

CONFERENCE CENTER AT COOL SPRINGS

**(A JOINT VENTURE BETWEEN
THE CITY OF FRANKLIN, TENNESSEE AND
WILLIAMSON COUNTY, TENNESSEE)**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

CONFERENCE CENTER AT COOL SPRINGS

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CONFERENCE CENTER AT COOL SPRINGS

INTRODUCTION

The Conference Center at Cool Springs (the “Conference Center”) is pleased to present its Annual Financial Report for the years ended June 30, 2012 and 2011.

Responsibility and Controls

The Conference Center has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Conference Center’s system of internal accounting controls is evaluated on an ongoing basis by the Conference Center’s internal financial staff. Crosslin & Associates, P.C., the Conference Center’s external auditors, also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Conference Center’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the financial position of the Conference Center as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Executive Staff

Jim Keller	General Manager
Heidi Krause	Director of Finance



INDEPENDENT AUDITORS' REPORT

To the Owners of the
Conference Center at Cool Springs
Franklin, Tennessee

We have audited the accompanying statements of net assets of the Conference Center at Cool Springs (the "Conference Center"), a Joint Venture between the City of Franklin, Tennessee and Williamson County, Tennessee, as of June 30, 2012 and 2011, and the related statements of revenue, expenses, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Conference Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Conference Center at Cool Springs as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years 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 7, 2012, on our consideration of the Conference Center at Cool Spring's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



To the Owners of the
Conference Center at Cool Springs

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8, 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 an opinion on the Conference Center's financial statements as a whole. The introductory section and the supplementary schedule, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. 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.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 7, 2012

CONFERENCE CENTER AT COOL SPRINGS MANAGEMENT'S DISCUSSION AND ANALYSIS

We, Noble - Interstate Management Group, as manager of the Cool Springs Conference Center (for its joint owners, the City of Franklin, Tennessee and Williamson County, Tennessee), provide the following discussion and analysis of the financial performance of the Conference Center's activities for the fiscal years ended June 30, 2012 and 2011.

Financial Highlights

- The assets of the Conference Center exceeded its liabilities at the close of the most recent fiscal year by \$12,114,252, compared to \$12,344,668 in the previous fiscal year. This amount represents a decrease of \$230,416 from the preceding year.
- The Conference Center's net cash increased by \$206,909 to \$464,900, due primarily to results of operations.
- The Conference Center's capital assets (net of accumulated depreciation) were \$11,600,776 at June 30, 2012 as compared to \$12,053,344 at June 30, 2011.
- Operating Revenue increased to \$6,995,185 in 2012 or 11.4% from that of 2011.
- Operating Expenses increased to \$6,494,113 or 6.1% from that of 2011.
- The Conference Center's net distributions to the City and County governments amounted to \$734,224 in 2012 as compared to \$405,301 in 2011. The increase was due to more favorable operating results.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements and Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required financial statements:

The financial statements of the Conference Center use accounting methods similar to private-sector businesses. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all of the Conference Center's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligation to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure, and assessing the liquidity and financial flexibility of the Conference Center.

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

CONFERENCE CENTER AT COOL SPRINGS MANAGEMENT'S DISCUSSION AND ANALYSIS

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Conference Center's operations over the past year and can be used to determine whether the Conference Center has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Conference Center's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities and provides answers to such questions as "from where did cash come?" "for what was cash used?" and "what was the change in cash balance during the reporting period?"

Notes to financial statements:

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 12 of this report.

Financial Analysis of the Conference Center as a Business-type Activity

One of the most important questions asked about the Conference Center's finances is "Is the Conference Center as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Conference Center's activities in a way that will help answer this question. These two statements report the net assets of the Conference Center and changes in them. Therefore, the Conference Center's net assets – the difference between assets and liabilities – could be considered as one way to measure financial health or financial position.

Over time, increases or decreases in the Conference Center's net assets is one indicator of whether its financial health is improving or deteriorating. However, the reader will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed environmental regulations.

The Conference Center's net assets decreased by \$230,416 during the current fiscal year. Our analysis below focuses on the Conference Center's net assets (Table 1) and changes in net assets (Table 2) during the year.

Conference Center assets exceeded liabilities by \$12,114,252 at the close of the most recent fiscal year. By far the largest portion of the Conference Center's assets (95%) reflects its investment in capital assets (e.g., land, building, and equipment). The land and building and certain improvements were initially constructed by the City of Franklin and Williamson County and contributed for use as a conference center facility. The Conference Center uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**CONFERENCE CENTER AT COOL SPRINGS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

TABLE 1: FINANCIAL POSITION

	<u>2012</u>	<u>2011</u>	<u>Difference</u>
CURRENT ASSETS			
Cash			
Restricted for equipment replacement	\$ 404,855	\$ 184,423	\$ 220,432
Unrestricted	<u>60,045</u>	<u>73,568</u>	<u>(13,523)</u>
Total cash	464,900	257,991	206,909
Due from hotel operator	98,635	44,651	53,984
Prepaid expenses	<u>18,876</u>	<u>13,893</u>	<u>4,983</u>
Total current assets	<u>582,411</u>	<u>316,535</u>	<u>265,876</u>
 NON-CURRENT ASSET			
Capital assets	15,442,641	15,385,364	57,277
Less accumulated depreciation	<u>(3,841,865)</u>	<u>(3,332,020)</u>	<u>(509,845)</u>
Capital assets, net	<u>11,600,776</u>	<u>12,053,344</u>	<u>(452,568)</u>
Total assets	<u>12,183,187</u>	<u>12,369,879</u>	<u>(186,692)</u>
 CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 18,123	\$ 8,656	\$ 9,467
Due to hotel operator	14,258	13,766	492
Due to City/County	<u>36,554</u>	<u>2,789</u>	<u>33,765</u>
Total liabilities	<u>68,935</u>	<u>25,211</u>	<u>43,724</u>
 NET ASSETS			
Invested in capital assets	11,600,776	12,053,344	(452,568)
Restricted	404,855	184,423	220,432
Unrestricted	<u>108,621</u>	<u>106,901</u>	<u>1,720</u>
TOTAL NET ASSETS	<u>\$12,114,252</u>	<u>\$12,344,668</u>	<u>\$(230,416)</u>

Changes in the Conference Center's net assets can be determined by reviewing the condensed statement of Revenue, Expenses and Changes in Net Assets for the year on the following page.

**CONFERENCE CENTER AT COOL SPRINGS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

TABLE 2: CHANGES IN NET ASSETS

	<u>2012</u>	<u>2011</u>	<u>Difference</u>
OPERATING REVENUE			
Banquet and catering	\$ 6,995,185	\$ 6,278,103	\$ 717,082
OPERATING EXPENSES			
Banquet and catering expenses	3,860,751	3,525,271	335,480
Administrative and general	518,934	510,328	8,606
Sales and marketing	645,059	624,500	20,559
Utilities	313,845	321,598	(7,753)
Repairs and maintenance	264,777	271,008	(6,231)
Catering management fee	175,622	170,016	5,606
Management fees	168,735	163,349	5,386
Insurance and other fixed costs	36,545	30,749	5,796
Depreciation	<u>509,845</u>	<u>506,808</u>	<u>3,037</u>
Total operating expenses	<u>6,494,113</u>	<u>6,123,627</u>	<u>370,486</u>
Operating income	501,072	154,476	346,596
OTHER INCOME (EXPENSE)			
Other income (expense)	2,736	(4,573)	7,309
NET DISTRIBUTIONS TO LOCAL GOVERNMENTS			
	<u>(734,224)</u>	<u>(405,301)</u>	<u>(328,923)</u>
Change in net assets	(230,416)	(255,398)	24,982
NET ASSETS, AT JUNE 30, 2011	<u>12,344,668</u>	<u>12,600,066</u>	<u>(255,398)</u>
NET ASSETS, AT JUNE 30, 2012	<u>\$ 12,114,252</u>	<u>\$ 12,344,668</u>	<u>\$(230,416)</u>

CONFERENCE CENTER AT COOL SPRINGS MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statement Discussion and Economic Factors:

The Conference Center continues to be one of the premier banquet and meeting facilities in Middle Tennessee. The Conference Center, like other facilities of this type, was opened with the intent in mind for it to be used as a vehicle to bring additional visitors into Franklin and Williamson County. We have been very successful in attaining that goal. The Conference Center has continued to evolve as a successful economic catalyst for local businesses and area restaurants and also continues to exceed the initial expectations for revenue actualization from its opening performance. While the global economic uncertainty has continued to impact the Conference Center's overall revenues, we have mitigated this impact to the extent possible with a very intensive and directed sales and marketing effort by our sales team. We have aggressively attacked the local catering market and have secured the business of many specialized events and functions.

As qualified applicants remain a challenge for staffing, we will continue to utilize contract labor for kitchen, housekeeping, and some conference set-up. This allows us to have the depth needed within our staff to accommodate many short-term bookings that we are continuing to experience. We will continue to utilize and manage our energy conservation program in order to maintain the always-rising utility costs associated with operating a successful conference center.

Our current level of guest satisfaction remains in the upper echelon of all Marriott hotels and conference centers. The Marriott "Red Coat" program continues to be an excellent tool to provide exemplary customer service as well as the Marriott "Gold Key" program. Both of these programs have proven to be excellent guest satisfaction tools and will allow us to continue our high level of service above our competition. With the continuation of increasing supply offering newer venues, customer satisfaction will continue to be the deciding factor for many repeat groups and will help us secure the business before they have the option of shopping elsewhere.

We forecast that 2012-2013 revenues to remain consistent with 2011-2012. Demand for group meetings and local catering is remaining steady. We will continue to be aggressive with cost controls and take advantage of contingencies and efficiencies that have been in place during the economic downturn of the past 3 years.

Additional Information:

This financial report is designed to provide citizens, customers, and creditors with a general overview of the Conference Center's finances and to demonstrate the Conference Center's accountability for the money it receives. If you have any questions concerning any of the information provided in this report or need additional information, contact the Conference Center General Manager at:

Marriott Hotel and Conference Center
Attn: Jim Keller
700 Cool Springs Blvd.
Franklin, Tennessee 37067

CONFERENCE CENTER AT COOL SPRINGS
STATEMENTS OF NET ASSETS

ASSETS

	June 30,	
	2012	2011
CURRENT ASSETS		
Cash		
Restricted for equipment replacement	\$ 404,855	\$ 184,423
Unrestricted	60,045	73,568
Total cash	464,900	257,991
Receivables		
Due from hotel operator	98,635	44,651
Prepaid expenses and other	18,876	13,893
Total current assets	582,411	316,535
CAPITAL ASSETS	11,600,776	12,053,344
Total assets	12,183,187	12,369,879
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	18,123	8,656
Due to local governments	36,554	2,789
Due to hotel operator	14,258	13,766
Total liabilities	68,935	25,211
NET ASSETS		
Invested in capital assets	11,600,776	12,053,344
Restricted	404,855	184,423
Unrestricted	108,621	106,901
Total net assets	\$ 12,114,252	\$ 12,344,668

See accompanying notes to financial statements.

CONFERENCE CENTER AT COOL SPRINGS
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	2012	2011
OPERATING REVENUE		
Food and beverage:		
Banquet and catering	\$ 6,995,185	\$ 6,278,103
OPERATING EXPENSES		
Banquet and catering expenses	3,860,751	3,525,271
Administrative and general	518,934	510,328
Sales and marketing	645,059	624,500
Utilities	313,845	321,598
Repairs and maintenance	264,777	271,008
Catering management fee	175,622	170,016
Management fees	168,735	163,349
Insurance and other fixed costs	36,545	30,749
Depreciation	509,845	506,808
Total operating expenses	6,494,113	6,123,627
Operating income	501,072	154,476
NON-OPERATING REVENUE AND EXPENSE		
Other income (expense)	2,736	(4,573)
Income before distributions	503,808	149,903
NET DISTRIBUTIONS TO LOCAL GOVERNMENTS	(734,224)	(405,301)
Decrease in net assets	(230,416)	(255,398)
NET ASSETS, AT BEGINNING OF YEAR	12,344,668	12,600,066
NET ASSETS, AT END OF YEAR	\$ 12,114,252	\$ 12,344,668

See accompanying notes to financial statements.

CONFERENCE CENTER AT COOL SPRINGS
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 6,941,693	\$ 6,328,346
Cash paid to and on behalf of employees	(2,708,685)	(2,508,320)
Cash paid to suppliers	(3,271,099)	(3,112,516)
Other	2,683	(4,581)
Net cash provided by operating activities	<u>964,592</u>	<u>702,929</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions from City of Franklin and Williamson County	111,330	129,157
Distributions to City of Franklin and Williamson County	(811,789)	(554,041)
Net cash used in non-capital financing activities	<u>(700,459)</u>	<u>(424,884)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(57,277)	(103,631)
Net cash used in capital and related financing activities	<u>(57,277)</u>	<u>(103,631)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	53	8
Net cash provided by capital financing activities	<u>53</u>	<u>8</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	206,909	174,422
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	<u>257,991</u>	<u>83,569</u>
END OF YEAR	<u>\$ 464,900</u>	<u>\$ 257,991</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating income	\$ 501,072	\$ 154,476
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other	2,683	(4,581)
Depreciation	509,845	506,808
(Increase) decrease in:		
Receivable from hotel operator	(53,492)	50,243
Prepaid expenses	(4,983)	6,375
Increase (decrease) in:		
Accounts payable and accrued expenses	9,467	(10,392)
Net cash provided by operating activities	<u>\$ 964,592</u>	<u>\$ 702,929</u>

See accompanying notes to financial statements.

CONFERENCE CENTER AT COOL SPRINGS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

The Conference Center at Cool Springs (the “Conference Center”) is a banquet facility consisting of approximately 55,000 square feet of space, including a grand ballroom and meeting rooms, which adjoins the Franklin Marriott Hotel (the “Hotel”) in Franklin, Tennessee. The Conference Center is a joint venture between the City of Franklin, Tennessee (the “City”) and Williamson County, Tennessee (the “County”, and collectively the “Parties”). An Interlocal Agreement executed between the City and County provides for equal ownership by each of the Parties of a one-half undivided interest in the Conference Center and further specifies that each of the Parties shall be entitled to one-half of the net revenue and shall be responsible for one-half of all costs and expenses of the operation and maintenance of the Conference Center. The Hotel is owned by a non-related, third party, and is managed under a management agreement by the Noble - Interstate Management Group, (the “Hotel Operator”).

The Conference Center facility was developed to attract conventioners, business travelers, tourists, vacationers, and other visitors, to provide meeting space for residents and groups in the area, and to promote the economic development of the City of Franklin and Williamson County.

Measurement Focus and Basis of Accounting

The accounting policies of the Conference Center conform to U.S. generally accepted accounting principles applicable to governmental units. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Conference Center applies all relevant Governmental Accounting Standards Board (“GASB”) pronouncements. In addition, the Conference Center applies Financial Accounting Standards Board (“FASB”) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB pronouncements prevail. The Conference Center has elected not to follow FASB pronouncements issued since that date.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant estimates include the useful lives and valuation of property and equipment, the valuation of accounts receivable, and the appropriateness of the allocations of joint Conference Center and Hotel expenses (see Note E). Actual results could differ from those estimates.

CONFERENCE CENTER AT COOL SPRINGS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Operating and Non-Operating Revenue and Expense

The Conference Center distinguishes operating revenues and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the principal ongoing operations. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit with financial institutions. The Conference Center considers all highly liquid financial instruments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Capital Assets

Capital assets, which include property and equipment are reported in the accompanying financial statements at historical costs. Capitalized cost of property and equipment includes improvements that significantly add to utility or extend useful lives. Costs of maintenance and repairs are charged to expense as incurred. Depreciation has been provided over estimated useful lives using the straight-line method.

The estimated useful lives of capital assets are as follows:

Buildings and improvements	25 - 50 years
Equipment	10 - 20 years
Furniture and fixtures	5 - 10 years

Net Assets

The Conference Center's net assets classifications are as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, capital lease obligations or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets - This component consists of net assets restricted by grantors, contributors, or laws and regulations of other governments and restrictions imposed by law or through constitutional provisions or enabling legislation.

CONFERENCE CENTER AT COOL SPRINGS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Unrestricted net assets - This component consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Reclassifications

Certain reclassifications have been made to the fiscal year 2011 amounts in the financial statements to conform to the presentation adopted for fiscal year 2012.

B. CASH AND CASH EQUIVALENTS

The Conference Center is authorized to invest funds in, among other things, Federal treasury bills and notes and financial institution demand deposit accounts. During fiscal years 2012 and 2011, the Conference Center invested funds that were not immediately needed in demand deposits and interest bearing accounts of a financial institution.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Conference Center deposits may not be returned or the Conference Center will not be able to recover collateral securities in the possession of an outside party. Consistent with State law, the Conference Center’s policy requires that deposits be either (i) secured and collateralized by the institutions at 105% of the value of the deposits placed in the institution, less the amount protected by federal depository insurance or (ii) that deposits be placed in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Institutions participating in the collateral pool determine the aggregate balance of their public fund accounts. The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. At June 30, 2012 and 2011, the Conference Center’s cash deposits were held by a financial institution that participates in the State Bank Collateral Pool.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Conference Center policy provides that to the extent practicable, investments are matched with anticipated cash flows.

CONFERENCE CENTER AT COOL SPRINGS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

C. CAPITAL ASSETS

A summary of changes in capital assets for fiscal years 2012 and 2011 is as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Cost:				
Land	\$ 892,108	\$ -	\$ -	\$ 892,108
Building and improvements	12,328,510	-	-	12,328,510
Equipment	<u>2,164,746</u>	<u>57,277</u>	-	<u>2,222,023</u>
	<u>15,385,364</u>	<u>52,277</u>	-	<u>15,442,641</u>
Accumulated Depreciation:				
Building and improvements	2,589,007	246,570	-	2,835,577
Equipment	<u>743,013</u>	<u>263,275</u>	-	<u>1,006,288</u>
	<u>3,332,020</u>	<u>509,845</u>	-	<u>3,841,865</u>
Capital assets, net	<u>\$12,053,344</u>	<u>\$(452,568)</u>	<u>\$ -</u>	<u>\$11,600,776</u>
	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Cost:				
Land	\$ 892,108	\$ -	\$ -	\$ 892,108
Buildings and improvements	12,328,510	-	-	12,328,510
Equipment	<u>2,061,115</u>	<u>103,631</u>	-	<u>2,164,746</u>
	<u>15,281,733</u>	<u>103,631</u>	-	<u>15,385,364</u>
Accumulated Depreciation:				
Building and improvements	2,342,437	246,570	-	2,589,007
Equipment	<u>482,775</u>	<u>260,238</u>	-	<u>743,013</u>
	<u>2,825,212</u>	<u>506,808</u>	-	<u>3,332,020</u>
Capital assets, net	<u>\$12,456,521</u>	<u>\$(403,177)</u>	<u>\$ -</u>	<u>\$12,053,344</u>

Depreciation expense amounted to \$509,845 and \$506,808 for 2012 and 2011, respectively.

CONFERENCE CENTER AT COOL SPRINGS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

D. CONTRACTUAL COMMITMENTS

Franchise Agreement

The Conference Center is operated under a franchise agreement between the Hotel owner and Marriott International, Inc. The term of the franchise agreement is 25 years, unless otherwise extended or terminated. The agreement provides for the Conference Center to pay Marriott International, Inc. a franchise fee equal to \$35,000 per year for the first 60 months of operations and \$75,000 per each additional year that the Conference Center is in operations. The franchise fee for the years ended June 30, 2012 and 2011 was \$75,000.

Operating Agreement

The City and County entered into a 15-year operating agreement for the Conference Center with the Hotel Operator to manage the facility. Under the operating agreement, the Conference Center will pay the Hotel Operator a specified annual management fee. The annual base fee of \$125,000 shall escalate on a fiscal year basis at a rate equal to the greater of three percent per year or the Consumer Price Index increase with respect to the prior fiscal year. The management fee for the years ended June 30, 2012 and 2011 was \$168,735 and \$163,349, respectively.

Catering Agreement

The City and County entered into a catering agreement with the Hotel Operator to provide all food and beverage catering services to the Conference Center. The term of this agreement is contemporaneous with the Conference Center operating agreement between the City and County and the Hotel Operator. Under the catering agreement, the Conference Center will pay the Hotel Operator a catering fee of \$10,000 per month during the term of the agreement. This fee will escalate annually at a rate equal to the greater of three percent per year or the Consumer Price Index increase with respect to the preceding calendar year. The catering fee for the years ended June 30, 2012 and 2011 was \$175,622 and \$170,016, respectively.

CONFERENCE CENTER AT COOL SPRINGS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

E. RELATED PARTY TRANSACTIONS

Because the Hotel and the Conference Center are operated together, the Hotel allocates certain expenses to the Conference Center, as follows:

Food and beverage costs are allocated to the Conference Center based on the ratio of the Conference Center food and beverage revenue to total food and beverage revenue for the Hotel and Conference Center on a monthly basis.

General and administrative and repair and maintenance expenses are allocated to the Conference Center based on the ratio of total Conference Center revenue to total combined revenue for the Conference Center and the Hotel on a monthly basis.

Advertising and sales expenses are allocated to the Conference Center based on a fixed 50% allocation for each period.

At June 30, 2012, the Conference Center had a balance due from the Hotel of \$98,635 and a balance due to the Hotel of \$14,258. This amount represents primarily excess revenues over allocated joint costs of the Conference Center which will be reimbursed in the subsequent month.

As described above, the Hotel allocates certain joint expenses to the Conference Center. These joint expenses are subject to audit and adjustment at the Hotel level, which could cause additional amounts to be allocated to the Conference Center. In the opinion of management, all allocation have been appropriately made during fiscal years 2012 and 2011 and the result of any adjustments would not be material to the financial position or results of operations of the Conference Center.

Under terms of the operating agreement, the City and County are to share equally in the Conference Center “cash flows”, as defined in the agreement. As a result, aggregate operating assistance distributed to local governments in the amounts of \$(734,224) and \$(405,301) were made during 2012 and 2011, respectively. Details of these payments are as follows:

	2012	2011
Operating assistance contributed from local governments	\$ 111,329	\$ 104,419
Operating surpluses distributed to local governments	<u>(845,553)</u>	<u>(509,720)</u>
Net (distributions to) local governments	<u><u>\$(734,224)</u></u>	<u><u>\$(405,301)</u></u>

CONFERENCE CENTER AT COOL SPRINGS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

E. RELATED PARTY TRANSACTIONS - Continued

At June 30, 2012 and 2011, the Conference Center owed the City and County \$18,277 and \$1,395, respectively.

F. RISK MANAGEMENT

The Conference Center is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets, errors and omissions, personal injuries and natural disasters. Responsibility for risk management is included in the contract operator agreement; each party buys insurance to cover its share of any losses. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Conference Center. Annual reviews of the various exposures are made to keep coverage up to date. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

CONFERENCE CENTER AT COOL SPRINGS
SUPPLEMENTARY INFORMATION

Schedule of Insurance Coverage - Unaudited

June 30, 2012 and 2011

The Conference Center is insured under the following policies of Noble - Interstate Management Group, LLC, the Hotel Operator. The following information is provided by representatives of Noble - Interstate Management Group, LLC:

<u>Insurance</u>	<u>Limited</u>
Workers' compensation	\$1,000,000
Commercial general liability, occurrence basis	\$2,000,000
Automobile liability, combined single liability	\$1,000,000
Excess liability, umbrella form	\$10,000,000

The City of Franklin and Williamson County, Tennessee provide the following policies for their own protection:

Property:	
Building and contents	\$8,050,000
Contents	\$1,000,000



INDEPENDENT AUDITORS' 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 Owners of the
Conference Center at Cool Springs
Franklin, Tennessee

We have audited the financial statements of the Conference Center at Cool Springs (the "Conference Center"), a Joint Venture between the City of Franklin, Tennessee and Williamson County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012. 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

The Conference Center's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Conference Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Conference Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Conference Center's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Conference Center'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City of Franklin, Tennessee, Williamson County, Tennessee, and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 7, 2012