

FOUR LAKE REGIONAL INDUSTRIAL DEVELOPMENT AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2011

HUGH W. SMITH, SR.
CERTIFIED PUBLIC ACCOUNTANT



America Counts on CPAs

Four Lake Regional Industrial Development Authority
Basic Financial Statement Annual Report
June 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic/Fund Financial Statements:	
Governmental Funds Balance Sheet/Statement of Net Assets	8
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	9
Statement of Governmental Fund Revenues, Expenditures, and Changes in Funds Balances/Statement of Activities	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Notes to the Financial Statements	12-18
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	19
Other Information:	
Roster of Board Members	20
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	21-22
Detailed Audit Findings	23

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Independent Auditor's Report

To the Board of Directors of the
Four Lake Industrial Development Authority
Hartsville, Tennessee

I have audited the accompanying financial statements of the governmental activities and each major fund, of Four Lake Industrial Development Authority as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Four Lake Industrial Development Authority management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Four Lake Industrial Development Authority as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 11 to the financial statements, the Authority may not be authorized to continue during the next Tennessee Legislature session, which raises doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 10, 2012, on my consideration of Four Lake Industrial Development Authority's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis (pages 3-7) and budgetary comparison (page 19) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Four Lake Industrial Development Authority's basic financial statements. The other information, as listed in the table of contents, is presented for the purpose of additional analysis, and is not a required part of the basic financial statements. The other information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.



January 10, 2012
Red Boiling Springs, Tennessee

MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE FISCAL YEAR ENDING JUNE 30, 2011

The discussion and analysis of Four Lake Regional Industrial Development Authority's financial performance provides an overall narrative review of the Authority's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the Authority's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance his or her understanding of the Authority's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this Authority's financial statements, notes to financial statements, and any accompanying materials. To the extent this discussion contains any forward-looking statements of the Authority's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

AUTHORITY OVERVIEW

Creation: As a result of the impact of TVA's discontinuation of the Hartsville nuclear power plant construction project, the Four Lake Regional Industrial Development Authority was created by public act of the State Legislature on April 15, 1986. Enabling legislation states that the Authority was "created and established for the purpose of developing the resources of the region embracing the counties of Macon, Smith, Sumner, Trousdale and Wilson". More specifically, the Authority "is directed to focus its activity toward economic development and improving employment opportunities in the region". In 1988 the Authority contracted staff.

History: In consideration of the established purpose of the Authority and its limited TVA and State grant funding, Four Lake began operating a business incubator program in 1989 utilizing vacant warehouses at the Hartsville TVA site. The buildings were offered to business start-ups/expansions at below average rental rates under a Lease/Sub-Lease arrangement between TVA (receiving 80% of lease revenues) and the Four Lake Authority (retaining 20% of lease revenues).

On June 27, 2002, the Authority purchased 554 acres located within the TVA/Hartsville Distribution Center (discontinued nuclear site) from TVA for \$1.7 million. Through a USDA/Rural Development Loan, infrastructure improvements were initiated immediately, including a 750,000 gallon water storage tank, as well as new water/sewer/natural gas lines installed to the mid-point of the newly-purchased property. Beginning in 2003 with funding from annual TVA In-Lieu-of-Tax grant, projects commenced to development the site into a viable business/industrial center in hopes of employing workers from the entire five-county region. For marketing purposes, the property was branded "PowerCom Industrial Center" with identifying logo and illuminated directional signs from State Hwy 25 into the site. In addition, ECD Special Appropriation Grants and TVA/Special Opportunities County Grants have funded other improvements/upgrades including: a 54,000 square foot Spec. Building (March, 2008); tenant specific electrical upgrades; roadways within the site named and marked; all buildings identified with specialty-designed 911 address signs; utility upgrades/ installation for the CCA project; the rehab (paint, new dock doors, trim, structural repairs, etc.) of eight warehouse buildings, one office trailer, and a 700' dock in the forward section (Village 1) of the site; surveying and marking outer boundaries of the PowerCom site with 200 angle iron posts & 10 eight foot "Four Lake" iron markers; and recurring maintenance – bush hogging, roof and road repairs, etc.

Corrections Corporation of America purchased 108 acres of the PowerCom Industrial Center on April 22, 2008. Construction was halted indefinitely on the planned 2,040 medium-security bed facility that, when operational, would create much-needed employment - a minimum of 350 persons. As of June 30, 2011, CCA has still been unable to secure contracts for prisoner housing; therefore, completed pre-cast concrete cell units still await on-site assembly.

Current: As of June 30, 2011, Four Lake was leasing 12 buildings (excluding the Spec. Building) totaling 109,470 square feet to ten businesses employing 36 persons. On-going projects include: a long-awaited goal scheduled for completion by the end of 2011 – the upgrade of the site's electrical systems to establish dual-feed throughout the site with backup from a rehabbed electrical sub-station located on the adjacent TVA property; water/sewer/gas line extensions are in progress to the lower section of the site (Village 2), as well as the installation of taps & meters for current tenants; and final upgrades are underway to the 54,000 sf Spec. Building to accommodate a Lease/Purchase Agreement with V&C Manufacturing/Christy's. V&C Manufacturing is a successful incubator tenant which began as a partnership between a past graduated incubator tenant (Volunteer Adhesives - still operating successfully in Macon County) and T. Christy Enterprises of California. They launched the new production start-up in March 2010 as an incubator tenant in a Four Lake 12,000 sf building. The new PVC plumbing adhesive quickly became a success, resulting in contracts with large plumbing supply stores in the Northeast. Subsequently, the California partner purchased full ownership of V&C Manufacturing and is relocating it, along with part of his CA distribution center (Christy's), into the Spec. Building.

The Authority reported before the Sunset Review Committee on August 17, 2010. The Review Committee's recommendation was to extend the Four Lake Authority for five additional years. The recommendation passed in the House unanimously; however, on February, 2011, a Caption Bill to terminate the Authority was filed in the House by Representative Mark Pody and in the Senate by Senator Mae Beavers. At the conclusion of the 2011 Legislative sessions, Four Lake's extension was never brought to the floor of the Senate, resulting in the Authority defaulting to "Wind-Down" status on July 1, 2011. Although several long-time planned endeavors have come to fruition during this fiscal year, future plans (i.e., rehabbing the remaining 31 existing buildings; broadband communications road improvements; Cumberland River dock development; and, an on-site Four Lake office) have become ambiguous at best.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the Authority, assets exceeded liabilities by \$10,277,405 as of June 30, 2011. The largest portion of the Authority's net assets (96%) reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to its member counties, as well as develop and market the PowerCom Industrial Center.

The Authority's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the Authority's net assets for the fiscal year ended June 30, 2011:

Current assets	\$4,494,886
Capital assets, net	<u>7,504,471</u>
Total Assets	11,999,357
Current liabilities	151,439

Long-term debt outstanding 1,652,269
Total Liabilities **1,721,952**

Net Assets:

Invested in capital assets, net of related debt	\$5,782,519
Restricted	4,043,023
Unrestricted	<u>451,863</u>
Total Net Assets	\$10,277,405

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

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

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

The government-wide financial statements outline functions of the Authority that are principally supported by TVA In-Lieu-of-Tax revenues, property rent revenues, and intergovernmental grants.

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's current financing requirements. General Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The General Fund Statements provide a detailed short-term view of the Authority's operations.

Because the focus of general funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for general funds with similar information presented for governmental

activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's current financing decisions. Both the governmental funds balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's budget process.

The Authority adopts an annual operating budget for all general funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund.

Changes in Net Assets. The Authority's total revenues for the fiscal year ended June 30, 2011 were \$1,573,872. The total cost of all programs and services was \$698,399. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2011.

Revenues:

General Fund	\$ 306,767
Capital Projects Fund	<u>1,267,105</u>
Total revenues	1,563,872

Expenses:

General Fund Expenses	\$283,691
Capital Projects Expenses	<u>414,708</u>
Total expenses	698,399
Increase in net assets	\$875,473

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Authority's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Authority's net resources available for spending at the end of the fiscal year.

The financial performance of the Authority as a whole is reflected in its governmental funds. As the Authority completed the year, its governmental funds reported a combined fund balance of \$4,494,886, an increase over last year of \$797,517. Ten percent of the fund balance, in the amount of \$451,862, constitutes unreserved and undesignated fund balance, which is available for spending at the Authority's discretion. The remaining fund balance of \$4,043,023 or 90% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the Authority. An increase in the General Fund balance for the fiscal year was \$23,076.

BUDGETARY HIGHLIGHTS

A schedule showing the original and final budget amounts compared to the Authority's actual financial activity for the General Fund and other major funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the Authority's total capital assets were \$8,394,922, including buildings and equipment. This amount represents an increase of \$350,601 from the previous year. Total accumulated depreciation as of June 30, 2011 was \$896,451 and total depreciation expense for the year was \$179,733, resulting in total net assets of \$7,504,471.

Debt Administration. At year end, the Authority had revenue bonds in the amount of \$1,652,269, a debt reduction of 5% from last fiscal year.

CURRENT ISSUES

The Authority's *primary endeavor has always been* to proceed responsibly & methodically in all activities with the utmost integrity and respect for the public's funds & trust, as well as for the benefit of its five-county region as a whole without preference. Although the Four Lake Authority's financial status is stable and has continued to improve over the years, its future existence is uncertain – July 1, 2011, the Authority officially defaulted to "wind-down" status. At the time of this writing (12/29/11), the two demands required of the Authority by Representative Pody & Senator Beavers for its reinstatement at the commencement of 2012 Legislative sessions have been met.

Contacting the Authority's Financial Management:

If you have questions regarding this report, you may contact the Interim Director, Donna Arrington, at P.O. Box 464; Hartsville, TN 37074. Additional information regarding the Four Lake Authority can be found at its website: www.fourlake.org

Four Lake Regional Industrial Development Authority
 Governmental Funds Balance Sheet/Statement of Net Assets
 June 30, 2011

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Assets
ASSETS					
Cash - checking	\$ 3,270	\$	3,270	\$	3,270
Cash - savings	448,593		448,593		448,593
Cash - NOW account		8,015	8,015		8,015
Cash - money market		4,035,008	4,035,008		4,035,008
Capital assets (net of accumulated Depreciation) (Note 7)					
Land					
Buildings & equipment				1,156,273	1,156,273
Total assets	\$ 451,863	\$ 4,043,023	\$ 4,494,886	6,348,198	6,348,198
				7,504,471	11,999,357
LIABILITIES					
Accrued interest - bonds				69,683	69,683
Long-term liabilities (Note 8)					
Due within one year				81,758	81,758
Due after one year				1,570,511	1,570,511
Total liabilities	0	0	0	1,721,952	1,721,952
FUND BALANCES/NET ASSETS					
Fund balances:					
Reserved for Capital Projects		4,043,023	4,043,023	(4,043,023)	--
Unreserved, reported in:					
General fund	451,863		451,863	(451,863)	--
Total fund balances	451,863	4,043,023	4,494,886	(4,494,886)	--
Total liabilities and fund balance	\$ 451,863	\$ 4,043,023	\$ 4,494,886		
Net assets:					
Invested in capital assets, net of related debt				5,782,519	5,782,519
Restricted for property improvements				4,043,023	4,043,023
Unrestricted				451,863	451,863
Total net assets				\$ 10,277,405	\$ 10,277,405

See accompanying notes to financial statements.

Four Lake Regional Industrial Development Authority
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2011

Fund balance of governmental funds	\$ <u>4,494,886</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental Funds (\$8,394,922 - \$890,451) accumulated depreciation).	<u>7,504,471</u>
Long-term liabilities, including bonds payable, are not due and Payable in the current period and therefore are not reported in the in the governmental funds.	<u>(1,652,269)</u>
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds.	<u>(69,683)</u>
Net assets of governmental activities	\$ <u>10,277,405</u>

See accompanying notes to financial statements

Four Lake Regional Industrial Development Authority
Statement of Governmental Fund Revenues, Expenditure,
and Changes in Fund Balances/Statement of Activities
For the Year Ended June 30, 2011

	General Fund	Capital Project Fund	Total	Adjustments	Statement of Activities
Revenues:					
Incubator rent	\$ 154,386		154,386		154,386
Interfund transfers (Note 1c)	150,000		150,000		150,000
State ECD Grant		419,900	419,900		419,900
TVA Grant		10,000	10,000		10,000
Interest	2,381	38,228	40,609		40,609
TVA In-lieu-of tax		798,977	798,977		798,977
Total revenues	306,767	1,267,105	1,573,872		1,573,872
Expenditures/expenses:					
Current:					
Professional services	116,942		116,942		116,942
Secretary salary	28,106		28,106		28,106
Fringe benefits	54,534		54,534		54,534
Travel	6,727		6,727		6,727
Contract services	21,575		21,575		21,575
Telecommunications	5,448		5,448		5,448
Postage	490		490		490
Uncollectible rent	4,000		4,000		4,000
Utilities		0	0		0
Repairs & maintenance		45,246	45,246		45,246
Office supplies/equipment	5,673	0	5,673		5,673
Dues/fees/subscriptions	3,025	715	3,740		3,740
Miscellaneous	5,656	2,853	8,509		8,509
Depreciation			--	179,733	179,733
Office rent/insurance/utilities	9,867	15,293	25,160		25,160
Audit	1,895	0	1,895		1,895
Advertising	19,753	0	19,753		19,753
Capital outlay		350,601	350,601	(350,601)	0
Total expenditures/expenses	283,691	414,708	698,399	(170,868)	527,531
Excess (deficiency) of revenues over expenditures	23,076	852,397	875,473	170,868	
Other financing sources/uses:					
Principal bonds payable (interest capitalized)					
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	23,076	774,440	797,516	(797,516)	0
Change in net assets	---	---	---	1,046,341	1,046,341
Fund balances/net assets:					
Beginning of the year	428,786	3,268,583	3,697,369	---	9,231,064
End of the year	\$ 451,862	\$ 4,043,023	\$ 4,494,885	\$ 0	\$ 10,277,405

See accompanying notes to financial statements.

Four Lake Regional Industrial Development Authority
 Reconciliation of the Statement of Revenues, Expenditures,
 and changes in fund balance of Governmental Funds
 to the Statement of Activities
 June 30, 2011

Net change in fund balance – governmental funds	\$ <u>797,516</u>
<p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. this is the amount of depreciation taken this period.</p>	
Depreciation	(179,733)
Capital outlay	<u>350,601</u>
<p>Repayment of debt principal is an expenditure in the governmental Funds, but the repayment reduces the long-term liabilities in the Statement of net assets.</p>	<u>77,957</u>
Change in net assets of governmental activities	\$ <u>1,046,341</u>

See accompanying notes to financial statements

FOUR LAKE REGIONAL INDUSTRIAL DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

1. Summary of significant accounting policies

A. Financial Reporting Entity

The Four Lake Regional Industrial Development Authority was created in 1986 under TCA 64-5-201. The Authority was created for "the purpose of developing the resources of the region embracing the Tennessee counties of Macon, Smith, Sumner, Trousdale and Wilson, including the coordination of the Authority's development work with related activities and programs of the Tennessee Valley Authority and other federal, state and local planning and development agencies."

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, are normally supported by intergovernmental revenue. Although other governments may report both governmental activities and business-type activities, the Authority has no business-type activities.

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. The Authority does not allocate indirect expenses to the various functions. *Program revenues* include 1) charges to recipients of goods or services offered by the Authority and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items are reported as general revenues.

C. 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 financial statements are reported using the *current financial resources measurement focus* and *modified accrual basis of accounting*. Revenues are recognized as soon as 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 authority considered revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the authority.

The authority reports the following major governmental funds:

The *general fund* is the authority's primary operating fund. It accounts for all financial resources of the authority, except those required to be accounted for in another fund.

The *capital projects fund* accounts for financial resources to be used for improving land purchased from the TVA.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The authority has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. With one exception, interfund administrative services are reported as revenues in the general fund and expenditures/expenses in the capital projects fund.

2. Budgetary process

Legislation requires that no later than October of each year "the Authority shall transmit to the Governor of the State of Tennessee a request and an amount of appropriation needed during the next fiscal year for Authority purposes including administration, operations and capital improvements, and appropriate justification for use of such appropriation." The Authority's board passes the budget and reviews its status at regular meetings.

3. Compensated absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

4. Cash and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Investments are stated at fair value.

At June 30, 2011, the Authority had deposits with financial institutions with a carrying amount of \$4,494,886. The bank balance with the financial institution was \$4,506,039. All deposits above the federal depository insurance (FDIC) were covered by collateral held by authorized escrow agents in the name of Four Lake Regional Industrial Development Authority.

5. Risk Management

Public Official Bond Program Director -\$110,000 / Office Manager \$150,000

This bond covers Donna Arrington, Program Manager, and Teresa Carman, Office Manager.

No claims have been made during the past three years.

6. Restricted Funds

The restrictions are on TVA In-lieu-of-tax payments. TCA 67-9-102 restricts the funds to constructions of roads, install water and wastewater facilities and provide other public infrastructure.

7. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the Statement of Net Assets column in the government wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included in the government-wide financial statements as part of the capitalized value of the assets constructed. The total interest expense incurred by the Authority during the current fiscal year was \$74,091. This entire amount was included as part of the cost of capital assets under construction in connection with the Hartsville, Tennessee TVA Site.

Property, plant, and equipment of the Authority is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Portable buildings (office trailers)	9
Vehicles	5
Office equipment	5
Computer equipment	5

Capital asset activity for the year ended June 30, 2011 was as follow:

	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Governmental activities:				
Land	\$ 1,156,273	\$	\$	\$ 1,156,273
Building & improvements	6,888,048	350,601		7,238,649
Totals at historical cost	8,044,321	350,601	0	8,394,922
Less accumulated depreciation for:				
buildings & improvements	(710,718)	(179,733)		(890,451)
Governmental activities:				
capital assets, net	\$ 7,333,603	\$ 170,868	\$ 0	\$ 7,504,471

*Depreciation expense of \$179,733 was charged to governmental activities.

8. Long-term debt

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Revenue improvement bonds

The district issued bonds where the district pledges income derived from the acquired or constructed assets to pay debt service. No amounts outstanding at the end of the current fiscal year related to bonds issued in prior years. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Construction projects	4.125%	\$2,015,000

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30</u>		
2011	81,758	68,157
2012-2016	462,251	287,329
2017-2021	565,757	183,793
2022-2025	<u>542,503</u>	<u>57,070</u>
Total	<u>\$1,652,269</u>	<u>\$ 596,349</u>

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	<u>Beginning</u>			<u>Ending</u>	<u>Due Withir</u>
<u>Governmental activities:</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One year</u>
Bonds payable	\$ 1,730,819	\$ -	\$ 78,550	\$ 1,652,269	\$ 81,758
Total Long-term liabilities	\$ 1,730,819	\$ 0	\$ 78,550	\$ 1,652,269	\$ 81,758

9. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes of which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

10. Lease

On March 21, 2011 the Authority entered into a lease with V&C Manufacturing & Warehouse Corp. to lease the Speck Building located on the Authority's property. The Tenant shall two options to renew the Lease for an additional two of three years each. At the end of the initial three year lease period the Tenant has the option the renew the Lease for an additional two three years, or purchase

the property for \$1,674,000. Whether or not to exercise these options is at the sole discretion of the Tenant. During the lease period the Tenant shall pay the Authority \$9,000 in monthly rent. The carrying amount of the property is \$2,018,197, and accommodate depreciation \$199,428. The net amount is \$1,818,769. No monthly rental payments were received as of 6/30/11.

11. Going Concern

Whether the Authority will continue to exist will be decided during the up coming Tennessee Legislature Session. A bill has been introduced in the Senate & House to terminate the Authority in accordance with Tennessee Sun Set Laws.

12. Pension Disclosure (continued on next page)

**FOUR LAKE REGIONAL INDUSTRIAL DEVELOP
89890**

Plan Description

Employees of FOUR LAKE REGIONAL INDUSTRIAL DEVELOP are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as FOUR LAKE REGIONAL INDUSTRIAL DEVELOP participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

FOUR LAKE REGIONAL INDUSTRIAL DEVELOP requires employees to contribute 5.0 percent of earnable compensation.

FOUR LAKE REGIONAL INDUSTRIAL DEVELOP is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 9.43% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for FOUR LAKE REGIONAL INDUSTRIAL DEVELOP is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2011, FOUR LAKE REGIONAL INDUSTRIAL DEVELOP's annual pension cost of \$13,678 to TCRS was equal to FOUR LAKE REGIONAL INDUSTRIAL DEVELOP's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. FOUR LAKE REGIONAL INDUSTRIAL DEVELOP's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

FOUR LAKE REGIONAL INDUSTRIAL DEVELOP 89890

Trend Information

Fiscal Year Ending	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$13,678	100.00%	\$0.00
June 30, 2010	\$7,549	100.00%	\$0.00
June 30, 2009	\$7,477	100.00%	\$0.00

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 67.12% percent funded. The actuarial accrued liability for benefits was \$0.2 million, and the actuarial value of assets was \$0.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.1 million, and the ratio of the UAAL to the covered payroll was 70.09%percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2009	\$108	\$160	\$53	67.12%	\$75	70.09%
July 01, 2007	\$84	\$120	\$36	70.00%	\$125	28.80%

Required Supplementary Information

Schedule of Funding Progress for FOUR LAKE REGIONAL INDUSTRIAL DEVELOP 89890

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2009	\$108	\$160	\$53	67.12%	\$75	70.09%
July 01, 2007	\$84	\$120	\$36	70.00%	\$125	28.80%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

FOUR LAKE REGIONAL INDUSTRIAL DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL , ALL FUND TYPES
For the year ended June 30, 2011

<u>General Fund</u>				
	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
<i>Revenues</i>	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Interfund transfers	\$ 150,000	150,000	\$ 150,000	\$ 0
Incubator Rent	157,000	157,000	154,386	(2,614)
Interest	4,500	4,500	2,382	(2,118)
Total Revenues	<u>311,500</u>	<u>311,500</u>	<u>306,768</u>	<u>(4,732)</u>
 <i>Expenditures</i>				
Professional services	116,941	116,941	116,941	0
Secretary salary	27,284	28,106	28,106	0
Fringe benefits	57,634	54,534	54,534	0
Contract services	20,000	21,575	21,575	0
Travel	5,000	6,727	6,727	0
Advertising	20,000	20,000	19,753	247
Uncollectible rent	0	0	4,000	(4,000)
Postage	600	600	490	110
Dues fees/subscriptions	3,000	3,025	3,025	0
Office supplies & equipment	6,500	6,500	5,675	825
Telecommunications	6,500	6,500	5,449	1,051
Office rent/utilities/insurance	11,000	11,000	9,867	1,133
Miscellaneous	5,500	5,656	5,656	0
Audit	1,895	1,895	1,895	0
	<u>281,854</u>	<u>283,059</u>	<u>283,693</u>	<u>(634)</u>
Excess expenditures (over) revenue	<u>29,646</u>	<u>28,441</u>	<u>23,075</u>	<u>(5,366)</u>
 <u>Other financing sources (uses):</u>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Net change in fund balances				
Net change in fund balances	29,646	28,441	23,075	
Fund balance - beginning	416,267	471,229	428,788	
Fund balance - ending	<u>\$ 445,913</u>	<u>\$ 499,670</u>	<u>\$ 451,863</u>	

**Four Lake Regional Industrial
Development Authority
Schedule of Board Members
June 30, 2011**

<u>Name</u>	<u>County</u>
Anthony Holt - Chairman	Sumner County
Randall Hutto - Vice Chairman	Wilson County
Michael Nesbit - Secretary/Treasurer	Smith County
Jake West	Trousdale County
Shelvy Linville	Macon County

Management

Jerry Clift, Executive Director
Donna Arrington, Program Manager
Vicki Henley, Director, TTU/SBDC
Teresa Carman, Office Manager

Hugh W. Smith, Sr.
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

To the Board of Directors
 Four Lake Regional Industrial Development Authority
 Hartsville, Tennessee

I have audited the financial statements of the governmental activities and each major fund, of Four Lake Industrial Development Authority as of and for the year ended June 30, 2011, and have issued my report thereon dated January 10, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Four Lake Regional Industrial Development Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Four Lake Regional Industrial Development Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Four Lake Regional Industrial Development Authority's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses, as defined below. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that I consider to be significant deficiencies in internal control over financial reporting. It is , 2011-1. 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 *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 Four Lake Regional Industrial Development Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the Four Lake Regional Industrial Development Authority's 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Four Lake Regional Industrial Development Authority's responses to the finding identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the Four Lake Regional Industrial Development Authority's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the management of Four Lake Regional Industrial Development Authority, the Tennessee State Comptroller's Office, and other regulatory bodies, and is not intended to be and should not be used by anyone other than these specified parties.



January 10, 2012
Red Boiling Springs, Tennessee

Four Lake Industrial Development Authority
Detailed Audit Findings
6/30/2011

Finding 2010-1 has not been corrected and is repeated in this schedule. Finding 2010-2 has been removed.

INTERNAL CONTROL

2011-1

Condition Duties over cash receipting, receivables, disbursements, payroll and general ledger functions are not properly segregated.

Criteria Essential elements of internal control require the above functions to be segregated.

Effect Without proper segregation errors or irregularities could occur and not be detected on a timely basis.

Recommendation

Further segregation of accounting duties should be considered and/or alternative measures designed to detect errors or irregularities be developed.

Management's response

Management concurs with this finding. With an office of only 1.75 employees, it is impossible to segregate accounting duties any more than is already being done. At each month's end, financial reports are prepared by the Office Manager and followed by a thorough and independent review by the Program Manager.

FOUR LAKE REGIONAL INDUSTRIAL DEVELOPMENT AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2012

HUGH W. SMITH, SR.
CERTIFIED PUBLIC ACCOUNTANT



America Counts on CPAs

**Four Lake Regional Industrial Development Authority
Basic Financial Statement Annual Report
June 30, 2012**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-8
Basic/Fund Financial Statements:	
Governmental Funds Balance Sheet/Statement of Net Assets	9
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	10
Statement of Governmental Fund Revenues, Expenditures, and Changes in Funds Balances/Statement of Activities	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to the Financial Statements	13-19
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	20
Other Information:	
Roster of Board Members	21
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>	22-23
Detailed Audit Findings	24

Hugh W. Smith, Sr.
Certified Public Accountant

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Independent Auditor's Report

To the Board of Directors of the
Four Lake Industrial Development Authority
Hartsville, Tennessee

I have audited the accompanying financial statements of the governmental activities and each major fund, of Four Lake Industrial Development Authority as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Four Lake Industrial Development Authority management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Four Lake Industrial Development Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 5, 2013, on my consideration of Four Lake Industrial Development Authority's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis (pages 3-8) and budgetary comparison (page 20) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Four Lake Industrial Development Authority's basic financial statements. The other information, as listed in the table of contents, is presented for the purpose of additional analysis, and is not a required part of the basic financial statements. The other information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.



February 5, 2013
Red Boiling Springs, Tennessee

MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE FISCAL YEAR ENDING JUNE 30, 2012

The discussion and analysis of Four Lake Regional Industrial Development Authority's financial performance provides an overall narrative review of the Authority's financial activities for the year ended June 30, 2012. The intent of this discussion and analysis is to look at the Authority's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance his or her understanding of the Authority's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this Authority's financial statements, notes to financial statements, and any accompanying materials. To the extent this discussion contains any forward-looking statements of the Authority's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

AUTHORITY OVERVIEW

Creation: As a result of the impact of TVA's discontinuation of the Hartsville nuclear power plant construction project, the Four Lake Regional Industrial Development Authority was created by public act of the State Legislature on April 15, 1986. Enabling legislation states that the Authority was "created and established for the purpose of developing the resources of the region embracing the counties of Macon, Smith, Sumner, Trousdale and Wilson". More specifically, the Authority "is directed to focus its activity toward economic development and improving employment opportunities in the region". In 1988 the Authority contracted staff.

History: In consideration of the established purpose of the Authority and its limited TVA and State grant funding, Four Lake began operating a business incubator program in 1989 utilizing vacant warehouses at the Hartsville TVA site. The buildings were offered to business start-ups/expansions at below average rental rates under a Lease/Sub-Lease arrangement between TVA (receiving 80% of lease revenues) and the Four Lake Authority (retaining 20% of lease revenues).

On June 27, 2002, the Authority purchased 554 acres located within the TVA/Hartsville Distribution Center (discontinued nuclear site) from TVA for \$1.7 million. Through a USDA/Rural Development Loan, infrastructure improvements were initiated immediately, including a 750,000 gallon water storage tank, as well as new water/sewer/natural gas lines installed to the mid-point of the newly-purchased property. Beginning in 2003 with funding from annual TVA In-Lieu-of-Tax grant, projects commenced to development the site into a

viable business/industrial center in hopes of employing workers from the entire five-county region. For marketing purposes, the property was branded "PowerCom Industrial Center" with identifying logo and illuminated directional signs from State Hwy 25 into the site. In addition, ECD Special Appropriation Grants and TVA/Special Opportunities County Grants have funded other improvements/upgrades including: a 54,000 square foot Spec. Building (March, 2008); tenant specific electrical upgrades; roadways within the site named and marked; all buildings identified with specialty-designed 911 address signs; utility upgrades/installation for the CCA project; the rehab (paint, new dock doors, trim, structural repairs, etc.) of eight warehouse buildings, one office trailer, and a 700' dock in the forward section (Village 1) of the site; surveying and marking outer boundaries of the PowerCom site with 200 angle iron posts & 10 eight foot "Four Lake" iron markers; and recurring maintenance – bush hogging, roof and road repairs, etc.

Corrections Corporation of America purchased 108 acres of the PowerCom Industrial Center on April 22, 2008. Construction was halted indefinitely on the planned 2,040 medium-security bed facility that, when operational, would create much-needed employment - a minimum of 350 persons. As of June 30, 2012, CCA has still been unable to secure contracts for prisoner housing; therefore, completed pre-cast concrete cell units still await on-site assembly.

Current: As part of the defaulted "wind-down" status beginning July 1, 2011, restructuring efforts began in order to satisfy specific concerns of Legislators. In November 2011, the Four Lake Executive Committee agreed to buy-out the remaining two-years of the Executive Director's contract and began a search for a new Director. In March 2012, Four Lake hired Don Rigsby as its new Executive Director. In December 2011, the Executive Committee established a new grant program allocating \$20,000 for each of Four Lake's five counties. The grant funds were designated as "Off-Site Development" from the Capital Projects fund. Guidelines were created to limit the funds to economic development & job-creating projects that require Executive Committee approval. Legislators also began efforts to restructure Four Lake's 21-member Board of Directors. An amendment to Four Lake's Enabling Legislation became effective July 1, 2012 that replaced the 21-member Board and Executive Committee with a single-governing, seven-member Board of Directors. The new Board is comprised of the five County Mayors/Executive, one member appointed by the Senate, and one member appointed by the House.

As of June 30, 2012, Four Lake was leasing 12 buildings (including the Spec. Building) totaling 147,470 square feet to nine businesses employing 36 persons. Completed projects included: The upgrade of the site's electrical systems to establish dual-feed throughout the site with backup from a rehabbed electrical sub-station located on the adjacent TVA property; water-line extensions to the lower section of the site (Village 2), as well as the installation of taps & meters for current tenants.

Beginning in March 2010, V&C Manufacturing/Christy's flourished as an incubator tenant in a Four Lake 12,000 sf building. Their adhesive product for the plumbing industry quickly became a great success. Thus, in March 2011, they entered into a three-year

Lease/Purchase Agreement for the PowerCom 54,000 sf Spec. Building. Their move from the 12,000 sf incubator building into the 54,000 sf Spec. Building was accomplished during the 2011/2012 fiscal year. At present, they have begun exploring their option to purchase the building and contiguous five acres prior to the March 2014 expiration of the three-year Lease/Purchase Agreement.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the Authority, assets exceeded liabilities by \$11,258,214 as of June 30, 2012. The largest portion of the Authority's net assets (96%) reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to its member counties, as well as develop and market the PowerCom Industrial Center.

The Authority's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the Authority's net assets for the fiscal year ended June 30, 2012:

Current assets	\$4,580,639.00
Capital assets, net	8,317,767.00
Total Assets	12,898,406.00
Current liabilities	149,915.00
Long-term debt outstanding	1,490,277.00
Total Liabilities	1,640,192.00
Net Assets:	
Invested in capital assets, net of related debt	6,677,575.00
Restricted	4,135,736.00
Unrestricted	444,903.00
Total Net Assets	11,258,214.00

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

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

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

The government-wide financial statements outline functions of the Authority that are principally supported by TVA In-Lieu-of-Tax revenues, property rent revenues, and intergovernmental grants.

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's current financing requirements. General Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The General Fund Statements provide a detailed short-term view of the Authority's operations.

Because the focus of general funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for general funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's current financing decisions. Both the governmental funds balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Other Information. In addition to the basic financial statements and accompanying notes,

this report also presents certain required supplementary information concerning the Authority's budget process.

The Authority adopts an annual operating budget for all general funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund.

Changes in Net Assets. The Authority's total revenues for the fiscal year ended June 30, 2012 were \$1,676,059. The total cost of all programs and services was \$695,250. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2012.

Revenues:	
General Fund	\$362,596.00
Capital Projects Fund	1,313,463.00
Total revenues	1,676,059.00
Expenses:	
General Fund Expenses	369,555.00
Capital Projects Expenses	325,695.00
Total expenses	695,250.00
Increase in net assets	\$980,809.00

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Authority's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Authority's net resources available for spending at the end of the fiscal year.

The financial performance of the Authority as a whole is reflected in its governmental funds. As the Authority completed the year, its governmental funds reported a combined fund balance of \$4,580,639, an increase over last year of \$93,619.

BUDGETARY HIGHLIGHTS

A schedule showing the original and final budget amounts compared to the Authority's actual financial activity for the General Fund and other major funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2012, the Authority's total capital assets were \$12,898,406, including buildings and equipment. This amount represents an increase of \$752,334 from the previous year. Total accumulated depreciation as of June 30, 2012 was \$813,296 and

total depreciation expense for the year was \$199,999. Total liabilities for the year were \$1,640,192, resulting in total net assets of \$11,258,214.

Debt Administration. At year end, the Authority had revenue bonds in the amount of \$1,640,192, a debt reduction of 2% from last fiscal year.

CURRENT ISSUES

The Authority's *primary endeavor has always been* to proceed responsibly & methodically in all activities with the utmost integrity and respect for the public's funds & trust, as well as for the benefit of its five-county region as a whole, without preference. The Authority's financial status is stable and continues to improve. Following the Authority's official "wind-down" status with the beginning of this fiscal year (July 1, 2012), the demands required of the Authority by Legislators for its reinstatement were met. Subsequently, the Authority has achieved full support of its legislative representatives, as well as the State Funding Board. Presently, the Authority is anticipating its full reinstatement per the recommendation of the Sunset Review Committee on 08/17/10.

Contacting the Authority's Financial Management:

If you have questions regarding this report, you may contact the Executive Director, Don Rigsby, at 702 McMurry Blvd.; Hartsville, TN 37074 or by phone at 615-374-4607. Additional information regarding the Four Lake Authority can be found at its website: www.fourlake.org

Four Lake Regional Industrial Development Authority
 Governmental Funds Balance Sheet/Statement of Net Assets
 June 30, 2012

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Assets
ASSETS					
Cash - checking	\$ 16,836	\$	\$ 16,836	\$	\$ 16,836
Cash - savings	428,067		428,067		428,067
Cash - NOW account		7,968	7,968		7,968
Cash - money market		4,127,768	4,127,768		4,127,768
Capital assets (net of accumulated Depreciation) (Note 7)					
Land				1,156,273	1,156,273
Buildings & equipment				7,161,494	7,161,494
Total assets	\$ 444,903	\$ 4,135,736	\$ 4,580,639	8,317,767	12,898,406
LIABILITIES					
Accrued interest - bonds				64,784	64,784
Long-term liabilities (Note 8)					
Due within one year				85,131	85,131
Due after one year				1,490,277	1,490,277
Total liabilities	0	0	0	1,640,192	1,640,192
FUND BALANCES/NET ASSETS					
Fund balances:					
Reserved for Capital Projects		4,135,736	4,135,736	(4,135,736)	--
Unreserved, reported in:					
General fund	444,903		444,903	(444,903)	--
Total fund balances	444,903	4,135,736	4,580,639	(4,580,639)	--
Total liabilities and fund balance	\$ 444,903	\$ 4,135,736	\$ 4,580,639		
Net assets:					
Invested in capital assets, net of related debt				6,677,575	6,677,575
Restricted for property improvements				4,135,736	4,135,736
Unrestricted				444,903	444,903
Total net assets				11,258,214	11,258,214

See accompanying notes to financial statements.

Four Lake Regional Industrial Development Authority
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2012

Fund balance of governmental funds	\$ <u>4,580,639</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental Funds (\$9,408,217 - \$1,090,450) accumulated depreciation).	<u>8,317,767</u>
Long-term liabilities, including bonds payable, are not due and Payable in the current period and therefore are not reported in the in the governmental funds.	<u>(1,575,408)</u>
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds.	<u>(64,784)</u>
Net assets of governmental activities	\$ <u>11,258,214</u>

See accompanying notes to financial statements

Four Lake Regional Industrial Development Authority
Statement of Governmental Fund Revenues, Expenditures,
and Changes in Fund Balances/Statement of Activities
For the Year Ended June 30, 2012

	General Fund	Capital Project Fund	Total	Adjustments	Statement of Activities
Revenues:					
Incubator rent	\$ 211,271		211,271		211,271
Interfund transfers (Note 1C)	150,000		150,000		150,000
Grants		419,900	419,900		419,900
TVA Grant		0	0		0
Interest	1,325	31,939	33,264		33,264
TVA In-lieu-of tax		861,624	861,624		861,624
Total revenues	<u>362,596</u>	<u>1,313,463</u>	<u>1,676,059</u>		<u>1,676,059</u>
Expenditures/expenses:					
Current:					
Professional services	97,237		97,237		97,237
Secretary salary	28,150		28,150		28,150
Fringe benefits	41,631		41,631		41,631
Travel	4,677		4,677		4,677
Contract services	21,820		21,820		21,820
Telecommunications	5,478		5,478		5,478
Postage	550		550		550
Salary Buy-out	125,000		125,000		125,000
Utilities		17,137	17,137		17,137
Repairs & maintenance		70,281	70,281		70,281
Office supplies/equipment	5,904		5,904		5,904
Dues/fees/subscriptions	2,969		2,969		2,969
Miscellaneous/Meeting Related	5,655		5,655		5,655
Depreciation		31,023	31,023		31,023
Office rent/insurance/utilities	9,752		9,752	199,999	36,678
Advertising	20,732		20,732		199,999
Capital outlay		1,013,295	1,013,295	(1,013,295)	17,007
Total expenditures/expenses	<u>369,555</u>	<u>1,138,991</u>	<u>1,508,546</u>	<u>(813,296)</u>	<u>20,732</u>
Excess (deficiency) of revenues over expenditures	(6,959)	174,472	167,513	813,296	695,250
Other financing sources/uses:					
Principal bonds payable (interest capitalized)					
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(6,959)	92,713	85,754	(85,754)	85,754
Change in net assets	---	---	---	980,809	980,809
Fund balances/net assets:					
Beginning of the year	451,862	4,043,023	4,494,885	---	10,277,405
End of the year	<u>444,903</u>	<u>4,135,736</u>	<u>4,580,639</u>	<u>---</u>	<u>\$ 11,258,214</u>

See accompanying notes to financial statements.

Four Lake Regional Industrial Development Authority
 Reconciliation of the Statement of Revenues, Expenditures,
 and changes in fund balance of Governmental Funds
 to the Statement of Activities
 June 30, 2012

Net change in fund balance – governmental funds \$ 85,754

Governmental funds report capital outlay as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation taken this period.

Depreciation	(199,999)
Capital outlay	<u>1,013,295</u>

Repayment of debt principal is an expenditure in the governmental Funds, but the repayment reduces the long-term liabilities in the Statement of net assets.

81,759

Change in net assets of governmental activities \$ 980,809

See accompanying notes to financial statements

FOUR LAKE REGIONAL INDUSTRIAL DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

1. Summary of significant accounting policies

A. Financial Reporting Entity

The Four Lake Regional Industrial Development Authority was created in 1986 under TCA 64-5-201. The Authority was created for "the purpose of developing the resources of the region embracing the Tennessee counties of Macon, Smith, Sumner, Trousdale and Wilson, including the coordination of the Authority's development work with related activities and programs of the Tennessee Valley Authority and other federal, state and local planning and development agencies."

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, are normally supported by intergovernmental revenue. Although other governments may report both governmental activities and business-type activities, the Authority has no business-type activities.

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. The Authority does not allocate indirect expenses to the various functions. *Program revenues* include 1) charges to recipients of goods or services offered by the Authority and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items are reported as general revenues.

C. 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 financial statements are reported using the *current financial resources measurement focus* and *modified accrual basis of accounting*. Revenues are recognized as soon as 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 authority considered revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the authority.

The authority reports the following major governmental funds:

The *general fund* is the authority's primary operating fund. It accounts for all financial resources of the authority, except those required to be accounted for in another fund.

The *capital projects fund* accounts for financial resources to be used for improving land purchased from the TVA.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The authority has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. With one exception, interfund administrative services are reported as revenues in the general fund and expenditures/expenses in the capital projects fund.

2. Budgetary process

Legislation requires that no later than October of each year "the Authority shall transmit to the Governor of the State of Tennessee a request and an amount of appropriation needed during the next fiscal year for Authority purposes including administration, operations and capital improvements, and appropriate justification for use of such appropriation." The Authority's board passes the budget and reviews its status at regular meetings.

3. Compensated absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have mature, for example, as a result of employee resignations and retirements.

4. Cash and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Investments are stated at fair value.

At June 30, 2012, the Authority had deposits with financial institutions with a carrying amount of \$4,580,639. The bank balance with the financial institution was \$4,595,097. All deposits above the federal depository insurance (FDIC) were covered by collateral held by authorized escrow agents in the name of Four Lake Regional Industrial Development Authority.

5. Risk Management

Public Official Bond Program Director -\$110,000 / Office Manager \$150,000

This bond covers Earl Rigsby, Executive Director, and Teresa Carman, Office Manager.

No claims have been made during the past three years.

6. Restricted Funds

The restrictions are on TVA In-lieu-of-tax payments. TCA 67-9-102 restricts the funds to constructions of roads, install water and waste water facilities and provide other public infra structure.

7. Capital Assets structure

Capital assets, which include property, plant, and equipment are reported in the Statement of Net Assets column in the government wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included in the government-wide financial statements as part of the capitalized value of the assets constructed. The total interest expense incurred by the Authority during the current fiscal year was \$68,151. This entire amount was included as part of the cost of capital assets under construction in connection with the Hartsville, Tennessee TVA Site.

Property, plant, and equipment of the Authority is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Portable buildings (office trailers)	9
Vehicles	5
Office equipment	5
Computer equipment	5

Capital asset activity for the year ended June 30, 2012 was as follow:

	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Governmental activities:				
Land	\$ 1,156,273	\$	\$	1,156,273
Building & improvements	7,238,649	1,013,295		8,251,944
Totals at historical cost	8,394,922	1,013,295	0	9,408,217
Less accumulated depreciation for:				
buildings & improvements	(890,451)	(199,999)		(1,090,450)
Governmental activities:				
capital assets, net	\$ 7,504,471	\$ 813,296	\$ 0	\$ 8,317,767

*Depreciation expense of \$199,999 was charged to governmental activities.

8. Long-term debt

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Revenue improvement bonds

The district issued bonds where the district pledges income derived from the acquired or constructed assets to pay debt service. No amounts outstanding at the end of the current fiscal year related to bonds issued in prior years. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Construction projects	4.125%	\$2,015,000

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30</u>		
2012	85,131	64,784
2013-2017	486,305	268,258
2018-2022	589,009	160,452
2023-2025	414,963	34,691
Total	<u>\$1,575,408</u>	<u>\$ 528,185</u>

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>Beginning</u>			<u>Ending</u>	<u>Due Withir</u>
<u>Governmental activities:</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One year</u>
Bonds payable	\$ 1,657,166	\$ -	\$ 81,758	\$ 1,575,408	\$ 85,131
Total Long-term liabilities	<u>\$ 1,657,166</u>	<u>\$ 0</u>	<u>\$ 81,758</u>	<u>\$ 1,575,408</u>	<u>\$ 85,131</u>

9. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes of which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

10. Employee Termination

In the interest of both parties Mr. Jerry Clift, Executive Director, and Four Lake Regional Industrial Development Authority mutually agreed for the termination of Mr. Clifts employment. The

termination benefits are as follows:

Termination benefit arrangement(s) - Mr. Clift was paid \$125,000. In consideration of the lump sum Mr. Clift waived the payment of any accrued sick leave, vacation leave, administrative leave and any other benefit either presently owing or accrued.

Cost of termination benefits - Included in the \$125,000 lump sum payment.

Significant methods and assumptions used to determine termination benefits - None.

11. Pension Disclosure (continued on next page)

Plan Description

Employees of FOUR LAKE REGIONAL INDUSTRIAL DEVELOP are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as FOUR LAKE REGIONAL INDUSTRIAL DEVELOP participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

FOUR LAKE REGIONAL INDUSTRIAL DEVELOP requires employees to contribute 5.0 percent of earnable compensation.

FOUR LAKE REGIONAL INDUSTRIAL DEVELOP is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 9.43% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for FOUR LAKE REGIONAL INDUSTRIAL DEVELOP is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2012, FOUR LAKE REGIONAL INDUSTRIAL DEVELOP's annual pension cost of \$11,824 to TCRS was equal to FOUR LAKE REGIONAL INDUSTRIAL DEVELOP's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. FOUR LAKE REGIONAL INDUSTRIAL DEVELOP's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

FOUR LAKE REGIONAL INDUSTRIAL DEVELOP 89890

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost(APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$11,824	100.00%	\$0.00
June 30, 2011	\$13,678	100.00%	\$0.00
June 30, 2010	\$7,549	100.00%	\$0.00

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 78.57 percent funded. The actuarial accrued liability for benefits was \$0.20 million, and the actuarial value of assets was \$0.16 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.04 million. The covered payroll (annual payroll of active employees covered by the plan) \$0.15 million, and the ratio of the UAAL to the covered payroll was 29.83 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
July 1, 2011	\$159	\$203	\$43	78.57%	\$146	29.83%
July 1, 2009	\$108	\$160	\$53	67.12%	\$75	70.09%
July 1, 2007	\$84	\$117	\$33	71.79%	\$125	26.40%

Required Supplementary Information

Schedule of Funding Progress for FOUR LAKE REGIONAL INDUSTRIAL DEVELOP 89890

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
July 1, 2011	\$159	\$203	\$43	78.57%	\$146	29.83%
July 1, 2009	\$108	\$160	\$53	67.12%	\$75	70.09%
July 1, 2007	\$84	\$117	\$33	71.79%	\$125	26.40%

FOUR LAKE REGIONAL INDUSTRIAL DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL , ALL FUND TYPES
For the year ended June 30, 2012

General Fund

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable <u>(Unfavorable)</u>
<i>Revenues</i>				
Interfund transfers	\$ 228,000	150,000	\$ 150,000	\$ 0
Incubator Rent	150,000	228,000	211,271	(16,729)
Interest	2,500	2,500	1,325	(1,175)
Total Revenues	<u>380,500</u>	<u>380,500</u>	<u>362,596</u>	<u>(17,904)</u>
<i>Expenditures</i>				
Professional services	116,942	116,942	97,237	19,705
Severance Agreement/Contract Buy-out	0	125,000	125,000	0
Secretary salary	27,284	28,284	28,150	134
Fringe benefits	52,500	52,500	41,632	10,868
Contract services	27,000	23,796	21,820	1,976
Travel	7,000	7,000	4,677	2,323
Advertising	20,000	20,732	20,732	0
Postage	550	550	550	0
Dues fees/subscriptions	3,100	3,100	2,969	131
Office supplies & equipment	6,000	6,000	5,904	96
Telecommunications	6,000	6,000	5,478	522
Office rent/utilities/insurance	10,500	10,972	9,752	1,220
Miscellaneous/Meeting Related	4,979	5,979	5,655	324
	<u>281,855</u>	<u>406,855</u>	<u>369,556</u>	<u>37,299</u>
Excess expenditures (over) revenue	<u>98,645</u>	<u>(26,355)</u>	<u>(6,960)</u>	<u>19,395</u>
<u>Other financing sources (uses):</u>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances	98,645	(26,355)	(6,960)	
Fund balance - beginning	445,913	499,670	451,863	
Fund balance - ending	<u>\$ 544,558</u>	<u>\$ 473,315</u>	<u>\$ 444,903</u>	

**Four Lake Regional Industrial
Development Authority
Schedule of Board Members
June 30, 2012**

<u>Name</u>	<u>County</u>
Michael Nesbitt – Chairman	Smith County
Randall Hutto - Vice Chairman	Wilson County
Jake West - Secretary/Treasurer	Trousdale County
Anthony Holt	Sumner County
Shelvy Linville	Macon County

Management

Don Rigsby, Executive Director
Donna Arrington, Program Manager
Vicki Henley, Director, TTU/SBDC
Teresa Carman, Office Manager

Hugh W. Smith, Sr.
Certified Public Accountant

Member of the American Institute of Certified Public Accountants

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Red Boiling Springs, Tennessee 37150

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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
 Four Lake Regional Industrial Development Authority
 Hartsville, Tennessee

I have audited the financial statements of the governmental activities and each major fund, of Four Lake Industrial Development Authority as of and for the year ended June 30, 2012, and have issued my report thereon dated February 5, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Four Lake Regional Industrial Development Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Four Lake Regional Industrial Development Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Four Lake Regional Industrial Development Authority's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses, as defined below. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that I consider to be significant deficiencies in internal control over financial reporting. It is , 2013-1. 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 *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 Four Lake Regional Industrial Development Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the Four Lake Regional Industrial Development Authority's 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Four Lake Regional Industrial Development Authority's responses to the finding identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the Four Lake Regional Industrial Development Authority's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the management of Four Lake Regional Industrial Development Authority, the Tennessee State Comptroller's Office, and other regulatory bodies, and is not intended to be and should not be used by anyone other than these specified parties.



February 5, 2013
Red Boiling Springs, Tennessee

Four Lake Industrial Development Authority
Detailed Audit Findings
6/30/2012

Finding 2011-1 has not been corrected and is repeated in this schedule.

INTERNAL CONTROL

2012-1

Condition Duties over cash receipting, receivables, disbursements, payroll and general ledger functions are not properly segregated.

Criteria Essential elements of internal control require the above functions to be segregated.

Effect Without proper segregation errors or irregularities could occur and not be detected on a timely basis.

Recommendation

Further segregation of accounting duties should be considered and/or alternative measures designed to detect errors or irregularities be developed.

Management's response

Management concurs with this finding. During the 2011/2012 fiscal year, the Authority was without an Executive Director for several months. With an office of only one full-time employee and one part-time employee, it was impossible to further segregate accounting duties. At each month's end, financial reports were prepared by the Office Manager (part-time employee) and presented to the Program Manager for an independent review.

As of March 12, 2012, a full-time Executive Director was hired and numerous changes were initiated. At the end of each month, financial reports were prepared by the Office Manager, reviewed by the Program Manager/Assistant Director followed by a final review of the Executive Director.

Also, new check signing procedures were established for improved control & oversight of financial accounts. Two signatures are required on all checks, one signature shall be the individual serving in the position of the Authority's Executive Director or alternatively the Office Manager; the second signature shall be the individual serving as the Authority's Chairman of the Board, or alternatively the Four Lake Board of Director's Trousdale County Representative.