Amounts reported for governmental activities in the statement of net position are different because the operating funds do not report:		
Investment in capital assets		1,699,280
Less: Long-term debt		(799,401)
Net position of governmental activities	$	123,950

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

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

For the Year Ended June 30, 2014

Revenues:	
Grant income	$ 97,055
Interest income	137
Total Revenues	97,192
Expenditures:	
Accounting and audit	5,500
Professional services	7,479
Insurance	1,101
Occupancy	4,304
Repair and maintenance	4,097
Miscellaneous	434
Debt service	17,661
Capital outlay	356,784
Total Expenditures	397,360
Excess (deficiency) of Revenues over Expenditures	(300,168)
Other financing sources:	
Loan proceeds	765,385
Net change in Fund Balance	465,217
Fund Balance, Beginning of year	(1,241,146)
Fund Balance, End of year	(775,929)

See accompanying notes to financial statements.

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

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

For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds:	$	465,217
Amounts reported for governmental activities in the statement of net position are different because:		
Operating funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Acquisition of capital assets		356,784
Depreciation expense		0
Debt service expenditures that reduce long- term debt are not included in the Statement of Activities.		630
Operating funds report loan proceeds as revenues. However, in the statement of activities the loan proceeds increase the debt balances.		(765,385)
Change in net position of governmental activities	$	57,245

Notes to Financial Statements

Industrial Development Board of Stewart-Houston Counties

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

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

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

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

In evaluating the Board as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Board may be financially accountable and, as such, should be included within the Board's financial statements. The Board (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the Board. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Board has no component units at yearend.

Government -Wide and Fund Financial Statements

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

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

(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The Board reports the following major fund:

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

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of checking accounts and a money market account. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed. When unrestricted funds are used the Board uses committed, assigned then unassigned funds.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets consisting of certain improvements other than buildings are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Board as assets with an individual cost of $2,000 and an estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated useful life in excess of three years. Donated fixed assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

(1) Summary of Significant Accounting Policies, Continued

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

The estimated useful lives are as follows:

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

Budget and Budgetary Accounting

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

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Board's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Estimates

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

Credit Risk

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

(1) Summary of Significant Accounting Policies, Continued

Fund Balance

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

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

(2) Cash and Cash Equivalents

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

(3) Capital Assets

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Construction in progress - building	1,342,496	356,784	-	1,699,280
Total	1,342,496	356,784	-	1,699,280
Accumulated depreciation	-			-
Capital assets - net	-			-

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

(4) Note Receivable – Related Party

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

(5) Line of Credit

The Industrial Development Board of Stewart-Houston Counties borrowed funds to assist in financing the construction of a project. The Line of credit is expected to be refinanced within the next fiscal year. The outstanding balance as of June 30, 2014 is $799,401.

(6) Commitments and Contingencies

Litigation:

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

Supplemental Information

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

Schedule of Cash and Cash Equivalents
All Funds

June 30, 2014

	Carrying Value
General Fund:	
Traditions First Bank	$117,042
Total General Fund	117,042
Total - All funds	$117,042

INDUSTRIAL DEVELOPMENT BOARD OF STEWART-HOUSTON COUNTIES

Schedule of State Financial Assistance

For the Year Ended June 30, 2014

CFDA Number	State Grant Number	Program Name	Grantor Agency	Receivable (Deferred) Balance July 1, 2013	Grant Receipts	Reimbursements	Grant Expenditures	Receivable (Deferred) Balance June 30, 2014
State Program:								
N/A	N/A	Industrial development Pilot FIDP Project	State of Tennessee Department of Economic and Community Dev.	0	81,569	0	81,569	0
			Total State Program	0	81,569	0	81,569	0

This schedule is prepared on the accrual basis of accounting.

Compliance and Internal Control

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

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

I have audited the financial statements of the governmental activities and the major fund 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 Stewart-Houston Counties as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Industrial Development Board of Stewart-Houston Counties' basic financial statements, and have issued a report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Industrial Development Board of Stewart-Houston Counties' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Industrial Development Board of Stewart-Houston Counties' internal control. Accordingly, I do not express an opinion on the effectiveness of the Industrial Development Board of Stewart-Houston Counties' internal control.

My consideration of the 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 weakness or significant deficiencies may exist that were not identified. However, as discussed below, I identified a deficiency in internal control that I consider to be a material weakness (2012-001 Lack of segregation of Duties).

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A 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. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described below (2012-001) to be a material weakness.

The material weakness is as follows:

2012-001 Separation of Duties

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

Management Response:

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

Compliance and Other Matters

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

Response to Finding

The Industrial Development Board of Stewart-Houston Counties' response to the finding identified in the audit is described above. The Industrial Development Board of Stewart-Houston Counties' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of the testing of internal control and compliance and the result 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.

Jack R Poole, CPA

December 15, 2014

Industrial Development Board of Stewart-Houston Counties

Schedule of Disposition of Prior Year Comments

June 30, 2014

2012-001 Separation of Duties

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

Management Response:

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