

CLARKSVILLE-MONTGOMERY COUNTY  
TOURISM COMMISSION  
AUDITED FINANCIAL STATEMENTS  
AND OTHER INFORMATION  
JUNE 30, 2011

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Clarksville-Montgomery County Tourism Commission  
Clarksville, Tennessee

We have audited the accompanying financial statements of the governmental activities and general fund of the Clarksville-Montgomery County Tourism Commission (the Commission) as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and general fund of the Commission as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United

States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The directory of board of commissioners and management, listed as other information in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Commission. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Stone Rudolph & Henry, PLC*

December 22, 2011

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2011

Our discussion and analysis of the Clarksville-Montgomery County Tourism Commission's (the Commission) financial performance provides an overview of the Commission's financial activity for the year ended June 30, 2011. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The Commission's total net assets increased \$169,952 as a result of this year's operations.
- Income from the Hotel/Motel Tax increased by over \$43,000. This represents a 5% increase from last year's decline. Several significant factors are believed to have resulted in this increase:
  - 1) Increased travelers due to local industry activity.
    - a. Development of the industrial mega-site for Hemlock Semiconductor, LLC.
    - b. Fort Campbell support of deployed troops.
  - 2) Hotel/motel rate increases.
  - 3) A modest increase in the local per-diem rate for government lodging.
- Total revenues increased by more than \$40,000 from 2010 while expenses increased by more than \$49,000.
- The Commission's efforts generated an estimated \$3.4 million in economic benefit for Clarksville and Montgomery County this year.

Required Financial Statements

The financial statements of the Commission report information about the Commission using generally accepted accounting principles. These statements offer financial information about its activities. The Governmental Fund Balance Sheet / Statement of Net Assets include all of the Commission's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations (liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities. This statement measures the success of the Commission's operations over the past year and can be used to determine if the Commission recovered all its cost through the funding provided by the Montgomery County government along with the other revenue generated.

Financial Analysis of the Commission

The financial statements of the Commission include only activities of the Commission. In addition to the actual cash received and expended, the Commission receives the benefit of private dollars through the marketing efforts of the Aspire Clarksville foundation. For fiscal year 2011, the foundation spent approximately \$462,500 for economic development, with \$165,000 representing direct tourism development efforts benefiting the Commission's operations. Over time, increases or decreases in net assets can show whether the Commission is improving or deteriorating. However, other non-financial factors such as economic conditions, troop deployments, the focus of the Aspire foundation agenda and changes in legislation and the local legislative agenda should be considered.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)  
JUNE 30, 2011

Fund Balance / Net Assets

One of the most important questions asked about the Commission's finances is "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Governmental Fund Balance Sheet/Statement of Net Assets and the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities report information about the Commission's activities in a way that will help answer this question. An increase in net assets is an indicator that the Commission is improving.

To begin our analysis, summaries of the Commission's Statements of Net Assets are presented in Table A-1. As can be seen from the table below, total net assets increased by over \$169,000. The most substantial changes in the position of the Commission since 2010 are due to a considerable increase in cash and cash equivalents from the operations of the Commission.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
 COMPARATIVE STATEMENT OF NET ASSETS (CONDENSED)  
 JUNE 30, 2011 AND 2010  
 TABLE A-1

	<u>2011</u>	<u>2010</u>	<u>Change</u>
<b>ASSETS</b>			
Cash and Other Deposits	\$ 713,265	\$ 516,944	\$ 196,321
Taxes Receivable	133,770	125,091	8,679
Grant Receivable	104,251	134,575	(30,324)
Due from Related Parties	51,121	37,661	13,460
Capital Assets, Net of Accumulated Depreciation	174,291	170,648	3,643
Total Assets	<u>1,176,698</u>	<u>984,919</u>	<u>191,779</u>
<b>LIABILITIES</b>			
Accounts Payable	16,929	8,437	8,492
Due to Related Parties	32,981	19,646	13,335
Total Liabilities	<u>49,910</u>	<u>28,083</u>	<u>21,827</u>
<b>FUND BALANCE/NET ASSETS</b>			
Net Assets:			
Invested in Capital Assets	174,291	170,648	3,643
Unrestricted	952,497	786,188	166,309
Total Net Assets	<u>\$ 1,126,788</u>	<u>\$ 956,836</u>	<u>\$ 169,952</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)  
JUNE 30, 2011

Revenues, Expenditures, and Changes in Fund Balance / Activities

While the Governmental Fund Balance Sheet/Statement of Net Assets shows the change in financial position of net assets, the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities details the nature and source of these changes. In Table A-2 below, you will note that the Commission's Net Assets increased by over \$169,000 in 2011 (similar performance to 2010). The most considerable factor as it relates to the statement below is the 5% increase in Hotel/Motel Tax proceeds. This increase, in conjunction with contributions from the city and County nearly offset a 13% increase in net program expenses. *Note: The contributions from City and County, included in "Other" General Revenues below, are assigned toward Civil War Sesquicentennial marketing campaign expenses (see footnote #10).*

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
 COMPARATIVE STATEMENT OF ACTIVITIES (CONDENSED)  
 YEARS ENDED JUNE 30, 2011 AND 2010  
 TABLE A-2

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Program Expenses			
Total Operating Expenses	\$ 1,079,724	\$ 1,029,975	\$ 49,749
Total Program Revenues	<u>271,720</u>	<u>318,858</u>	<u>(47,138)</u>
Net Program Expense	<u>808,004</u>	<u>711,117</u>	<u>96,887</u>
General Revenues			
Hotel/Motel Tax	922,811	879,127	43,684
Other	<u>55,145</u>	<u>11,194</u>	<u>43,951</u>
Total General Revenues	<u>977,956</u>	<u>890,321</u>	<u>87,635</u>
Change in Net Assets	169,952	179,204	(9,252)
Net Assets:			
Beginning of the Year	<u>956,836</u>	<u>777,632</u>	<u>179,204</u>
End of the Year	<u>\$ 1,126,788</u>	<u>\$ 956,836</u>	<u>\$ 169,952</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)  
JUNE 30, 2011

Budgetary Highlights

The Commission adopts an Operating and Capital Expenses Budget to assist in planning and forecasting for the fiscal year. The Budget is approved first by the Commission and then by the County. It is in effect for the entire fiscal year. Management uses the budget as a planning tool for the coming year. The Commission's Board of Commissioners must approve significant variances from the approved budget. A year end 2011 Budget Comparison and analysis is shown on the following page in Table A-3 (excluding \$15,321 depreciation). A 3% favorable revenue variance was largely due to the Hotel/Motel Tax proceeds arriving considerably over projected levels. Budgeted revenue shortfalls in Group Tour and Special Events are due to the speculative nature of budgeting event management efforts and are offset by favorable variances in related Event and Bid Fee expenses. These variances in conjunction with an overall 8.2% favorable variance produced year-ending revenues well in excess of expenses and the anticipated net loss.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)  
JUNE 30, 2011

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
 BUDGET COMPARISON  
 YEAR ENDED JUNE 30, 2011  
 TABLE A-3

	Actual	Budget	Difference	%
<b>REVENUES</b>				
Hotel/Motel Tax Revenue	\$ 922,811	\$ 834,500	\$ 88,311	10.6%
Group Tour Income	17,095	50,000	(32,905)	-65.8%
Subsidy Income*	45,000	15,000	30,000	200.0%
Recruitment/Special Events	45,734	90,000	(44,266)	-49.2%
Other Income	219,036	224,200	(5,164)	-2.3%
Total Revenue	<u>1,249,676</u>	<u>1,213,700</u>	<u>35,976</u>	3.0%
<b>EXPENSES</b>				
Advertising	136,538	151,550	15,012	9.9%
Contracted Services	24,964	42,804	17,840	41.7%
Dues and Membership	12,167	12,003	(164)	-1.4%
Employee Benefits	59,492	77,692	18,200	23.4%
Entertainment	7,145	11,072	3,927	35.5%
Events	114,558	176,295	61,737	35.0%
Grant Contributions/Bid Fees	70,498	91,500	21,002	23.0%
Insurance	5,037	3,718	(1,319)	-35.5%
Legal Services	579	500	(79)	-15.8%
Office Supplies	17,172	4,667	(12,505)	-267.9%
Other	1,170	4,492	3,322	74.0%
Payroll Taxes	34,478	30,953	(3,525)	-11.4%
Personnel	454,365	459,732	5,367	1.2%
Postage	12,609	16,900	4,291	25.4%
Printing and Stationery	2,046	5,533	3,487	63.0%
Rent	22,385	22,400	15	0.1%
Repair and Maintenance	14,368	17,525	3,157	18.0%
Supplies	2,216	1,953	(263)	-13.5%
Travel	56,716	71,106	14,390	20.2%
Utilities	15,900	22,874	6,974	30.5%
Total Expenses	<u>1,064,403</u>	<u>1,225,269</u>	<u>160,866</u>	13.1%
Revenues in Excess of Expenses	<u>\$ 185,273</u>	<u>\$ (11,569)</u>	<u>\$ 196,842</u>	

\*See Footnote #10

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)

JUNE 30, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Most companies structure strategic planning with the intent to increase sales to existing customers and to increase the overall customer base thereby producing a higher profit margin and a greater posture for sustained growth. A more appropriate goal for an entity such as the Commission is to encourage tourism through the successful recruitment/management of an increasing number of events that promote greater tourist traffic/spending. External factors that can impact the financial condition of the Commission include City and County finances, tourism related economic trends, and corporate/Fort Campbell activities. Barring any unexpected changes in such external factors, we anticipate continued growth in tourism and the related tax revenues.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Commission's finances. If you have any questions about this report or need any additional information, contact the Vice President of Finance and Human Resources, Clarksville-Montgomery County Economic Development Council, P. O. Box 883, Clarksville, Tennessee 37041-0883.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Governmental Fund	Adjustments (Note 4)	Statement of Net Assets
<u>ASSETS</u>			
Cash and Other Deposits	\$ 330,886		\$ 330,886
Certificates of Deposit	382,379		382,379
Taxes Receivable	133,770		133,770
Grant Receivable	104,251		104,251
Due from Related Parties	51,121		51,121
Capital Assets:			
Land	-	\$ 21,000	21,000
Other Capital Assets - Net of Accumulated Depreciation	-	153,291	153,291
	\$ 1,002,407	\$ 174,291	\$ 1,176,698
<u>LIABILITIES</u>			
Accounts Payable	\$ 16,929		\$ 16,929
Due to Related Parties	32,981		32,981
Total Liabilities	49,910	-	49,910
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balance:			
Assigned	40,810		
Unassigned	911,687	\$ 174,291	
	952,497	174,291	
Total Fund Balance	952,497	174,291	
Total Liabilities and Fund Balance	\$ 1,002,407		
Net Assets:			
Invested in Capital Assets			174,291
Unrestricted			952,497
		\$ 174,291	\$ 1,126,788
Total Net Assets		\$ 174,291	\$ 1,126,788

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

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

	<u>Governmental Fund</u>	<u>Adjustments (Note 4)</u>	<u>Statement of Activities</u>
<b><u>EXPENDITURES/EXPENSES</u></b>			
Operating Expenses:			
Advertising	\$ 136,538		\$ 136,538
Depreciation	-	\$ 15,321	15,321
Dues and Membership	12,167		12,167
Employee Benefits	59,492		59,492
Entertainment	7,145		7,145
Events	114,558		114,558
Grant Contributions	70,498		70,498
Insurance	5,037		5,037
Legal and Professional	25,543		25,543
Office Supplies	17,172		17,172
Other	1,170		1,170
Payroll Taxes	34,478		34,478
Personnel	454,365		454,365
Postage	12,609		12,609
Printing and Stationery	2,046		2,046
Rent	22,385		22,385
Repair and Maintenance	14,368		14,368
Supplies	2,216		2,216
Travel	56,716		56,716
Utilities	15,900		15,900
Total Operating Expenses	<u>1,064,403</u>	<u>15,321</u>	<u>1,079,724</u>
Net Capital Outlays	18,964	(18,964)	-
Total Expenditures/Expenses	<u>1,083,367</u>	<u>(3,643)</u>	<u>1,079,724</u>
<b><u>PROGRAM REVENUES:</u></b>			
Vacation Guide and Web Sales	916		916
Events	45,734		45,734
Grants	165,000		165,000
Group Tour	17,095		17,095
Co-op Advertising Sales	33,586		33,586
Other	9,389		9,389
Total Program Revenues	<u>271,720</u>	<u>-</u>	<u>271,720</u>
Net Program Expense	<u>811,647</u>	<u>(3,643)</u>	<u>808,004</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES (CONT'D)  
YEAR ENDED JUNE 30, 2011

	<u>Governmental Fund</u>	<u>Adjustments (Note 4)</u>	<u>Statement of Activities</u>
<u>GENERAL REVENUES</u>			
Hotel/Motel Tax	922,811		922,811
Montgomery County	30,000		30,000
City of Clarksville	15,000		15,000
Rental Income	6,600		6,600
Interest Income	3,545		3,545
Total General Revenue	<u>977,956</u>	<u>-</u>	<u>977,956</u>
Excess of Revenues over Expenditures/ Change in Net Assets	166,309	3,643	169,952
Fund Balance/Net Assets:			
Beginning of the Year	<u>786,188</u>	<u>-</u>	<u>956,836</u>
End of the Year	<u>\$ 952,497</u>	<u>\$ -</u>	<u>\$ 1,126,788</u>

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

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Clarksville-Montgomery County Tourism Commission (the Commission) was created by Private Chapter No. 167, Senate Bill No. 1414, by the ninety-first General Assembly, State of Tennessee, on June 4, 1979. On May 22, 2000, Private Chapter No. 140, Senate Bill No. 3303, was passed to amend Chapter No. 167. The purpose of the Commission is to promote tourist and recreational activity in the Clarksville-Montgomery County area. The Commission office is located in Clarksville, Tennessee.

The Commission is jointly-governed by the governments of Montgomery County and the City of Clarksville. Its financial statements include all of the funds and account groups relevant to the operations of the Commission. The financial statements presented herein do not include entities which are separate and distinct units of themselves. In fiscal year 1995, the Commission, the Clarksville Area Chamber of Commerce (Chamber), and the Clarksville-Montgomery County Industrial Development Board (IDB) jointly organized the Clarksville-Montgomery County Economic Development Council (EDC) to develop, coordinate, and implement a comprehensive marketing plan relating to the economic prosperity of Clarksville-Montgomery County and the surrounding area. The Commission, Chamber, and IDB evenly share the cost of the EDC director's salary, payroll taxes, benefits and other operating costs and of expenses related to general administration of the EDC. All other expenses of the EDC are shared based on usage allocations.

Government-wide and Fund Financial Statements

The government-wide financial statements (the governmental fund balance sheet/statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities) report information on all of the nonfiduciary activities of the Commission.

The governmental fund financial statements are shown in combination with the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct operating expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items that are not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting, and Basis of Presentation

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 the related cash flow.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Commission's only fund is the general fund. It accounts for all of the financial resources of the Commission.

The Commission follows all pronouncements of the Governmental Accounting Standards Board (GASB) and pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989. The Commission has not elected to follow FASB pronouncements issued after November 30, 1989.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates in the near term and those variations could have a material effect on these financial statements.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed and are depreciated over their estimated useful lives, which range from five years for furniture, fixtures and equipment to thirty-nine years for buildings, using the straight-line method. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs are not capitalized.

Concentrations of Credit Risk

Financial instruments that potentially subject the Commission to significant concentrations of credit risk consist principally of cash and accounts receivable. The Commission is exposed to credit risk by placing its deposits in financial institutions. The Commission has mitigated this risk because the bank balance in excess of the FDIC limit is collateralized by the State of Tennessee bank collateral pool. With respect to accounts receivable, credit risk is dispersed across a large number of businesses and certain governmental and nonprofit entities which are geographically concentrated in Montgomery County and no collateral is required.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Fund Equity

Beginning with fiscal year 2011, the Commission implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to remain intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the Commission's governing body, using its highest level of decision-making authority (i.e., the board of commissioners). To be reported as committed, amounts cannot be used for any other purpose unless the board of commissioners takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the Commission intends to use for a specific purpose. Intent can be expressed by management of the Commission.
- Unassigned fund balance – amounts that are available for any purpose.

The details of the fund balances are included in the Governmental Funds Balance Sheet and in Note 10.

It is the Commission's policy to use restricted funds first as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted or the assignment has been changed by management. Decreases to fund balance first reduce unassigned fund balance; in the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

Accrued Compensated Absences

Employees are required to use earned vacation days within the fiscal year and sick days are not paid upon separation. Therefore, there are no accrued compensated absences.

Uncollectible Accounts

Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Advertising Costs

Advertising costs are expensed as incurred.

Tax Exempt Status

The Commission is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and is not classified as a private foundation. Accordingly, no provision for income tax has been made.

Date of Management's Review

Subsequent events have been evaluated through December 22, 2011, which is the date the financial statements were available to be issued.

2. Cash and Other Deposits

Cash and other deposits are restricted to deposits with federally insured institutions and must be approved by the board of commissioners.

Custodial credit risk for the Commission's deposits is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. As required by state statutes, the Commission's policy is to require that financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral of 105% for deposits in excess of federal depository insurance. The collateral is required to be held by the Commission or its agent in the Commission's name. At June 30, 2011, cash and other deposits reported in the financial statements in the amount of \$713,265 were represented by bank balances totaling \$729,081, all of which were insured by the Federal Deposit Insurance Corporation (FDIC) or the State of Tennessee Collateral Pool.

The Commission considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents. Both cash and cash equivalents are carried at cost which approximated fair value at June 30, 2011.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3. Capital Assets

A summary of changes in capital assets during the year follows:

<u>Capital Assets</u>	Balance <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2011</u>
Land	\$ 21,000	\$ -	\$ -	\$ 21,000
Building	128,769	-	-	128,769
Furniture, fixtures and equipment	64,014	1,786	-	65,800
Leasehold improvements	48,793	-	-	48,793
Vehicle	32,271	34,657	32,271	34,657
Construction in progress	-	1,884	-	1,884
<b>Total Capital Assets</b>	<b><u>\$ 294,847</u></b>	<b><u>\$ 38,327</u></b>	<b><u>\$ 32,271</u></b>	<b><u>\$ 300,903</u></b>

A summary of changes in accumulated depreciation during the year follows:

<u>Accumulated Depreciation</u>	Balance <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2011</u>
Building	\$ 42,925	\$ 3,302	\$ -	\$ 46,227
Furniture, fixtures and equipment	59,406	1,994	-	61,400
Leasehold improvements	11,112	3,253	-	14,365
Vehicle	10,756	6,772	12,908	4,620
<b>Total Accumulated Depreciation</b>	<b><u>\$ 124,199</u></b>	<b><u>\$ 15,321</u></b>	<b><u>\$ 12,908</u></b>	<b><u>\$ 126,612</u></b>

The Commission has no capital assets that are idle or impaired. Land is not depreciated. Construction in progress is depreciated upon being placed in service when it is closed to the proper capital asset account.

4. Adjustments to Governmental Fund Statements

Governmental Fund Balance Sheet to the Statement of Net Assets:

When capital assets that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Commission, net of related accumulated depreciation.

Cost of capital assets	\$ 300,903
Less: Accumulated depreciation	<u>(126,612)</u>
	<b><u>\$ 174,291</u></b>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

4. Adjustments to Governmental Funds Statements (Cont'd)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. Proceeds and gain or loss from the sale of capital assets are excluded from the statement of activities since the proceeds are not a gain or loss associated with the sale.

Capital outlays	\$ (18,964)
Depreciation expense	<u>15,321</u>
	<u>\$ (3,643)</u>

5. Funding Concentration

The Commission's primary source of funding is hotel/motel taxes collected by Montgomery County businesses. The amount of taxes collected each fiscal year is impacted by fluctuations in spending for tourism and for industrial and military-related travel.

6. Gifts in Kind

The Commission received contributed services during the fiscal year ending June 30, 2011. The value of those contributed services could not be reasonably determined and therefore are not recorded in the financial statements.

7. Annual Budget Procedures

The annual budget is prepared and legally adopted by the board of commissioners and approved by the Montgomery County Director of Accounts and Budgets. The budget is prepared using the modified accrual basis of accounting. The board members review the Commission's needs for the year as well as prior year expenditures to arrive at the current year budget. The budget is used primarily as a management tool. There is no requirement that the budget be amended for variances that are inconsequential and which occur as the result of normal operations. The "encumbrance" method of budgeting and accounting for expenditures is not used.

8. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has elected to obtain various insurance policies to transfer risk to a commercial insurance company either directly or through the EDC. Insurance settlements have not been in excess of insurance coverage in any of the prior three fiscal years.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

9. Related Party Transactions

The Commission paid EDC \$254,082 for its share of EDC expenses during the year ended June 30, 2011. The Commission had related party payables at June 30, 2011 totaling \$32,981, and related party receivables of \$51,121. Included in related party receivables at June 30, 2011 is \$35,000 that was advanced to the EDC in a previous year to facilitate payment of routine Commission expenses and is not expected to be collected within one year.

10. Fund Balance

The Commission had unassigned fund balance of \$911,687 and assigned fund balance of \$40,810 at June 30, 2011. Assigned fund balance consisted of amounts set aside by management for the Civil War Sesquicentennial marketing campaign. This amount became committed fund balance by action of the board of commissioners in its September 2011 board meeting.

11. Retirement Plan

EDC maintains a defined contribution 401(K) plan administered by American Chamber of Commerce Executives (ACCE). Substantially all employees who have completed one year of service, reached age 21 and work one thousand hours or more per year are eligible to participate. Employees can make pre-tax contributions from one to one hundred percent of total annual earnings (subject to IRS limitations) in which they are immediately vested. The Commission will match one hundred percent of the participant's pre-tax contributions up to a maximum of four percent as the employer matching contribution and the participant is immediately vested.

During the fiscal years ended June 30, 2011 and 2010, contributions totaling \$17,475 and \$27,150, respectively, were paid and expensed by the Commission. Employee contributions to the plan were \$19,554 and \$18,783 for the years ended June 30, 2011 and 2010, respectively.

12. Leases

Beginning December 2006, the Commission began subleasing office space in the Green Bank building from EDC under a five-year agreement. Total lease payments to the EDC for fiscal year 2011 were \$22,385. This lease expires in November 2011. The Commission intends to extend the lease for an additional five years.

Future payments on lease obligations are as follows:

2012	\$ 19,565
2013	24,444
2014	26,667
2015	26,667
2016	26,667
After 2016	<u>8,889</u>
	<u>\$ 132,899</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

12. Leases (Cont'd)

The Commission entered into a sublease agreement with the City of Clarksville for the Post House located on Fort Campbell Boulevard to commence on May 5, 2006. The lease term is for 77 years and requires an annual rent payment of \$1. The Commission is entitled to receive the monthly rentals now being made for placement of an ATM machine on the premises.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
BUDGETARY COMPARISION SCHEDULE (UNAUDITED)  
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts (See Note 7)	Actual Amounts	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Vacation Guide Sales	\$ 1,500	\$ 916	\$ (584)
Group Tour Income	50,000	17,095	(32,905)
Hotel/Motel Tax	834,500	922,811	88,311
Montgomery County Subsidy	15,000	30,000	15,000
City of Clarksville Subsidy	-	15,000	15,000
Interest Income	5,500	3,545	(1,955)
Grants	170,000	165,000	(5,000)
Other	47,200	49,575	2,375
Recruitment/Special Events	90,000	45,734	(44,266)
Total Revenues	<u>\$ 1,213,700</u>	<u>\$ 1,249,676</u>	<u>\$ 35,976</u>
<b>Expenditures:</b>			
Advertising	\$ 151,550	\$ 136,538	\$ 15,012
Contracted Services	42,804	24,964	17,840
Dues and Membership	12,003	12,167	(164)
Employee Benefits	77,692	59,492	18,200
Entertainment	11,072	7,145	3,927
Events	176,295	114,558	61,737
Grant Contributions	91,500	70,498	21,002
Insurance	3,718	5,037	(1,319)
Legal Services	500	579	(79)
Office Supplies	4,667	17,172	(12,505)
Other	4,492	1,170	3,322
Payroll Taxes	30,953	34,478	(3,525)
Personnel	459,732	454,365	5,367
Postage	16,900	12,609	4,291
Printing and Stationery	5,533	2,046	3,487
Rent	22,400	22,385	15
Repair and Maintenance	17,525	14,368	3,157
Supplies	1,953	2,216	(263)
Travel	71,106	56,716	14,390
Utilities	22,874	15,900	6,974
Total Operating Expenses	<u>1,225,269</u>	<u>1,064,403</u>	<u>160,866</u>
Capital Outlays	13,431	18,964	(5,533)
Total Expenditures/Expenses	<u>\$ 1,238,700</u>	<u>\$ 1,083,367</u>	<u>\$ 155,333</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
NOTES TO BUDGETARY COMPARISON SCHEDULE

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of budgetary comparison information includes the annual budget of the Commission for the year ended June 30, 2011, and is presented on the modified accrual basis of accounting, which is the same basis of accounting used in preparation of the basic financial statements. The Commission prepares and adopts the budget for the next succeeding fiscal year prior to June 30 of each fiscal year. The budget is also approved by the County. The operating budget is used as a planning tool and includes proposed expenditures and the means of financing them. Once a budget is approved, expenditures can be amended by approval of a majority of the members of the board of commissioners if no additional financing is required. Budget amendments requiring additional financing must be approved by the County, in addition to the board of commissioners. The schedule of budgetary comparison includes the amounts budgeted for the Commission's sole governmental fund as well as capital outlays for property and equipment. The reconciliations presented in Note 4 to the financial statements are helpful in understanding this budgetary schedule. Following is a reconciliation of the budgetary information to generally accepted accounting principles (GAAP):

	Original/Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Total Revenues	\$ 1,213,700	\$ 1,249,676	\$ 35,976
GAAP Revenues	<u>\$ 1,213,700</u>	<u>\$ 1,249,676</u>	<u>\$ 35,976</u>
Total Expenditures/Expenses	\$ 1,238,700	\$ 1,083,367	\$ 155,333
Equipment and Capital Outlay	(13,431)	(18,964)	5,533
Depreciation	-	15,321	(15,321)
GAAP Expenses	<u>\$ 1,225,269</u>	<u>\$ 1,079,724</u>	<u>\$ 145,545</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION  
DIRECTORY OF BOARD OF COMMISSIONERS AND MANAGEMENT (UNAUDITED)  
JUNE 30, 2011

BOARD OF COMMISSIONERS

	<u>Term Expires</u>
Mr. Jay Patel, Chairman	June 30, 2012
Mr. Jerry Allbert	June 30, 2013
Mr. Geno Grubbs	June 30, 2014
Mr. Todd Harvey	June 30, 2012
Mr. Fred Landiss	June 30, 2012
Mr. Brad Martin	June 30, 2014
Ms. Pennie Smith	June 30, 2013
Mr. Steven Stroman	June 30, 2013
Ms. JoAnn Weakley	June 30, 2012

MANAGEMENT

Mr. James Chavez, President and CEO  
Ms. Theresa Harrington, Executive Director  
Mr. Shannon Green, Vice President of Finance and Human Resources

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners  
Clarksville-Montgomery County Tourism Commission  
Clarksville, Tennessee

We have audited the financial statements of the governmental activities and general fund of the Clarksville-Montgomery County Tourism Commission (the Commission) as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated December 22, 2011. 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.

Internal Control Over Financial Reporting

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures 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 Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described on the following page, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described on the following page as finding 2011-1 to be a material weakness.

The Commission did not resolve prior-year findings numbered 2010-1 and 2010-2. The findings recurred in the current year and are reported as findings 2011-1 and 2011-2, respectively.

2011-1 (Recurring Finding) Management Oversight of Financial Reporting: We noted a lack of management oversight over financial reporting to include the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). Eight adjusting entries were required for the financial statements to be presented in conformity with GAAP. Three of the eight adjusting entries were calculated by management.

Recommendation: We recommend that management implement review procedures to ensure that the financial statements are prepared in conformity with generally accepted accounting principles.

Management Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance prior to the independent audit to prepare financial statements and footnotes in accordance with generally accepted accounting principles. However, we believe that our knowledge and experience enables us to review the report and understand it fully. We take full responsibility for the financial statements and all adjusting and reclassification entries.

2011-2 (Recurring Finding) Expenditures in Excess of Budget: We noted that certain expenditures exceeded the original budgeted amounts and that the original budget was not amended to provide approval for those additional expenditures.

Recommendation: We recommend that the budget be amended prior to incurring expenses or making expenditures in excess of the amounts authorized by the budget.

Management Response: County deadlines for line-item amendments of the Commission's budget prevent effective year-end projections without considerable inflation of estimates. Instead, the Commission discloses budget variances, only seeking budget amendments from the County if additional funds are being requested.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below as item 2011-3.

The Commission did not resolve prior year finding number 2010-3 related to compliance. The finding recurred in the current year and is reported as finding 2011-3.

2011-3 (Recurring Finding) Expenditures in Excess of Budget: We noted that certain expenditures exceeded the original budgeted amounts and that the original budget was not amended to provide approval for those additional expenditures.

Recommendation: We recommend that the budget be amended prior to incurring expenses or making expenditures in excess of the amounts authorized by the budget.

Management Response: County deadlines for line-item amendments of the Commission's budget prevent effective year-end projections without considerable inflation of estimates. Instead, the Commission discloses budget variances, only seeking budget amendments from the County if additional funds are being requested.

The Commission's responses to the findings identified in our audit are described above and on the preceding page. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of commissioners, management, the State of Tennessee, Montgomery County, and the City of Clarksville and is not intended to be and should not be used by anyone other than these specified parties.

*Stone Rudolph & Henry, PLC*

December 22, 2011