

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site,
Volkswagen Group of America Chattanooga Operations, LLC's
Expansion Site and Volkswagen Group of America
Chattanooga Operations, LLC Partnership Agreement; and
Tax Increment Financing and Economic Development
Incentive Programs for the City of Chattanooga)

FINANCIAL REPORT

JUNE 30, 2019 AND 2018



CERTIFIED PUBLIC ACCOUNTANTS

INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

TABLE OF CONTENTS

	PAGE
ROSTER OF BOARD MEMBERS	i
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES OF STATE AWARDS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Basic Financial Statements	11-17
SUPPLEMENTARY INFORMATION	
Combining Programs Schedule of Net Position	18
Combining Programs Schedule of Revenues, Expenses, and Changes in Net Position	19
SCHEDULE OF EXPENDITURES OF STATE AWARDS	20
Note to the Schedule of Expenditures of State Awards	21
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 <i>GOVERNMENT AUDITING STANDARDS</i>	22-23
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE GRANT REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH GRANT PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE	24-25
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	26-27
SCHEDULE OF PRIOR AUDIT FINDINGS	28

INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site, and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

Board Member Roster

James Miller, Chair

Henry "Skip" Ireland, Vice-chair

Jimmy Rodgers, Secretary

Alan Lebovitz, Assistant Secretary

Ray Adkins

Jelena Butler

Althea Jones

The Board meets on 1st Monday of the month at 11:00 a.m. in the City Council Assembly Room, 1000 Lindsay Street, Chattanooga, TN 37402



CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA | MEMPHIS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES OF STATE AWARDS

To the Board of Directors
The Industrial Development Board of the City of Chattanooga
Chattanooga, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Industrial Development Board of the City of Chattanooga (Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinions, the financial statements referred to above present fairly, in all material respects, the financial position of the Industrial Development Board of the City of Chattanooga (Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga), and the changes in its financial position and its cash flows as of and for the years ended June 30, 2019 and 2018, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the entity's basic financial statements. The accompanying schedule of expenditures of state awards and combining program schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019 on our consideration of the entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

Chattanooga, Tennessee
December 19, 2019

Henderson Hutcherson
is McCullough, PLLC

INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site, and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Industrial Development Board of the City of Chattanooga (IDB) was established in 1967 for the purpose of undertaking financing and development of projects to promote industry, trade, commerce, tourism, recreation, and housing construction in Chattanooga.

Pursuant to a July 2008 Memorandum of Understanding (MOU), as amended, by and among Volkswagen Group of America, Inc., the State of Tennessee, Hamilton County, the City of Chattanooga, the Chattanooga Area Chamber of Commerce and the Industrial Development Board, the IDB was awarded \$210.8 million in grants from the State of Tennessee as incentives to build a billion dollar automotive plant; an additional \$46 million in local government funding were also pledged. In June 2014, a second MOU was entered into whereby the state awarded an additional \$165.8 million in incentives. An additional \$52.5 million was pledged by the City and County to be shared equally. In June 2017, an amendment increased the State incentive to \$168.9 million. These additional capital contributions support a Volkswagen Group of America Chattanooga Operations, LLC (VWGoA) expansion to include a production line for a new sports utility vehicle and a national research and development center.

As VW began to expand its production capacities to include electric car in Chattanooga plant in the coming years, a Letter of Intent (LOI) was signed between VW, Hamilton County, City, and IDB on January 11, 2019. It stipulates while VW is making an estimated \$800 million additional investment, City and County will each provide \$2.5 million to the IDB for construction of certain capital projects for the benefit of the VW at the site. However, at the time of this report, it is the management's estimation that the City and County portions will no longer be required as VW moves forward with its stated \$800 million investment.

In fiscal year 2014, IDB entered into a Tax Incremental Financing (TIF) agreement with Black Creek, LLC after the City Council approved the economic impact plan on resolution 27143 dated June 9, 2012. In fiscal year 2018, IDB entered into another TIF agreement with Evergreen Real Estate after the City Council approved the economic impact plan on resolution 29336 on February 20, 2018. The TIF agreement refunds taxes to support infrastructure and commercial real estate development. The amount of tax refunded is based on the increased tax values in the TIF plan area over the base tax at implementation, less allowable city and county expenses.

In fiscal year 2015, the City of Chattanooga's Department of Economic Development began a program called Economic Development Incentive Program (EDIP) to assist, support and incentivize local businesses and workforce to develop and grow. Since 2015, through City appropriation and the Economic Development Lease Payment from qualifying businesses, EDIP has been expanded into the following programs:

- Growing Small Business Incentive Plan which provides incentives for small businesses with 100 or fewer employees in the city to create more jobs.
- Technology Workforce Development brings city residents, technology companies and our workforce training partners together to train and reskill residents to embrace the future of Chattanooga.
- Small Business Construction Mitigation Grant awards qualified businesses that are impacted by construction project in the city.

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

- Renewing Chattanooga helps combat blight, vacant, and abandoned properties in underserved communities throughout the city that fall into disrepair.

Started in fiscal year 2016, IDB began to receive Economic Development Lease Payment from qualifying businesses. These lease payments are In Lieu of Property Tax Payment and are to be used to fund the EDIP programs directed by the City Mayor.

As members of the Industrial Development Board of the City of Chattanooga, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Volkswagen Group of America, Inc.'s Project Site ("Project Site"), Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site ("Expansion Site"), and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement ("Partnership Agreement"), and Tax Increment Financing ("TIF") and Economic Development Incentive Programs ("EDIP") for the City of Chattanooga for the fiscal years ended June 30, 2019 and 2018. We encourage readers to consider the information presented herein in conjunction with additional information provided in the notes to the basic financial statements, which can be found beginning on page 11 of this report.

Financial Highlights

- Net position at the end of the most recent fiscal year is \$422.2 million. \$420.7 million of that amount is invested in the development of the Project Site and Expansion Site of VWGoA automotive plant.
- Net position increased \$2.7 million primarily due to \$2.3 million of City and County's local grant incentive in capital contribution.
- EDIP revenue increased \$0.4 million in fiscal year 2019.

Overview of Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the financial statements of the Project and Expansion Site of VWGoA along with certain other economic development incentives managed for the City of Chattanooga and Hamilton County. Operations are accounted for in a single proprietary fund. The basic financial statements consist of financial statements and related notes to the financial statements.

The *Statement of Net Position* presents financial information on the Project and Expansion Site's assets and liabilities with the difference reported as net position. Net position is primarily invested in leased assets and represents the amount of grants dollars expended to build and equip the Project and Expansion Site. Costs incurred by VWGoA are not included.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported on an accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, financial transactions are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to the Financial Statements provide additional information that is essential for a full understanding of the data provided in the financial statements.

The financial statements can be found beginning on page 8 of this report; notes to the financial statements can be found beginning on page 11 of this report.

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis

Assets exceeded liabilities by \$422.2 million at the close of the most recent fiscal year; of this amount, \$420.7 million reflects investment in leased assets (e.g., land, buildings and infrastructure). An additional \$28,971 is restricted for construction and another \$1.4 million is restricted for Economic Development Incentive Programs.

	Net Position	
	June 30, 2019	June 30, 2018
Current and other assets	\$ 3,040,577	\$ 1,278,375
Leased assets	420,738,128	418,417,957
Total assets	<u>423,778,705</u>	<u>419,696,332</u>
Current liabilities	<u>1,566,012</u>	<u>138,658</u>
Net position		
Investment in capital assets	420,738,128	418,417,957
Restricted	<u>1,474,565</u>	<u>1,139,717</u>
Total net position	<u>\$ 422,212,693</u>	<u>\$ 419,557,674</u>

Total assets increased \$4.1 million. \$1.5 million of that and the \$1.5 million increase in the accrued liability are due to one single payment that was issued in the new fiscal year. As the VW Project and Expansion Site grant are getting closer to the end, spending is decreased which counts for the smaller increase in leased assets and receivables comparing to the years in the past. Cash on hand increased \$1.0 million partly due to the increase in the Economic Development Lease Payment collection. Also, a strong effort to assist small businesses and the workforce during the year led an to increase in EDIP grant awards by \$153,710. There is no long-term debt associated with the Project and Expansion Site.

	Changes in Net Position	
	Year ended June 30, 2019	Year ended June 30, 2018
Revenues		
City of Chattanooga	\$ 461,619	\$ 501,766
Hamilton County payment	219,476	58,253
TIF application revenue	-	1,500
Econ. Dev. Incentive Revenue	<u>554,939</u>	<u>154,655</u>
Total revenues	1,236,034	716,174
Expenses		
TIF expenses	681,095	191,019
Grant award	<u>215,001</u>	<u>61,290</u>
Total expenses	896,096	252,309
Capital grants and contributions:		
State grant 3.1	-	-
City of Chattanooga 6.2	1,154,996	528,701
Hamilton County 6.2	<u>1,160,085</u>	<u>509,443</u>
Total capital contributions	<u>2,315,081</u>	<u>1,038,144</u>
Change in net position	<u>2,655,019</u>	<u>1,502,099</u>
Net position, beginning Net position, ending	<u>419,557,674</u>	<u>418,055,665</u>
	<u>\$ 422,212,693</u>	<u>\$ 419,557,674</u>

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The net position increased \$2.7 million from the prior fiscal year as additional work was done on the Project and Expansion Site, additions of Economic Development Incentive Programs from the City, and collections of the Economic Development lease payment from businesses.

Analysis of Budget Variations

The budget for the Project and Expansion Site is on a cumulative basis. The difference reflects the amount of grant revenue remaining within the grant period.

<u>Budgetary Highlights</u>		
	<u>Estimated Revenues</u>	<u>Actual Revenues</u>
Revenue source:		
State of Tennessee 6.1	\$ 96,019,864	\$ 92,919,998
State of Tennessee 6.2	72,705,000	72,705,000
State of Tennessee 9.10	1,965,925	1,965,905
State of Tennessee 3.1	168,877,867	151,100,547
Local 6.2 1st MOU	40,000,000	39,879,995
Local 6.2 2nd MOU	52,500,000	51,598,559
Local 9.5	6,000,000	-
Private donations	<u>90,525</u>	<u>90,525</u>
	<u>\$ 438,159,181</u>	<u>\$ 410,260,529</u>

Leased Assets

The Project and Expansion Site's investment in leased assets is \$420.7 million. The investment in leased assets includes land and leased assets for the building and equipment. There is no depreciation recorded as this entire investment is leased to VWGoA under a 30-year Payment-in-Lieu-of-Tax Agreement provision in the MOU. The lease expires July 2038.

<u>Leased Assets</u>		
	<u>2019</u>	<u>2018</u>
Land	\$ 10,000,000	\$ 10,000,000
Depreciable leased assets	<u>410,738,128</u>	<u>408,417,957</u>
Total capital assets	<u>\$ 420,738,128</u>	<u>\$ 418,417,957</u>

Next Year's Budget

The Project Site and Expansion Site state grants are budgeted on a cumulative grant basis. Ending dates for the grants are as follows:

State grant 6.1	Expired June 30, 2015	\$ 96,019,864
State grant 6.2	Expired June 30, 2015	\$ 72,705,000
State grant 9.10	Expired April 30, 2017	\$ 1,766,200
State grant 3.1	Expires October 31, 2020	\$ 168,877,867

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Requests for Information

This financial report is designed to provide a general overview of the Industrial Development Board of the City of Chattanooga activities related to the Project and Expansion Site of VWGoA, and certain other economic development incentives managed for the City of Chattanooga and Hamilton County. Questions concerning any of the information provided in this report should be addressed to the City of Chattanooga Finance Department who is acting as the fiscal agent of the board.

City of Chattanooga Finance Department
101 East 11th Street; Suite 101
Chattanooga, Tennessee 37402
(423) 643-7363
www.chattanooga.gov

**INDUSTRIAL DEVELOPMENT BOARD OF THE
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(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

STATEMENTS OF NET POSITION

JUNE 30, 2019 AND 2018

ASSETS		
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,272,458	\$ 1,252,420
Receivables:		
Hamilton County	768,006	25,955
City of Chattanooga	113	-
Total current assets	3,040,577	1,278,375
NONCURRENT ASSETS		
Leased assets, land	10,000,000	10,000,000
Leased assets, depreciable	410,738,128	408,417,957
Total noncurrent assets	420,738,128	418,417,957
TOTAL ASSETS	\$ 423,778,705	\$ 419,696,332
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Due to others - TIF	\$ -	\$ 122,242
Accrued liabilities - Project & Expansion Site	1,535,786	16,416
Accrued liabilities - EDIP	30,000	-
Retainage payable	226	-
Total current liabilities	1,566,012	138,658
NET POSITION		
Investment in leased assets	420,738,128	418,417,957
Restricted for construction	28,971	28,971
Restricted for interlocal government agreement cost	14,168	19,258
Restricted for TIF	1,500	1,500
Restricted for economic development incentive programs	1,429,926	1,089,988
Total net position	422,212,693	419,557,674
TOTAL LIABILITIES AND NET POSITION	\$ 423,778,705	\$ 419,696,332

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

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
REVENUES		
City of Chattanooga	\$ 461,619	\$ 501,766
Hamilton County	219,476	58,253
TIF application revenue	-	1,500
Economic development incentive program grant revenue	<u>554,939</u>	<u>154,655</u>
 Total revenues	 <u>1,236,034</u>	 <u>716,174</u>
EXPENSES		
Tax increment financing expenses	681,095	191,019
Economic development incentive program grant awards	<u>215,001</u>	<u>61,290</u>
 Total expenses	 <u>896,096</u>	 <u>252,309</u>
OPERATING INCOME (LOSS)	<u>339,938</u>	<u>463,865</u>
 Capital Contributions		
Grant revenue -		
City of Chattanooga local matching funds	1,154,996	528,701
Hamilton County local matching funds	<u>1,160,085</u>	<u>509,443</u>
 Total capital contributions	 <u>2,315,081</u>	 <u>1,038,144</u>
CHANGE IN NET POSITION	2,655,019	1,502,009
NET POSITION, beginning	<u>419,557,674</u>	<u>418,055,665</u>
NET POSITION, ending	<u>\$ 422,212,693</u>	<u>\$ 419,557,674</u>

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

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

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STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from local governments	\$ 1,236,034	\$ 716,174
Payments of grant awards and TIF expenses	<u>(994,430)</u>	<u>(233,770)</u>
Net cash from operating activities	<u>241,604</u>	<u>482,404</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash receipts from capital contributions	1,572,917	60,692,159
Payments for leased assets	<u>(794,483)</u>	<u>(60,682,440)</u>
Net cash from financing activities	<u>778,434</u>	<u>9,719</u>
Net increase in cash	1,020,038	492,123
Cash and cash equivalents - Beginning	<u>1,252,420</u>	<u>760,297</u>
Cash and cash equivalents - Ending	<u>\$ 2,272,458</u>	<u>\$ 1,252,420</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 339,938	\$ 463,865
Adjustments not affecting cash:		
Increase (decrease) in due to others - TIF	(122,242)	24,394
Increase (decrease) in due to others - EDIP	-	(5,855)
Increase (decrease) in accrued liabilities - TIF	-	-
Increase (decrease) in accrued liabilities - EDIP	<u>23,908</u>	<u>-</u>
Total adjustments	<u>(98,334)</u>	<u>18,539</u>
Net cash from operating activities	<u>\$ 241,604</u>	<u>\$ 482,404</u>

INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The Industrial Development Board of the City of Chattanooga (the "Board") is a public corporation formed pursuant to the provisions of Tennessee Industrial Development Corporation Act. The Board performs public functions on behalf of the City of Chattanooga (the "City"), and its purpose is to undertake the financing and development of projects to promote industry, trade, commerce, tourism and recreation, and housing construction. The Board participates in these activities by serving as a non-recourse conduit for taxable or tax-free financing for industrial entities. The accompanying financial statements include the activities of Volkswagen Group of America, Inc.'s Project Site ("Project Site"), Volkswagen Group of America Chattanooga Operations, LLC's (VWGoA) Expansion Site ("Expansion Site"), and Volkswagen Group of America Chattanooga Operations, LLC (VWGoA) Partnership Agreement ("Partnership Agreement"), as well as management of the City of Chattanooga's Tax Increment Financing ("TIF") program and certain economic development incentives. The accompanying financial statements do not include projects of the Board other than those specifically mentioned.

The financial statements of the Project Site have been prepared in accordance with United States generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant accounting policies are described below.

Basis of Accounting

The accompanying financial statements are prepared using the accrual basis of accounting. The measurement focus is upon determination of financial position, changes in net position, and changes in cash flows. The accounting principles used are those applicable to comparable businesses in the private sector. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. All assets and liabilities (whether current or noncurrent) associated with the Board's activities are included in the statement of net position.

These financial statements distinguish operating revenues from nonoperating items. Operating revenues include city appropriation for economic development incentive programs and the accompanying schedule of expenditures of state awards includes the state activity of Project Site and Expansion Site of VWGoA and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Audit Manual of the State of Tennessee, Department of Audit. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(Continued)

INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash balances in banks, and cash held by the City of Chattanooga as the Board's agent. At June 30, 2019 and 2018, all cash is held by the City as the Board's agent and is designated for uses authorized by capital grant contracts. The City's policies limit deposits to those instruments allowed by applicable state laws. The deposits must be covered by state depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name, or by the State Reserve Banks acting as third party agents.

Leased Assets

Leased assets (including infrastructure) are recorded at historical cost. Contributed leased assets are recorded at their estimated fair market value on the date contributed. Leased assets include public domain infrastructure assets consisting of buildings, roads, streets and sidewalks, sewers, lighting systems, and drainage systems. The Project Site and Expansion Site define leased assets as assets with an estimated useful life of three years or greater.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Any costs incurred for repairs and maintenance are expensed as incurred. Because the Board holds these assets in a lease for the Project Site and Expansion Site, no depreciation expense was recorded for the years ended June 30, 2019 and 2018.

Net Position

The Board's financial statements utilize a net position presentation. Net position is categorized as investment in leased assets, restricted and unrestricted. As of June 30, 2019 and 2018, the Project Site and Expansion Site have no debt related to leased assets.

Investment in Leased Assets – is intended to reflect the portion of net position which is associated with non-liquid leased assets less outstanding leased asset related debt.

Restricted Net Position – represents net position that has third party (statutory, bond covenant or granting agency) limitations on its use. The Board's policy is generally to use any restricted net position first, as appropriate opportunities arise.

(Continued)

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

Unrestricted Net Position – represents unrestricted net position. While management may have categorized and segmented portions for various purposes, the Board has the unrestricted authority to revisit or alter these managerial decisions.

Program Revenues

The Board is a recipient of grant revenues for the Project Site and the Expansion Site, and recognizes these revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the Project Site before the eligibility requirements are met are reported as deferred revenues. Some grants and contributions consist of resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the Board.

Estimates

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

NOTE 2 – DESCRIPTION OF THE PROJECT SITE, EXPANSION SITE AND SIGNIFICANT AGREEMENTS

The Board has an administrative services agreement with the City of Chattanooga. The City provides administrative services to the projects and programs covered by these financial statements at no cost. These services include but are not limited to legal, financial management, accounting and reporting, clerical and other ordinary, necessary services for oversight, including the retention and maintenance of records.

(Continued)

INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 – DESCRIPTION OF THE PROJECT SITE, EXPANSION SITE AND SIGNIFICANT AGREEMENTS

Project Site

During the fiscal year ended May 31, 2009, Volkswagen Group of American, Inc. (VW) announced its decision to build a \$1 billion automotive production facility in Chattanooga, Tennessee. The announcement was the culmination of years of extensive economic development efforts by the City. The VW facility is expected to contribute to the economic expansion of the City and the surrounding region for years to come. The Project Site is being developed for the VW facility.

In connection with the development of the VW Project Site, the Board, the City, Hamilton County, Tennessee (the "County"), the State of Tennessee (including various state agencies), and the Greater Chattanooga Area Chamber of Commerce (the "Chamber") executed a Memorandum of Understanding (MOU). The provisions of the MOU include:

- Term of 30 years, to expire July 2038
- Identification of land parcels for the Project Site and Expansion Site
- State and local tax incentives
- Making the Project Site available and suitable for use by VW
- Training and administrative assistance
- Commitments of the City, the County, and the State of Tennessee
- Development of a Welcome Center

During the year ended May 31, 2009, the Board was awarded state grants for the Project Site, as follows:

1. Volkswagen Grant 6.1 totaling approximately \$79.6 million was awarded by the Tennessee Department of Finance and Administration for the development of the Project Site. In subsequent grant amendments, this amount was increased to \$96,019,864.
2. Volkswagen Grant 6.2 totaling approximately \$70 million was awarded by the Tennessee Department of Finance and Administration to provide additional infrastructure at the Project Site. The City and the County also committed to provide \$20 million each over four years for infrastructure.
3. Volkswagen Grant 9.10 totaling \$1,766,200 was awarded by the Tennessee Department of Economic and Community Development for the design and installation of a sign for VWGoA facility and workforce recruitment campaign.
4. Volkswagen Grant 9.5 totaling \$6 million is pledged by the City and the County to be shared equally for the design and construction of the Welcome Center near the Project Site entrance.

(Continued)

INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 – DESCRIPTION OF THE PROJECT SITE, EXPANSION SITE AND SIGNIFICANT AGREEMENTS (Continued)

Project Site (Continued)

With funding from a Tennessee General Assembly appropriation, Volkswagen Grant 6.1 was initially awarded in July 2008. The State of Tennessee decided in June 2009 to utilize bond proceeds rather than an appropriation to fund the Project Site. As a result, Volkswagen Grant 6.1 was amended. The amendment caused the Board to obtain additional documentation from contractors developing the Project Site in order to comply with the amended grant. The Volkswagen Grant 9.1 was amended by the State of Tennessee, Department of Economic and Community Development, and the Industrial Development Board of the City of Chattanooga for an additional \$1,766,200 to be awarded by the Tennessee Department of Finance and Administration. This amendment was made effective as of December 31, 2013.

The City and the County have worked diligently to develop the Project Site, and have provided funding, when needed, to prevent any interruptions in the development of the Project Site, and to ensure the Project Site is available and suitable for the VW facility. Pursuant to the MOU, the City and County transferred land with a fair market value of \$10,000,000 to the Project Site during the 2010 fiscal year.

State grants 6.1 and 6.2 related to the Project Site ended effective June 30, 2015 and state grant 9.10 related to the Project Site ended effective April 30, 2017.

Expansion Site

In June 2014, a second MOU was entered into whereby the state awarded an additional \$165,778,000 in incentives subject to annual appropriation by the legislature in fiscal year 2016. An additional \$52.5 million was pledged by the City and County to be shared equally; of which \$20 million was appropriated in fiscal year 2015 and \$6,250,000 was appropriated in fiscal year 2016 by the City. The County appropriated the full amount in fiscal year 2015. These additional capital contributions support a VWGoA expansion to include a production line for a new sports utility vehicle and a national research and development center. In June 2017, an amendment was awarded which increased the State incentive to \$168,877,867. During fiscal year 2019, all grant expenditures were covered by local matching dollars. No state grant funds were requested during the year.

(Continued)

INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 – DESCRIPTION OF THE PROJECT SITE, EXPANSION SITE AND SIGNIFICANT AGREEMENTS (Continued)

Tax Increment Financing

The Board is the administrative agent of the City of Chattanooga's TIF program. TIF's are arrangements in which taxes are refunded to help develop or redevelop areas with the City. These agreements are authorized by T.C.A. section 13-20-205. The amount of tax refunded is based on the increased tax values in the TIF plan area over the base tax at implementation, less allowable municipal expenses.

Currently the Board administers a single arrangement for Black Creek Mountain. Tax year 2011 serves as the base year for the tax increments. The arrangement, approved in 2012, is effective for twenty years.

In May 2018, the Board approved the Development and Financing Agreement with Evergreen Real Estate regarding the M.L. King Extension Project to the Riverfront.

Economic Development Incentive Programs (EDIP)

The Board administers certain economic development incentives for the City of Chattanooga.

Growing Small Business is a program that provides incentives for businesses with one hundred or fewer employees that create five or more jobs within the prior twelve months. \$200,000 was provided by the City since the beginning of the program in 2015.

Technology Workforce Development is a program that helps to ensure Chattanooga's residents have the skills and training needed to work in the growing tech sector of the community. \$100,000 was provided in 2015 and an additional \$350,000 was provided by the City in 2018.

Small Business Construction Mitigation Grant is a program that provides assistance to qualifying small businesses that are impacted by construction project in the city. \$25,000 was provided in 2016 and additional \$19,000 was provided by the City in 2018.

Economic Development Fee is a program that receives and holds the lease payments from the qualifying businesses. The money will be used for City's economic development as directed by the Mayor of the City.

Renewing Chattanooga is a program that intends to provide façade grants for the physical renovation of disinvested and blighted properties in underserved communities throughout the City. This is a tool kit to help combat blight, vacant, and abandoned properties that fall into disrepair.

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 3 – CONTINGENCIES

The Project Site has received state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. Management is not aware of any potential losses from such disallowances and believes that reimbursements, if any, would not be material.

The Board is involved in certain claims arising from normal business activities. Management believes that neither the financial position nor results of operations of the Project Site will be materially affected by the final outcome of these proceedings.

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

COMBINING PROGRAMS SCHEDULE OF NET POSITION

JUNE 30, 2019

ASSETS				
	Project and Expansion Site	Tax Increment Financing	Economic Development Incentive	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 811,032	\$ 1,500	\$ 1,459,926	\$ 2,272,458
Receivables:				
Hamilton County	768,006	-	-	768,006
City of Chattanooga	<u>113</u>	<u>-</u>	<u>-</u>	<u>113</u>
Total current assets	<u>1,579,151</u>	<u>1,500</u>	<u>1,459,926</u>	<u>3,040,577</u>
NONCURRENT ASSETS				
Leased assets, land	10,000,000	-	-	10,000,000
Leased assets, depreciable	<u>410,738,128</u>	<u>-</u>	<u>-</u>	<u>410,738,128</u>
Total noncurrent assets	<u>420,738,128</u>	<u>-</u>	<u>-</u>	<u>420,738,128</u>
TOTAL ASSETS	<u><u>\$422,317,279</u></u>	<u><u>\$ 1,500</u></u>	<u><u>\$ 1,459,926</u></u>	<u><u>\$423,778,705</u></u>
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Accrued liabilities	\$ 1,535,786	\$ -	\$ 30,000	\$ 1,565,786
Retainage payable	<u>226</u>	<u>-</u>	<u>-</u>	<u>226</u>
Total current liabilities	<u>1,536,012</u>	<u>-</u>	<u>30,000</u>	<u>1,566,012</u>
NET POSITION				
Investment in leased assets	420,738,128	-	-	420,738,128
Restricted for construction	28,971	-	-	28,971
Restricted for interlocal government agreement costs	14,168	-	-	14,168
Restricted for TIF	-	1,500	-	1,500
Restricted for economic development incentive programs	<u>-</u>	<u>-</u>	<u>1,429,926</u>	<u>1,429,926</u>
Total net position	<u>420,781,267</u>	<u>1,500</u>	<u>1,429,926</u>	<u>422,212,693</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$422,317,279</u></u>	<u><u>\$ 1,500</u></u>	<u><u>\$ 1,459,926</u></u>	<u><u>\$423,778,705</u></u>

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

**COMBINING PROGRAMS
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

YEAR ENDED JUNE 30, 2019

	Project and Expansion Site	Tax Increment Financing	Economic Development Incentive	Total
REVENUES				
City of Chattanooga	\$ -	\$ 461,619	\$ -	\$ 461,619
Hamilton County	-	219,476	-	219,476
TIF application revenue	-	-	-	-
Economic development incentive program grant revenue	-	-	554,939	554,939
Total revenues	-	681,095	554,939	1,236,034
EXPENSES				
Tax increment financing expenses	-	681,095	-	681,095
Economic development incentive program grant awards	-	-	215,001	215,001
Total expenses	-	681,095	215,001	896,096
OPERATING INCOME	-	-	339,938	339,938
Capital Contributions				
City of Chattanooga local matching funds grant 6.2	1,154,996	-	-	1,154,996
Hamilton County local matching funds grant 6.2	1,160,085	-	-	1,160,085
Total capital contributions	2,315,081	-	-	2,315,081
CHANGE IN NET POSITION	2,315,081	-	339,938	2,655,019
NET POSITION, beginning	418,466,186	1,500	1,089,988	419,557,674
NET POSITION, ending	\$ 420,781,267	\$ 1,500	\$ 1,429,926	\$ 422,212,693

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site and Volkswagen Group of
America Chattanooga Operations, LLC's Expansion Site)

SCHEDULE OF EXPENDITURES OF STATE AWARDS

YEAR ENDED JUNE 30, 2019

<u>State Grantor/Pass-Through Grantor/Program Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Accrued Grant Revenue July 1, 2018</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Accrued Grant Revenue June 30, 2019</u>
STATE GRANTS						
Tennessee Department of Finance and Administration:						
Volkswagen Grant 3.1	170/003-01-2015	-	-	-	-	-
TOTAL EXPENDITURES OF STATE AWARDS		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site and Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site)

NOTE TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

JUNE 30, 2019

Basis of Presentation

The accompanying schedule of expenditures of state awards includes the state activity of the Industrial Development Board of the City of Chattanooga (Limited to Volkswagen Group of America, Inc.'s Project Site and Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Audit Manual of the State of Tennessee, Department of Audit. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. During fiscal year 2019, all grant expenditures were covered by local matching dollars. No state grant funds were requested during the year. Remaining grant funds will be used in subsequent years.



CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA | MEMPHIS

**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
The Industrial Development Board of the City of Chattanooga
Chattanooga, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Industrial Development Board of the City of Chattanooga (Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga), as of and for the years ended June 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the Project Site's basic financial statements, and have issued our report thereon dated December 19, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Industrial Development Board of the City of Chattanooga's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Industrial Development Board of the City of Chattanooga's internal control. Accordingly, we do not express an opinion on the effectiveness of the Industrial Development Board of the City of Chattanooga's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Chattanooga, Tennessee
December 19, 2019

*Henderson Hutcherson
& McCullough, PLLC*



CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA | MEMPHIS

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH STATE GRANT
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH GRANT PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Directors
The Industrial Development Board of the City of Chattanooga
Chattanooga, Tennessee

Report on Compliance for Each Grant Program

We have audited Industrial Development Board of the City of Chattanooga (Limited to Volkswagen Group of America, Inc.’s Project Site, Volkswagen Group of America Chattanooga Operations, LLC’s Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)’s compliance with the types of compliance requirements described in the grant agreements that could have a direct and material effect on each of the Project Site’s state grant programs for the year ended June 30, 2019. The Project Site’s and Expansion Site’s state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state grant programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Project Site’s and Expansion Site’s state grant programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Project Site’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state grant program. However, our audit does not provide a legal determination of the Project Site’s compliance.

Opinion on Compliance for Each State Program

In our opinion, Industrial Development Board of the City of Chattanooga (Limited to Volkswagen Group of America, Inc.'s Project Site and Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site) complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its state grant programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Industrial Development Board of the City of Chattanooga (Limited to Volkswagen Group of America, Inc.'s Project Site and Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site) is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Project Site's and Expansion Site's internal control over compliance with the types of requirements that could have a direct and material effect on each state grant program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each state grant program and to test and report on internal control over compliance in accordance with grant agreements, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Project Site's and Expansion Site's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the grant agreements. Accordingly, this report is not suitable for any other purpose.

Chattanooga, Tennessee
December 19, 2019

Henderson Hutcherson
& McCullough, PLLC

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site and Volkswagen Group of America
Chattanooga Operations, LLC's Expansion Site)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**INDUSTRIAL DEVELOPMENT BOARD OF THE
CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site and Volkswagen Group of America
Chattanooga Operations, LLC's Expansion Site)

SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2019

None reported.