

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2014

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CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
DIRECTORY OF BOARD MEMBERS AND MANAGEMENT (UNAUDITED)
JUNE 30, 2014

BOARD MEMBERS

	<u>Term Expires</u>
Mr. Don Jenkins, Chairman	June 2015
Mr. John Wallace Crow, Vice Chairman	June 2015
Mr. David Chesney, Secretary-Treasurer	June 2017
Mr. Billy Atkins	June 2017
Mr. Tim Hall	June 2019
Ms. Joyce Norris	June 2019
Mr. David Smithfield	June 2019
Mr. Carl Wilson	June 2015
Ms. Niesha Wolfe	June 2017
Mr. Richard Batson, Legal Counsel, Ex-Officio	
County Mayor Carolyn Bowers, Ex-Officio	
Ms. Kay Drew, Ex-Officio	
Mr. Mike Evans, 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

To the 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, 2014, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity'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 opinions.

Opinions

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, 2014, 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 opinions on the financial statements. The directory of board members and management and the schedule of state financial assistance 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 November 19, 2014, 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
November 19, 2014

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014

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, 2014. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The Board's total net position decreased by over \$6.8 million as a result of this year's activities.
 - This decrease was due primarily to Hankook Tire's acceptance of the Board's incentive of 468 acres to establish a new manufacturing plant (see Note 20).
- The Board added a 150,000 ft² speculative building to its inventory in exchange for a \$3.7 million note payable.
- The Board incurred industrial park development expenses of almost \$11 million (nearly all of which 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 Hankook Tire and Hemlock Semiconductor, LLC sites.
- This year's recruitment and retention efforts resulted in two major announcements:
 - Hankook Tire Plant: \$820 million capital investment, 1,800 new jobs;
 - Shiloh Industries Expansion: \$20.6 million capital investment, 153 new jobs.
- The County provided the full operations funding for the Board for fiscal 2013-2014.

Required Financial Statements

The financial statements of the Board are prepared 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 2014, the Foundation spent over \$609,000 toward economic development efforts, with more than \$127,000 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, 2014

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 the financial performance of the current year with the previous year, summaries of the Statements of Net Position are presented in Table A-1. As you can see in the table on the following page, the Board's total net position decreased by over \$6.8 million. There are two noteworthy transactions evident when comparing to 2013, one of which accounts for most of the change in the Board's net position:

Project Hankook Transactions – The Board, in collaboration with local and state leaders, successfully recruited Hankook Tire Company to Montgomery County in 2014. This required offering 468 acres of industrial park land as an incentive and cash-flowing up to \$50 million of state grant funds toward the six year development of the site. The site development obligations, for the most part, did not impact the Board's net position since it incurred offsetting increases in current assets and liabilities. The Board was fulfilling similar obligations for other projects in 2013, but they were far smaller in size. The land incentive is the primary reason for the Board's decreased net position and is evident in the \$3.5 million decrease in the book value for Property Held for Sale or Lease (see Note 20 for more information on this nonmonetary transaction).

Purchase of Speculative Warehouse – The Board also financed the purchase of a 150,000 ft² warehouse that neighbors the existing industrial park in 2014 (see Note 9 for more information on the related financing). This resulted in a \$3.7 million increase in Property Held for Sale or Lease and Long-Term Liabilities. While this did not affect the Net Position of the Board, it is a noteworthy difference from 2013 when no such transaction occurred.

The significant and offsetting increases in current assets and current liabilities versus 2013 are due to an increase of \$3.3 million in state grant funded project obligations that existed at year-end. These had no impact on net position.

The only commitment that may significantly affect the availability of the Board's resources for future use is related to an agreement (see Note 19) that subjects the proceeds from the sale of most of the Property Held for Sale or Lease to be split between the Board, the City, and the County.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2014

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF NET POSITION (IN THOUSANDS)

JUNE 30, 2014 AND 2013

TABLE A-1

	<u>2014</u>	<u>Restated 2013*</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<u>ASSETS AND DEFERRED</u>				
<u>OUTFLOWS OF RESOURCE</u>				
Current assets	\$ 6,962.3	\$ 2,632.8	\$ 4,329.6	164.4
Notes receivable	785.7	1,571.4	(785.7)	(50.0)
Capital assets (net)	1,706.2	1,764.5	(58.3)	(3.3)
Property held for sale or lease	11,358.3	14,816.2	(3,457.9)	(23.3)
Total assets	<u>20,812.5</u>	<u>20,784.9</u>	<u>27.6</u>	<u>0.1</u>
 <u>DEFERRED OUTFLOWS</u>				
<u>OF RESOURCES</u>				
	-	-	-	-
 <u>TOTAL ASSETS AND DEFERRED</u>				
<u>OUTFLOWS OF RESOURCES</u>				
	<u>\$ 20,812.5</u>	<u>\$ 20,784.9</u>	<u>\$ 27.6</u>	<u>0.1</u>
 <u>LIABILITIES, DEFERRED INFLOWS</u>				
<u>OF RESOURCES AND NET POSITION</u>				
Current liabilities	\$ 5,916.5	\$ 2,571.8	\$ 3,344.7	130.1
Long-term liabilities	4,820.3	1,292.9	3,527.4	272.8
Total liabilities	10,736.8	3,864.7	6,872.1	177.8
 <u>DEFERRED INFLOWS</u>				
<u>OF RESOURCES</u>				
	-	-	-	-
 <u>NET POSITION</u>				
Net investment in capital assets	447.6	357.9	89.7	25.1
Unrestricted net position	9,628.1	16,562.3	(6,934.2)	(41.9)
Total net position (deficit)	<u>10,075.7</u>	<u>16,920.2</u>	<u>(6,844.5)</u>	<u>(40.5)</u>
 <u>TOTAL LIABILITIES, DEFERRED</u>				
<u>INFLOWS OF RESOURCES</u>				
<u>AND NET POSITION</u>				
	<u>\$ 20,812.5</u>	<u>\$ 20,784.9</u>	<u>\$ 27.6</u>	<u>0.1</u>

* 2013 adjusted for effect of prior period adjustment (see Note 21).

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, 2014

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF ACTIVITIES (IN THOUSANDS)
JUNE 30, 2014 AND 2013
TABLE A-2

	<u>2014</u>	<u>Restated 2013*</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Montgomery County subsidy	\$ 600.4	\$ 600.4	\$ -	-
Lease and other income	719.4	422.7	296.7	70.2
Gain on assets sold	80.6	-	80.6	N/A
ASPIRE Clarksville grants	127.6	228.3	(100.7)	(44.1)
State grants	10,572.7	7,353.6	3,219.1	43.8
Non-operating revenues	<u>4.1</u>	<u>2.8</u>	<u>1.3</u>	<u>46.4</u>
Total revenues	12,104.8	8,607.8	3,497.0	40.6
Operating expenses	931.4	1,079.7	(148.3)	(13.7)
Interest expense	64.6	85.6	(21.0)	(24.5)
Industrial Park development	10,985.7	7,162.0	3,823.7	53.4
Expense on sale of land	6,440.8	-	6,440.8	-
Inventory impairment	<u>-</u>	<u>1,363.7</u>	<u>(1,363.7)</u>	<u>(100.0)</u>
Total expenses	18,422.5	9,691.0	8,731.5	90.1
Distribution to City & County	<u>(526.8)</u>	<u>102.5</u>	<u>(629.3)</u>	<u>(614.0)</u>
Change in net position	(6,844.5)	(980.7)	(5,863.8)	597.9
Net position – beginning	<u>16,920.2</u>	<u>17,900.9</u>	<u>(980.7)</u>	<u>(5.5)</u>
Net position – ending	<u>\$ 10,075.7</u>	<u>\$ 16,920.2</u>	<u>\$ (6,844.5)</u>	<u>(40.5)</u>

* 2013 adjusted for effect of prior period adjustment (see Note 21).

Operating revenue for the Board is generated almost entirely by the County Government. For 2014, the allocated County funding remained unchanged from 2013. The most noteworthy differences in the activities of the Board from 2013 are:

- Industrial Park Development - The 2014 Industrial Park Development financial activity included over \$10.5 million in state-funded park development obligations (most noteworthy, \$9.2 million for the Hankook Project) and is \$3.2 million more than state-funded development obligations in 2013 (mostly for the Hemlock Semiconductor, LLC Project). This activity resulted in essentially no change in net position.
- Operating expenses – Several factors contributed to a decline in operating expenses. The most notable were:
 - Vacancies in two key positions that led to a reduction of employee costs (\$59,000);
 - Reduced travel-related costs (\$64,000) due in part to the above vacancies. These are mostly funded by Aspire grants and explain most of the decline in Aspire grant income as well; and
 - Transfer of a warehouse to Montgomery County in late 2013 that significantly reduced utility costs for 2014 (\$32,000).

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2014

- Inventory writedown – A \$1.3 million writedown of the value of property received by the Board in 2013 as part of a nonmonetary land swap with the County did not recur in 2014.
- Expense on sale of land – Expense on sale of land increased significantly as compared to the 2013 due to the Board providing 468 acres of industrial park land toward the Hankook Project (previously contributed to the Board by the City and County with a book value of over \$6.4 million).

The overall decrease in net position was largely due to the expense of property in support of Project Hankook. The Board was still able to reduce the principal on long-term liabilities from this year's operations as planned.

Budgetary Comparison Schedule

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

The Board adopts an operating and capital expenses budget to assist in planning and forecasting for the fiscal year. The budget is approved first by the Board and then the County. It is in effect for the entire fiscal year. Management uses the budget as a planning tool for the coming year. A Condensed Budgetary Comparison Schedule is shown on the next page in Table A-3. The Board ended the fiscal year with operating revenues (excluding State grants) 21.9% over budget. This favorable variance was due primarily to unbudgeted project expense reimbursements (\$227,000) and an offsetting shortfall from unexecuted Aspire Initiatives (\$131,000). Operating expenses overall fell 1,618% over budget due mainly to the expense on sale of land related to the Hankook property. Without this expense, operating expenses would have been 12.5% under budget due in large part to position vacancies (\$59,000), unexecuted Aspire Initiatives (\$131k), and warehouse holding costs reduced due to the timing of transfer (\$53,000). Without the expense on sale of land, the net overall budget variance for the year would have been favorable by over \$61,000 due to a combination of these and other positive operating variances and was offset by \$413,000 of unreimbursed project expenses. This enabled the Board to fund its planned principal payments entirely from 2014 operations.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2014

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
CONDENSED BUDGETARY COMPARISON SCHEDULE (IN THOUSANDS)
JUNE 30, 2014
TABLE A-3

	Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
	<u> </u>	<u> </u>	<u> </u>
Revenues			
County funding	\$ 600.4	\$ 600.4	\$ -
Other revenue	397.5	642.7	245.2
ASPIRE Clarksville Grants	258.5	127.6	(130.9)
TIF Revenue	-	80.8	80.8
Gain on sale of assets	-	80.6	80.6
State grants	-	10,572.7	10,572.7
Total revenues	<u>1,256.4</u>	<u>12,104.8</u>	<u>10,848.4</u>
Expenses			
Operating expenses	1,013.2	851.6	161.6
Holding cost-spec building	58.6	5.3	53.3
TIF expense	-	80.8	(80.8)
Depreciation expense	-	58.3	(58.3)
Expense on sale of land	-	6,440.8	(6,440.8)
Project expenses	-	10,985.7	(10,985.7)
Total expenses	<u>1,071.8</u>	<u>18,422.5</u>	<u>(17,350.7)</u>
Revenues in excess of expenses/ (expenses in excess of revenues)	<u>\$ 184.6</u>	<u>\$ (6,317.7)</u>	<u>\$ (6,502.3)</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 (see Note 9 for detailed information on notes payable). 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, 2014

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
JUNE 30, 2014
LONG-TERM DEBT PRINCIPAL
(SCHEDULE FOR NEXT 10 YEARS)
TABLE A-4

2015	\$ 181,132
2016	189,454
2017	198,157
2018	207,260
2019	3,926,782
2020	226,741
2021	<u>71,866</u>
Total	<u>\$ 5,001,392</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, 2014

	Governmental Fund	Adjustments (Note 11)	Statement of Net Position
<u>ASSETS</u>			
Cash in banks	\$ 1,260,587		\$ 1,260,587
Certificates of deposit	610,120		610,120
Accounts receivable	119,083		119,083
Grant receivable	80,841		80,841
State grants receivable	3,907,199		3,907,199
Note receivable	785,714		785,714
Unbilled reimbursable costs	603,299		603,299
Property held for sale or lease	11,358,256		11,358,256
Capital assets:			
Land and other non-depreciated assets	-	\$ 37,641	37,641
Other capital assets - net of accumulated depreciation	-	1,668,548	1,668,548
Construction in progress	362,952		362,952
Due from related party	17,000		17,000
Prepaid expenses	1,290		1,290
Total assets	19,106,341	1,706,189	20,812,530
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
	-	-	-
Total assets and deferred outflows of resources	\$ 19,106,341	\$ 1,706,189	\$ 20,812,530
<u>LIABILITIES</u>			
Accounts payable	\$ 4,421,861		\$ 4,421,861
Due to Montgomery County	785,714		785,714
Retainage payable	256,026		256,026
Due to related parties	271,861		271,861
Notes payable:			
Due within one year	-	\$ 181,132	181,132
Due in more than one year	-	4,820,260	4,820,260
Total liabilities	5,735,462	5,001,392	10,736,854
<u>DEFERRED INFLOWS OF RESOURCES</u>			
	-	-	-
<u>FUND BALANCE/NET POSITION</u>			
Fund balance:			
Nonspendable	11,738,208		
Unassigned	1,632,671	(3,295,203)	
Total fund balance	13,370,879	(3,295,203)	
Total liabilities, deferred inflows of resources and fund balance	\$ 19,106,341		
Net position:			
Net investment in capital assets			447,618
Unrestricted			9,628,058
Total net position		\$ 1,706,189	\$ 10,075,676

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

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	Governmental Fund	Adjustments (Note 11)	Statement of Activities
<u>EXPENDITURES/EXPENSES</u>			
Operating expenses:			
Advertising	\$ 24,505		\$ 24,505
Conferences and trade shows	15,984		15,984
Contributions	17,000		17,000
Depreciation	-	\$ 58,298	58,298
Dues and membership	11,262		11,262
Employee pensions and benefits	53,359		53,359
Entertainment	27,648		27,648
Expense for sale of land	6,440,796		6,440,796
Insurance	4,957		4,957
Miscellaneous	75,326		75,326
Office and data processing equipment	6,123		6,123
Office supplies	1,467		1,467
Payroll taxes	29,072		29,072
Postage	635		635
Printing and stationery	1,032		1,032
Professional services	79,053		79,053
Project	10,985,697		10,985,697
Public relations	1,252		1,252
Rent	27,120		27,120
Repairs and maintenance	28,927		28,927
Salaries	404,517		404,517
Subscriptions	947		947
Supplies	721		721
Telephone	13,343		13,343
Travel	42,234		42,234
Utilities	6,662		6,662
Total operating expenses	<u>18,299,639</u>	<u>58,298</u>	<u>18,357,937</u>
Debt service:			
Principal	161,324	(161,324)	-
Interest	64,550	-	64,550
Total expenditures/expenses	<u>18,525,513</u>	<u>(103,026)</u>	<u>18,422,487</u>
<u>PROGRAM REVENUES</u>			
State grants	10,572,721		10,572,721
Gain on sale of inventory	80,585		80,585
Grant from Aspire Clarksville	127,584		127,584
Total program revenues	<u>10,780,890</u>	<u>-</u>	<u>10,780,890</u>
Net program expense	<u>7,744,623</u>	<u>(103,026)</u>	<u>7,641,597</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, 2014

	<u>Governmental Fund</u>	<u>Adjustments (Note 11)</u>	<u>Statement of Activities</u>
<u>GENERAL REVENUES</u>			
Lease and other income	719,371		719,371
Montgomery County subsidy	600,403		600,403
Investment income	4,157		4,157
Total general revenues	<u>1,323,931</u>	<u>-</u>	<u>1,323,931</u>
<u>OTHER FINANCING SOURCES</u>			
Proceeds from note payable	<u>3,710,000</u>	<u>(3,710,000)</u>	<u>-</u>
Excess of expenditures over revenue before distributions	(2,710,692)	(3,606,974)	(6,317,666)
Distributions to City and County	<u>(526,831)</u>	<u>-</u>	<u>(526,831)</u>
Change in net position	(3,237,523)	(3,606,974)	(6,844,497)
Fund balance/Net position:			
Beginning of year, as previously reported	17,450,887	-	16,920,173
Prior period adjustment - see Note 21	<u>(842,485)</u>	<u>842,485</u>	<u>-</u>
Beginning of year, as restated	<u>16,608,402</u>	<u>842,485</u>	<u>16,920,173</u>
End of year	<u>\$ 13,370,879</u>	<u>\$ -</u>	<u>\$ 10,075,676</u>

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

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Clarksville-Montgomery County Industrial Development Board (the Board) is a not-for-profit 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 EDC staff salaries, payroll taxes, benefits, and other operating costs and expenses related to the general administration of the EDC. All other expenses of the EDC are shared based on usage allocations. The audited financial statements of the EDC can be obtained from the Vice President of Finance and Human Resources, Clarksville-Montgomery County Economic Development Council, P. O. Box 883, Clarksville, Tennessee 37041-0883.

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, 2014

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, 2014

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. If the property sold was originally contributed by the primary government, the value of the property sold is charged to contributed capital.

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) Codification 1800, "Classification and Terminology." This code 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 16.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

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 November 19, 2014, 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, 2014, cash and other deposits included bank balances totaling \$1,873,734, 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, 2014. Following is a summary of the Board's certificates of deposits at June 30, 2014, all of which were insured by the FDIC or the State of Tennessee Bank Collateral Pool.

	Carrying Amount	Market Value
Certificates of deposit	\$ 610,120	\$ 610,120

4. Note Receivable from Sale of Land

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

	2014	2013
Hemlock Semiconductor, LLC (HSC) note	\$ 785,714	\$ 1,571,429

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

4. Note Receivable from Sale of Land (Cont'd)

The HSC note is due in seven annual installments of \$785,714.29, with the final payment due during the fiscal year ending June 30, 2015.

5. Property Held for Sale or Lease

A summary of property held for sale or lease follows:

		<u>At Cost</u>
Land - Park Expansion	417.530 acres available	\$ 5,833,605
Goodpasture Property	20.190 acres available	125,032
Bell Property	50.080 acres available	184,309
Dunlop Property	18.300 acres available	3,734,085
Hamill Property	1.640 acres available	7,815
Hampton Station Property	3.360 acres available	111,724
Homemax Property	1.998 acres available	13,965
Lafayette Property	42.830 acres available	257,000
Pad-Ready Site	0.000 acres available	<u>1,090,721</u>
Total		<u>\$ 11,358,256</u>

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

6. Capital Assets

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets				
Equipment	\$ 75,416	\$ -	\$ -	\$ 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	<u>1,385</u>	<u>-</u>	<u>-</u>	<u>1,385</u>
	<u>\$ 2,083,578</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,083,578</u>

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

6. Capital Assets (Cont'd)

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Accumulated depreciation				
Equipment	\$ 67,223	\$ 5,130	\$ -	\$ 72,353
Vehicles	33,407	2,825	-	36,232
Leasehold improvements	20,872	3,254	-	24,126
Buildings	196,204	47,089	-	243,293
Software	1,385	-	-	1,385
	<u>\$ 319,091</u>	<u>\$ 58,298</u>	<u>\$ -</u>	<u>\$ 377,389</u>

Land is not depreciated or amortized. Capital assets with net book values totaling \$1,677,902 were pledged as collateral for debt at June 30, 2014.

7. Construction in Progress

A summary of changes in construction in progress follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Rail to Park Expansion	\$ 362,952	\$ -	\$ -	\$ 362,952
Speculative Building	81,976	-	81,976	-
	<u>\$ 444,928</u>	<u>\$ -</u>	<u>\$ 81,976</u>	<u>\$ 362,952</u>

Construction in progress is not depreciated until placed in service.

8. Land Sale Options

The Board had two land sale options that were terminated during the year ended June 30, 2014. 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 expired in 2014.

On August 1, 2008, the Board entered into a letter of agreement for the second land sale option in which a developer would purchase or lease a 225-acre lot for the development of approximately two million square feet of Class A bulk warehouse, manufacturing, office and flex distribution space thereon. The developer paid \$5,000 initial consideration and \$50,000 earnest money. The purchase price of the lot was \$34,000 per acre. During the year ended June 30, 2014, the Board paid \$162,500 to the developer to terminate the option early.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

9. Notes Payable

Notes payable consisted of the following:

	2014	(Restated) 2013
Note payable bearing interest at Wall Street Journal prime rate (4.5% as of June 30, 2014) secured by land and a building; principal and interest are payable in monthly installments, maturing May 2021.	\$ 1,291,392	\$ 1,450,317
Note payable bearing interest at 3.9% secured by a vehicle; principal and interest are payable in monthly installments, matured November 2013.	-	2,399
Note payable bearing interest at 3.25% secured by building in inventory; interest is payable in annual installments with a balloon payment due March 2019. The interest payments will be assumed by the County in fiscal year ending June 30, 2017, with the County funding the balloon payment if the building has not sold.	3,710,000	-
Total notes payable	5,001,392	1,452,716
Less: current portion	181,132	159,811
Total notes payable excluding current portion	\$ 4,820,260	\$ 1,292,905

Changes in notes payable (including current portions) for the year ended June 30, 2014, were as follows:

	(Restated) Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Estimated Amount Due in Year Ending June 30, 2015
Notes payable	\$ 1,452,716	\$3,710,000	\$ 161,324	\$ 5,001,392	\$ 181,132

Future payments on notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Total Principal</u>	<u>Total Interest</u>
2015	\$ 181,132	\$ 175,519
2016	189,454	167,198
2017	198,157	158,494
2018	207,260	149,391
2019	3,926,782	139,869
2020-2021	298,607	10,178
Total	\$ 5,001,392	\$ 800,649

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

10. Due to Montgomery County

At June 30, 2014, the Board owed \$785,714 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 4). 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.

11. 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>377,389</u>
Net capital assets	<u>\$ 1,706,189</u>
Debt related to capital assets:	
Current portion of note payable	\$ 153,791
Long-term portion of note payable	<u>1,104,780</u>
Total debt related to capital assets	<u>1,258,571</u>
Other debt:	
Current portion of note payable	27,341
Long-term portion of note payable	<u>3,715,480</u>
Total other debt	<u>3,742,821</u>
Total debt	<u>\$ 5,001,392</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	\$ (58,298)
Debt service principal	161,324
Proceeds from note payable	<u>(3,710,000)</u>
	<u>\$ (3,606,974)</u>

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

12. Operating Leases

The Board leases office space in the Capital Bank building from the EDC under a five-year agreement. Rental expense under the operating lease was \$26,664 for the year ended June 30, 2014. The lease expires in November 2016.

Future payments on lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2015	\$ 26,667
2016	26,667
2017	8,889
	<u>\$ 62,223</u>

13. Lease Contracts

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

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

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2015	\$ 258,513
2016	258,513
2017	258,513
2018	258,513
2019	258,513
2020	129,257
	<u>\$ 1,421,822</u>

14. Retirement Plan

The EDC maintains a defined contribution 401(k) plan administered by American Chamber of Commerce Executives (ACCE) under which employees of the Board can participate. 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 year ended June 30, 2014, contributions totaling \$24,655 were paid and expensed by the Board. Employee contributions to the plan were \$26,991 for the year ended June 30, 2014.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

15. Related Party Transactions

The Board paid EDC \$209,018 for its share of EDC expenses during the year ended June 30, 2014. The Board had related party payables at June 30, 2014 totaling \$271,861, and related party receivables of \$17,000. Included in related party receivables at June 30, 2014 is \$17,000 that was advanced to the EDC to facilitate payment of routine Board expenses and is not expected to be collected within one year.

16. Fund Balance

The Board had unassigned fund balance of \$1,632,671 and nonspendable fund balance of \$11,738,208 at June 30, 2014. Nonspendable fund balance consisted of the following:

Property held for sale or lease	\$ 11,358,256
Construction in progress	362,952
Long-term portion of due from related parties	<u>17,000</u>
Total nonspendable fund balance	<u>\$ 11,738,208</u>

17. Conduit Debt Obligations

The Board has participated in several issues of Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The Board is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The principal balances outstanding as of June 30, 2014 totaled \$3,099,832,876.

18. Annual Budget Procedures

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

19. Commitments and Contingencies

Under terms of an interlocal agreement among the County, the City of Clarksville, Tennessee (the City) 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, 2014, there was an accrued liability of \$-0- to the City and \$-0- to the County.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

19. Commitments and Contingencies (Cont'd)

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board through its primary government, Montgomery County, has elected to obtain various insurance policies to transfer risk to a commercial insurance company either directly or through the Tennessee County Services Association Pool. Insurance settlements have not been in excess of insurance coverage in any of the prior three fiscal years. The Board has obtained commercial insurance for employees' health, unemployment compensation, and worker's compensation through the EDC.

20. Nonmonetary Transactions

During the year ended June 30, 2014, the Board entered into three material nonmonetary transactions. In the first transaction, the Board obtained land and a building in exchange for a note payable of \$3,710,000. The property was placed in inventory and is included in the Dunlop Lane property described in Note 5. The note payable terms are described in Note 9.

The second transaction involved the Board contributing approximately 470 acres to Hankook Tire for construction of a new facility. The land had been donated by the County to the Board. The book value of the land was \$6,440,796 and is included in expense for sale of land.

Thirdly, the Board contributed approximately 38 acres of land to the County for use by the County Highway Department. The land had been donated by the County to the Board. The book value of the land was \$531,487 and is included in distributions of capital.

21. Prior Period Adjustment

During the year ended June 30, 2013, the Board entered into an agreement described as the Montgomery County Impact Plan/City of Clarksville Capital Project Revenue District Plan. Under this agreement, the City of Clarksville (the City) and the County agreed to reimburse the Board for \$900,000 of financial assistance provided to the developer of Madison Street Commons using future revenues. The \$900,000 was recorded in error as a receivable from the County and City and a payable to the developer instead of recognizing the \$57,515 collected during the year as both revenue and expense.

Following is a schedule of adjustments to the June 30, 2013 governmental balance sheet/statement of net position:

	<u>Fund Balance</u>	<u>Net Position</u>
Decrease in long-term debt	\$ -	\$ 842,485
Decrease in due from City and County	<u>(842,485)</u>	<u>(842,485)</u>
Total decrease in fund balance/net position	(842,485)	-
Fund balance/net position, June 30, 2013, as previously reported	<u>17,450,887</u>	<u>16,920,173</u>
Fund balance/net position, June 30, 2013, as restated	<u>\$ 16,608,402</u>	<u>\$ 16,920,173</u>

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

22. Subsequent Event

On September 24, 2014, HSC contributed approximately 833 acres of land to the Board to market to industries interested in relocating to Clarksville. The contributed land has an estimated value of \$15,800,000 and will be recorded as inventory and revenue during the fiscal year ending June 30, 2015.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2014

<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, 2013</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2014</u>
<u>State of Tennessee Economic & Community Development</u>						
Community Development	3/12/09 - 6/30/13	BC8311	\$ 513,200	\$ 661,122	\$ 861,289	\$ 713,367
Community Development	5/31/13 - 6/30/18	7072	47,375	406,642	452,625	93,358
Community Development	9/10/13 - 9/1/18	39836	-	6,158,333	9,258,807	3,100,474
Total			<u>\$ 560,575</u>	<u>\$ 7,226,097</u>	<u>\$ 10,572,721</u>	<u>\$ 3,907,199</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*

To the 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, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated November 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board'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 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Board resolved prior year finding number 2013-001 by performing the specific tasks outlined in our report dated December 23, 2013.

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*.

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
November 19, 2014

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Financial Statement Findings

Finding Number	Finding Title	Status
2013-001	Management Oversight of Financial Reporting	Corrected