

CLARKSVILLE-MONTGOMERY COUNTY
TOURISM COMMISSION
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2013

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CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
DIRECTORY OF BOARD OF COMMISSIONERS AND MANAGEMENT (UNAUDITED)
JUNE 30, 2013

BOARD OF COMMISSIONERS

	<u>Term Expires</u>
The Honorable Geno Grubbs, Chairman	June 30, 2014
The Honorable Jerry Allbert	June 30, 2013
Ms. Toni Johnson	June 30, 2015
Ms. Lee Persinger	June 30, 2015
Ms. Carolyn Pierce	June 30, 2014
Rev. Mickey Richaud	June 30, 2015
Ms. Jan Roberts	June 30, 2015
Ms. Pennie Smith	June 30, 2013
Mr. Steve Stroman	June 30, 2013

MANAGEMENT

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



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Commission'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 Commission'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 opinion.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the governmental activities and general fund of the Commission as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The introductory section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The directory of board of commissioners and management has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2013, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee
December 23, 2013

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2013

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, 2013. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The Commission's total net position decreased \$57,488 as a result of this year's operations.
- Income from the Hotel/Motel Tax decreased by over \$225,000. This represents a nearly 20% decrease from last year. The most significant factor is believed to be reduced travelers due to a decrease in local industry activity.
 - Specifically, the development of the industrial mega-site for Hemlock Semiconductor, LLC was completed just prior to the beginning of this reporting period.
- The Commission's efforts generated an estimated \$2.99 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 Position 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 received the benefit of private dollars through the marketing efforts of Aspire Clarksville (the Foundation). For fiscal year 2013, the Foundation spent approximately \$642,000 for economic development, with nearly \$194,000 representing direct tourism development efforts benefiting the Commission's operations. Over time, increases or decreases in net position can show whether the business is improving or deteriorating. However, other non-financial factors such as economic conditions, troop deployments, the focus of the Foundation agenda and changes in legislation and the local legislative agenda should also be considered.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013

Fund Balance/Net Position

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 Position 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 position is an indicator that a business is improving.

To begin our analysis, summaries of the Commission's Statements of Net Position are presented in Table A-1. As can be seen from the table below, total net position decreased by over \$57,000. The most substantial changes in the position of the Commission since 2012 appear as a considerable decrease in cash and equivalents from the decline in tax proceeds. Most other changes from 2012 are simply related to the timing of receivables and payables.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
COMPARATIVE STATEMENT OF NET POSITION (CONDENSED)
JUNE 30, 2013 AND 2012
TABLE A-1

	<u>2013</u>	<u>2012</u>	<u>Change</u>
ASSETS			
Cash and other deposits	\$ 859,028	\$ 888,169	\$ (29,141)
Taxes receivable	119,897	122,994	(3,097)
Grant receivable	23,204	55,325	(32,121)
Due from related parties	67,631	35,000	32,631
Inventories	869	393	476
Prepaid expenses	15,782	-	15,782
Net investment in capital assets	338,254	365,126	(26,872)
Total assets	<u>1,424,665</u>	<u>1,467,007</u>	<u>(42,342)</u>
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
Total assets and deferred outflows of resources	<u>\$ 1,424,665</u>	<u>\$ 1,467,007</u>	<u>\$ (42,342)</u>
LIABILITIES			
Accounts payable	\$ 15,476	\$ 26,588	\$ (11,112)
Due to related parties	48,854	22,596	26,258
Total liabilities	<u>64,330</u>	<u>49,184</u>	<u>15,146</u>
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
FUND BALANCE/NET POSITION			
Net investment in capital assets	338,254	365,126	(26,872)
Unrestricted	1,022,081	1,052,697	(30,616)
Total net position	<u>1,360,335</u>	<u>1,417,823</u>	<u>(57,488)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,424,665</u>	<u>\$ 1,467,007</u>	<u>\$ (42,342)</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013

Revenues, Expenditures, and Changes of Fund Balance/Activities

While the Governmental Fund Balance Sheet/Statement of Net Position shows the change in financial position, the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities details the nature and source of these changes. In Table A-2 below, you will note that the Commission's net position decreased by over \$57,000 in 2013. The most considerable factor as it relates to the statement below is the 20% decrease in Hotel/Motel Tax proceeds. Many factors can combine to produce this tax revenue decrease. However, most, if not all, of this decline is due to the completion of constructing the new Hemlock Semiconductor plant. A significant number of the 3,000 contractors that were engaged in this work in 2012 occupied the community's hotels resulting in substantial increases in previous years (for example, a 20% increase in FY12).

Two-thirds of the increase in expenses is attributable to increased personnel expenses. These expenses increased largely due to hiring staff to manage/operate the Commission's newly remodeled Welcome Center and the accrual of the Commission's share of compensation due to the departing EDC President/CEO at year-end.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
 COMPARATIVE STATEMENT OF ACTIVITIES (CONDENSED)
 YEARS ENDED JUNE 30, 2013 AND 2012
 TABLE A-2

	2013	2012	Change
Program expenses			
Total operating expenses	\$ 1,276,353	\$ 1,147,582	\$ 128,771
Total program revenues	323,729	321,316	2,413
Net program expense	<u>952,624</u>	<u>826,266</u>	<u>126,358</u>
General revenues			
Hotel/motel tax	880,930	1,106,455	(225,525)
Other	14,206	10,846	3,360
Total general revenues	<u>895,136</u>	<u>1,117,301</u>	<u>(222,165)</u>
Change in net position	(57,488)	291,035	(348,523)
Net position:			
Beginning of year	1,417,823	1,126,788	291,035
End of year	<u>\$ 1,360,335</u>	<u>\$ 1,417,823</u>	<u>\$ (57,488)</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013

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 Montgomery 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 Directors must approve significant variances from the approved budget. A 2013 Budget Comparison and Analysis is shown on the following page in Table A-3 (excluding \$29,372 in depreciation). A 21% unfavorable overall revenue variance was largely due to the Hotel/Motel Tax proceeds arriving considerably under projected levels. Most of this variance is due to the lower guest traffic from the development of the industrial mega-site for Hemlock Semiconductor, LLC. This unfavorable revenue variance was offset somewhat by an overall 19% favorable variance in the budgeted expenses. This resulted in expenses in excess of revenue of over \$28,000. Much of the favorable expense savings are the result of mid-year decisions to reduce planned spending in several areas due to the Hotel/Motel Tax revenue trends.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
 BUDGET COMPARISON
 YEAR ENDED JUNE 30, 2013
 TABLE A-3

	<u>Actual</u>	<u>Budget</u>	<u>Difference</u>	<u>%</u>
REVENUES				
Hotel/motel tax revenue	\$ 880,930	\$ 1,128,000	\$ (247,070)	-21.9%
Group tour income	35,335	45,000	(9,665)	-21.5%
Recruitment/special events	41,826	90,000	(48,174)	-53.5%
Other income	260,774	282,100	(21,326)	-7.6%
Total revenue	<u>1,218,865</u>	<u>1,545,100</u>	<u>(326,235)</u>	-21.1%
EXPENSES				
Advertising/marketing	171,128	217,792	46,664	21.4%
Contracted services	19,138	20,336	1,198	5.9%
Dues and membership	11,474	13,235	1,761	13.3%
Employee benefits	79,451	87,801	8,350	9.5%
Entertainment	6,450	15,258	8,808	57.7%
Events	103,517	180,750	77,233	42.7%
Grant contributions/bid fees	123,812	211,767	87,955	41.5%
Insurance	4,273	5,049	776	15.4%
Legal & professional services	1,355	1,500	145	9.7%
Office supplies	8,373	12,383	4,010	32.4%
Other	8,519	12,830	4,311	33.6%
Payroll taxes	37,208	38,644	1,436	3.7%
Personnel	520,411	514,553	(5,858)	-1.1%
Postage	8,573	23,083	14,510	62.9%
Printing and stationary	1,429	6,400	4,971	77.7%
Rent	38,829	38,844	15	0.0%
Repair and maintenance	21,266	24,083	2,817	11.7%
Supplies	2,528	6,369	3,841	60.3%
Travel	63,209	87,219	24,010	27.5%
Utilities	16,038	27,204	11,166	41.0%
Total expenses	<u>1,246,981</u>	<u>1,545,100</u>	<u>298,119</u>	19.3%
Expenses in excess of revenues	<u>\$ (28,116)</u>	<u>\$ -</u>	<u>\$ (28,116)</u>	

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013

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 the finances of the City of Clarksville and Montgomery County governments, 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 POSITION
JUNE 30, 2013

	<u>Governmental Fund</u>	<u>Adjustments (Note 4)</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Cash and other deposits	\$ 522,336		\$ 522,336
Certificates of deposit	336,692		336,692
Taxes receivable	119,897		119,897
Grant receivable	23,204		23,204
Due from related parties	67,631		67,631
Inventories	869		869
Prepaid expenses	15,782		15,782
Capital assets:			
Land	-	\$ 21,000	21,000
Other capital assets, net of accumulated depreciation	-	317,254	317,254
	<u>1,086,411</u>	<u>338,254</u>	<u>1,424,665</u>
Total assets			
	1,086,411	338,254	1,424,665
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
	-	-	-
Total assets and deferred outflows of resources	<u>\$ 1,086,411</u>	<u>\$ 338,254</u>	<u>\$ 1,424,665</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 15,476		\$ 15,476
Due to related parties	48,854		48,854
Total liabilities	<u>64,330</u>	<u>-</u>	<u>64,330</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
	-	-	-
<u>FUND BALANCE/NET POSITION</u>			
Fund balance:			
Nonspendable	51,651		
Committed	31,416		
Unassigned	939,013	\$ 338,254	
Total fund balance	<u>1,022,081</u>	<u>338,254</u>	
Total liabilities and fund balance	<u>\$ 1,086,411</u>		
Net position:			
Net investment in capital assets			338,254
Unrestricted			<u>1,022,081</u>
Total net position		<u>\$ 338,254</u>	<u>\$ 1,360,335</u>

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, 2013

	<u>Governmental Fund</u>	<u>Adjustments (Note 4)</u>	<u>Statement of Activities</u>
<u>EXPENDITURES/EXPENSES</u>			
Operating expenses:			
Advertising	\$ 171,128		\$ 171,128
Contracted services	19,138		19,138
Depreciation	-	\$ 29,372	29,372
Dues and membership	11,474		11,474
Employee benefits	79,451		79,451
Entertainment	6,450		6,450
Events	103,517		103,517
Grant contributions	123,812		123,812
Insurance	4,273		4,273
Legal and professional	1,355		1,355
Office supplies	8,373		8,373
Other	8,519		8,519
Payroll taxes	37,208		37,208
Personnel	520,411		520,411
Postage	8,573		8,573
Printing and stationery	1,429		1,429
Rent	38,829		38,829
Repair and maintenance	21,266		21,266
Supplies	2,528		2,528
Travel	63,209		63,209
Utilities	16,038		16,038
Total operating expenses	<u>1,246,981</u>	<u>29,372</u>	<u>1,276,353</u>
Net capital outlays	2,500	(2,500)	-
Total expenditures/expenses	<u>1,249,481</u>	<u>26,872</u>	<u>1,276,353</u>
<u>PROGRAM REVENUES:</u>			
Vacation guide and web sales	749		749
Events	41,826		41,826
Grants	194,704		194,704
Group tour	35,335		35,335
Co-op advertising sales	30,000		30,000
Other	21,115		21,115
Total program revenues	<u>323,729</u>	<u>-</u>	<u>323,729</u>
Net program expense	<u>925,752</u>	<u>26,872</u>	<u>952,624</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, 2013

	<u>Governmental Fund</u>	<u>Adjustments (Note 4)</u>	<u>Statement of Activities</u>
<u>GENERAL REVENUES</u>			
Hotel/motel tax	880,930		880,930
Rental income	12,600		12,600
Interest income	1,606		1,606
Total general revenues	<u>895,136</u>	<u>-</u>	<u>895,136</u>
Excess of revenues over (under) expenditures/change in net position	(30,616)	(26,872)	(57,488)
Fund balance/net position:			
Balance, beginning of year	<u>1,052,697</u>	<u>-</u>	<u>1,417,823</u>
Balance, end of year	<u>\$ 1,022,081</u>	<u>\$ -</u>	<u>\$ 1,360,335</u>

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

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies

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 and is exempt from federal and state income tax. The Commission's operations alone constitute the reporting entity since it has no oversight responsibility for any other agencies and no component units. 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 staff'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.

Use of Estimates

The Commission's financial statements are presented in accordance with accounting principles generally accepted in the United States of America which require the use of management's estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from these estimates in the near term and these variations can have a material effect on these financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject the 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 receivables, credit risk is dispersed across a large number of businesses and certain governmental and nonprofit entities which are geographically concentrated in Montgomery County. The Commission does not obtain collateral for receivables.

Government-wide and Fund Financial Statements

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

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

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

Government-wide and Fund Financial Statements (Cont'd)

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

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flow.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

Cash and Cash Equivalents

The Commission considers all highly liquid debt investments purchased with maturities of 90 days or less to be cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for uncollectible accounts and revenues net of uncollectible accounts.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

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

Inventories

Inventories consist of retail merchandise available for sale and are valued at average cost. The cost is expensed at the time individual items are sold and not at the time purchased.

Capital Assets

Capital assets are valued at cost for assets purchased. All assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of two years are capitalized. Depreciation of capital assets is provided over the estimated useful lives of the respective assets on a straight-line basis. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs are not capitalized.

Accrued Compensated Absences

Employees are required to use earned vacation days within the fiscal year and sick days are not paid upon separation. Therefore, compensated absences are not accrued.

Fund Equity

The Commission has 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., through a majority vote by the board of commissioners during an official meeting). 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 Fund Balance Sheet and in Note 7.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

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

Fund Equity (Cont'd)

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.

Advertising Costs

Advertising costs are expensed as incurred.

Date of Management's Review

Subsequent events have been evaluated through December 23, 2013, 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 financial institutions holding its deposits to be members of the Tennessee Bank Collateral Pool or pledge collateral of 105% for deposits in excess of federal depository insurance. The collateral is required to be held by the Commission or its agent in the Commission's name. At June 30, 2013, cash and other deposits reported in the financial statements in the amount of \$859,028 were represented by bank balances totaling \$877,029, all of which were insured by the Federal Deposit Insurance Corporation (FDIC) or the State of Tennessee Bank Collateral Pool.

Both cash and cash equivalents are carried at cost which approximated fair value at June 30, 2013.

3. Capital Assets

Changes in capital assets follow:

<u>Capital Assets</u>	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Land	\$ 21,000	\$ -	\$ -	\$ 21,000
Building	128,769	-	-	128,769
Furniture, fixtures and equipment	70,105	2,500	30,747	41,858
Leasehold improvements	252,147	-	-	252,147
Vehicle	34,657	-	-	34,657
Total capital assets	<u>\$ 506,678</u>	<u>\$ 2,500</u>	<u>\$ 30,747</u>	<u>\$ 478,431</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

3. Capital Assets (Cont'd)

Changes in accumulated depreciation follow:

Accumulated Depreciation

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Building	\$ 49,528	\$ 3,301	\$ -	\$ 52,829
Furniture, fixtures and equipment	62,760	2,204	30,747	34,217
Leasehold improvements	17,712	16,935	-	34,647
Vehicle	<u>11,552</u>	<u>6,932</u>	<u>-</u>	<u>18,484</u>
 Total accumulated depreciation	 <u>\$ 141,552</u>	 <u>\$ 29,372</u>	 <u>\$ 30,747</u>	 <u>\$ 140,177</u>

The Commission has no capital assets that are idle or impaired. Land is not depreciated.

4. Adjustments to Governmental Fund Statements

Governmental Fund Balance Sheet to the Statement of Net Position:

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

Cost of capital assets	\$ 478,431
Less: Accumulated depreciation	<u>(140,177)</u>
	<u>\$ 338,254</u>

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. 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	\$ 2,500
Depreciation expense	<u>(29,372)</u>
	<u>\$ (26,872)</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

5. Gifts in Kind

The Commission received contributed services from volunteers during the fiscal year ending June 30, 2013. The value of those contributed services could not be reasonably determined and, therefore, are not recorded in the financial statements.

6. Related Party Transactions

The Commission paid the EDC \$298,122 for its share of EDC expenses during the year ended June 30, 2013. The Commission had related party payables at June 30, 2013, totaling \$48,854, and related party receivables of \$67,631. Included in related party receivables at June 30, 2013, 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.

7. Fund Balance

The Commission had unassigned fund balance of \$939,014, committed fund balance of \$31,416 and nonspendable fund balance of \$51,651 at June 30, 2013. Committed fund balance consisted of amounts set aside by the board of commissioners through a majority vote in an official meeting for the Civil War Sesquicentennial marketing campaign. Nonspendable fund balance consisted of the following:

Inventories	\$	869
Prepaid expenses		15,782
Long-term portion of due from related party		<u>35,000</u>
Total nonspendable fund balance		<u>\$ 51,651</u>

8. Leases

Beginning December 2006, the Commission began subleasing office space in the Capital Bank building from EDC under a five-year agreement. This lease expired in November 2011 and was renewed for an additional five years, ending November 2016. The Commission entered into a lease for parking space during the fiscal year ended June 30, 2012. Rental expense under the operating leases was \$38,829 for the year ended June 30, 2013.

Future payments on lease obligations are as follows:

2014	\$	38,667
2015		38,667
2016		38,667
2017		21,089
2018		12,600
2019-2028		<u>125,580</u>
		<u>\$ 275,270</u>

The Commission has subleased half of the parking lot space to a third party. The above lease commitments will be offset by annual sublease rental income of \$6,000 through March 2017, \$6,300 through March 2022, and \$6,615 through March 2028.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

8. Leases (Cont'd)

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

9. Retirement Plan

The EDC maintains a defined contribution 401(k) plan administered by American Chamber of Commerce Executives (ACCE). 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, 2013 and 2012, contributions totaling \$28,130 and \$25,607, respectively, were paid and expensed by the Commission. Employee contributions to the plan were \$20,514 and \$20,353 for the years ended June 30, 2013 and 2012, respectively.

10. Concentrations

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. A major reduction in hotel/motel tax collections could have a significant effect on the future operations of the Commission.

11. Contingencies

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.

12. Budget

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. 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.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts (Note 12)	Actual Amounts	Variance Favorable (Unfavorable)
Revenues:			
Vacation guide sales	\$ 1,000	\$ 749	\$ (251)
Group tour income	45,000	35,335	(9,665)
Hotel/Motel tax	1,128,000	880,930	(247,070)
Interest income	5,000	1,606	(3,394)
Grants	221,500	194,704	(26,796)
Other	54,600	63,715	9,115
Recruitment/Special events	90,000	41,826	(48,174)
Total revenues	<u>\$ 1,545,100</u>	<u>\$ 1,218,865</u>	<u>\$ (326,235)</u>
Expenditures:			
Advertising	\$ 217,792	\$ 171,128	\$ 46,664
Contracted services	20,336	19,138	1,198
Dues and membership	13,235	11,474	1,761
Employee benefits	87,801	79,451	8,350
Entertainment	15,258	6,450	8,808
Events	180,750	103,517	77,233
Grant contributions	211,767	123,812	87,955
Insurance	5,049	4,273	776
Legal services	1,500	1,355	145
Office supplies	12,383	8,373	4,010
Other	12,830	8,519	4,311
Payroll taxes	38,644	37,208	1,436
Personnel	514,553	520,411	(5,858)
Postage	23,083	8,573	14,510
Printing and stationery	6,400	1,429	4,971
Rent	38,844	38,829	15
Repair and maintenance	24,083	21,266	2,817
Supplies	6,369	2,528	3,841
Travel	87,219	63,209	24,010
Utilities	27,204	16,038	11,166
Total operating expenses	<u>1,545,100</u>	<u>1,246,981</u>	<u>298,119</u>
Capital outlays	-	2,500	(2,500)
Total expenditures/expenses	<u>\$ 1,545,100</u>	<u>\$ 1,249,481</u>	<u>\$ 295,619</u>

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2013

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, 2013, 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 legally adopted and approved by the County. The legal level of budgetary control is at the line-item level. The operating budget 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	\$ 1,545,100	\$ 1,218,865	\$ (326,235)
GAAP revenues	<u>\$ 1,545,100</u>	<u>\$ 1,218,865</u>	<u>\$ (326,235)</u>
Total expenditures/expenses	\$ 1,545,100	\$ 1,249,481	\$ 295,619
Equipment and capital outlay	-	(2,500)	2,500
Depreciation	-	29,372	(29,372)
GAAP expenses	<u>\$ 1,545,100</u>	<u>\$ 1,276,353</u>	<u>\$ 268,747</u>



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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund of the Clarksville-Montgomery County Tourism Commission (the Commission) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated December 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and responses as items 2013-001 and 2013-002 to be material weaknesses.

The Commission did not resolve prior-year findings numbered 2012-1 and 2012-2. Those findings recurred in the current year and are reported as items 2013-001 and 2013-002, respectively.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2013-003.

The Commission did not resolve prior year item 2012-3 related to compliance. The finding recurred in the current year and is reported as item 2013-003 in the accompanying schedule of findings and responses.

The Commission's Response to Findings

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Stone Rudolph & Henry, PLC

Clarksville, Tennessee
December 23, 2013

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013

FINDINGS RELATED TO INTERNAL CONTROL

2013-001 (Recurring Finding) Management Oversight of Financial Reporting

Condition: The Commission lacks management oversight over the financial reporting processes for the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). In addition, three adjusting entries were required for the financial statements to be presented in conformity with GAAP.

Criteria: Proper management oversight over financial reporting should include the preparation of the financial statements and footnote disclosures in conformity with GAAP.

Effect: The financial statements and footnote disclosures may not be in conformity with GAAP.

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

Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance to prepare financial statements and footnotes in accordance with generally accepted accounting principles prior to the independent audit. 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 journal entries.

2013-002 (Recurring Finding) Expenditures in Excess of Budget

Condition: 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.

Criteria: Budgeted amounts should be closely monitored to ensure expenditures do not exceed approved budgeted limits.

Effect: Expenditures could exceed approved budgeted amounts.

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.

CLARKSVILLE-MONTGOMERY COUNTY TOURISM COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONT'D)
YEAR ENDED JUNE 30, 2013

FINDING RELATED TO COMPLIANCE

2013-003 (Recurring Finding) Expenditures in Excess of Budget

Condition: 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.

Criteria: Budgeted amounts should be closely monitored to ensure expenditures do not exceed approved budgeted limits.

Effect: Expenditures could exceed approved budgeted amounts.

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.