

Branson/Lakes Area Tourism
Community Enhancement District

BASIC FINANCIAL STATEMENTS
Year Ended December 31, 2017

KPM
CPAS & ADVISORS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Branson/Lakes Area Tourism Community Enhancement District
Branson, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Branson/Lakes Area Tourism Community Enhancement District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District'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.

Auditors' Responsibility

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 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 auditors' 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 District'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 District'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.

Board of Directors
Branson/Lakes Area Tourism Community Enhancement District
Branson, Missouri

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Branson/Lakes Area Tourism Community Enhancement District as of December 31, 2017, 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison schedule 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2018, on our consideration of the Branson/Lakes Area Tourism Community Enhancement District'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* in considering the Branson/Lakes Area Tourism Community Enhancement District's internal control over financial reporting and compliance.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
June 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT’S DISCUSSION AND ANALYSIS
BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
December 31, 2017

The Management’s Discussion and Analysis of the District’s financial performance provides an overview of the District’s financial activities for the fiscal year ended December 31, 2017. Please read it in conjunction with the District’s financial statements, which begin on page 14.

Financial Highlights

- The net position of the District’s governmental activities decreased by \$248,427 for the year as a result of current year activities.
- The assets of the District exceeded its liabilities as of December 31, 2017, by \$1,279,437 (net position). Of this amount \$1,279,437 was unrestricted and may be used to meet future obligations of the District.
- Total liabilities of the District increased by \$392,104 primarily as a result of vendor invoice timing differences.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District’s finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District’s operations in more detail than the government-wide statements by providing information about the District’s most significant funds.

Government-Wide Financial Statements

The District’s mission and goals differ from most businesses in that while most businesses are judged by their balance sheet and asset strength improvement, conversely, the District is charged with wisely spending all the marketing tax revenue it receives. Prior year uncommitted reserves were budgeted for spending in 2017 to accomplish this goal. The Statement of Net Position and Statement of Activities include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District’s net position and changes in it. The District’s net position – the difference between assets and liabilities – is one way to measure the District’s financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether an entity’s financial health is improving or deteriorating. However, in the District’s case, spending down cash assets to promote the Branson/Lakes Area is more indicative of its success in achieving its mandated marketing goals than are improvements in net position.

In the Statement of Net Position and the Statement of Activities, we present the following activities:

- Governmental Activities – Most of the District’s basic services are reported here. Taxes are the primary source of financing for these activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
December 31, 2017**

Fund Financial Statements

The fund financial statements provide detailed information about the District's funds and not the District as a whole.

- **Governmental Fund** – The District's services are reported in a governmental fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund are shown in reconciliations following the fund financial statements.

Notes to the Basic Financial Statements

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

Government-Wide Financial Analysis

NET POSITION

The following table presents the condensed Statement of Net Position for the District as of December 31, 2017 and 2016:

	<u>Total December 31, 2017</u>	<u>Total December 31, 2016</u>
ASSETS		
Current		
Cash and cash equivalents - unrestricted	\$ 1,152,733	\$ 1,023,927
Accounts receivable	145,228	14,464
Sales tax receivable	760,521	876,495
Prepaid expenses	<u>1,918</u>	<u>1,837</u>
TOTAL ASSETS	2,060,400	1,916,723

MANAGEMENT'S DISCUSSION AND ANALYSIS
BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
December 31, 2017

Government-Wide Financial Analysis (continued)

	<u>Total December 31, 2017</u>	<u>Total December 31, 2016</u>
LIABILITIES		
Current		
Accounts payable	641,060	256,223
Accrued expenses	1,702	1,656
Payroll tax liabilities	130	126
Tax increment financing liability	138,071	130,854
	<u>780,963</u>	<u>388,859</u>
	TOTAL LIABILITIES	388,859
NET POSITION		
Unrestricted	1,279,437	1,527,864
	<u>1,279,437</u>	<u>1,527,864</u>
	TOTAL NET POSITION	\$ 1,527,864

Total net position of the District decreased for the year by a total of \$248,427 due to current year activity from operations. Total liabilities for the District have increased by \$392,104.

CHANGES IN NET POSITION

	<u>Total Year Ended December 31, 2017</u>	<u>Total Year Ended December 31, 2016</u>
REVENUES		
Program Revenues		
Charges for services	\$ 811,775	\$ 864,682
Operating grants and contributions	749,624	612,885
General Revenues		
Sales taxes	8,099,130	8,271,828
Interest	2,920	1,049
Miscellaneous revenue	613	4
	<u>9,664,062</u>	<u>9,750,448</u>
	TOTAL REVENUES	9,750,448
EXPENSES		
Tourism promotion	8,544,470	8,496,383
State-withheld administration fee	80,991	82,718
Tax increment financing payments	1,274,587	1,307,773
Interest expense	12,441	16,779
	<u>9,912,489</u>	<u>9,903,653</u>
	TOTAL EXPENSES	9,903,653
	<u>(DECREASE) IN NET POSITION</u>	<u>\$ (248,427)</u>

**MANAGEMENT’S DISCUSSION AND ANALYSIS
BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
December 31, 2017**

Governmental Activities

The District has only one governmental fund, the General Fund, and no proprietary or fiduciary funds. The District operated with a non-profit motive and intends to use all revenues to benefit the Community, maintaining only a reasonable reserve each year.

Governmental activities decreased the net position of the District by \$248,427. Tax revenues for the District were \$8,099,130. Program revenues for the functions totaled \$1,561,399. The following table shows the cost of the District’s programs as well as each program’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the taxpayers by each of these functions.

**NET COST OF THE
DISTRICT’S ACTIVITIES**

	Total Cost of Services	Net Cost of Services
Tourism promotion	\$ 8,544,470	\$ 6,983,071
State-withheld administration fee	80,991	80,991
Tax increment financing payments	1,274,587	1,274,587
Interest expense	12,441	12,441
	\$ 9,912,489	\$ 8,351,090

Financial Analysis of the District’s Funds

The fund balance of the District’s General Fund as of December 31, 2017 was \$1,279,437. The General Fund decreased by \$248,427.

General Fund Budgetary Highlights

Revenues are budgeted net of the state-withheld marketing sales tax collection costs (discussed in *Economic Factors and Next Year’s Budget* below), anticipated tax increment financing payments and appropriate reserves.

Differences between the original budget, the final amended budget, and the actual results are summarized as follows:

- The District updates its budgets during the course of each year to more accurately reflect changes in ongoing program opportunities and to reallocate expenses among program costs accordingly.
- The difference between the final budget and actual results was due primarily to reduced sales taxes collected, increased program revenues, reduced tourism promotion expenditures and unused District administrative expenses and reserves.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
December 31, 2017**

General Fund Budgetary Highlights (continued)

- The District budgeted for professional fees and unanticipated contingencies which did not materialize.
- Tourism promotion expenditure reductions resulted from receipt of media advertising credits too late in the year to be used effectively in 2017. The resulting unused marketing budget will be carried over and applied to the 2018 District budget.

Capital Assets and Debt Administration

Capital Assets

The District had no capital assets as of December 31, 2017.

Debt

The Board determined early in its history that it is necessary for the District to maintain a current line of credit at all times because most marketing costs are incurred each spring, while the majority of marketing tax revenues are not received until each fall. The line of credit is accessed as required during the interim to cover this gap. Line of credit borrowings are normally repaid in full by year-end.

During 2017, the District paid less interest than in 2016 because there was less reliance on the credit line and the principal was not outstanding as long. Interest expense of \$12,441 was also \$16,434 less than budgeted due to differences in the timing of marketing expense cash requirements and the earlier availability of state grant monies and City of Branson (City) tourism tax marketing funds than was experienced previously. The District had neither short-term nor long-term debt outstanding at December 31, 2017.

Economic Factors and Next Year's Budget

Revenues

Marketing sales tax revenue remains the primary funding source for the District. The State of Missouri withholds 1% of total sales tax revenues for its revenue collection costs. The District receives additional state grant revenues under its contract with Explore Branson Tourism (successor to the Branson/Lakes Area Convention and Visitors' Bureau contract), which is under the umbrella of the Designated Marketing Organization for Taney County. The District also receives revenues from publications, website advertising, co-operative programs and consumer request fulfillment.

Based on 2016 results and available reserves, the District set a similar budget for 2017, taking into consideration the then-current outlook for tourism travel and relevant economic factors. Actual District 2017 tax revenue receipts fell short of budget, which was expected at some point, considering the all-time high revenues in 2013 through 2016. New attractions were opened and marketing improvements were carried out; however, fluctuating weather conditions both locally and nationally contributed to lower District tourism and tax results.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
December 31, 2017

Economic Factors and Next Year's Budget (continued)

Expenses

Tourism promotion expenses include both tourism marketing and District administrative expenses. Certain approved marketing expenses are reimbursed to the District's subcontractor, Explore Branson Tourism, pursuant to the tourism marketing contract between the two entities under which the latter administers specific District marketing functions. Due to the City's limitations, the District currently pays the cost of administering both the District's and part of the City's tourism tax marketing funds. Reimbursed marketing expenses totaled \$6,511,699 or 76.2% of the District's total tourism promotion expenses. District administrative expenses totaled \$82,891, less than 1% of total tourism promotion expenses.

Administrative expenses were used for internal District administration and office operations, primarily salaries, overhead expenses and professional fees. Together with timing differences in anticipated versus actual tourism marketing expenditures, the overall effect was a decrease in year-end net position totaling \$248,427 which was charged against reserves.

Tourism Marketing and Promotion

District gross tax revenues in 2017 were 2.1% less than last year's all-time-high and 2.4% under budget, with corresponding decreases in state fees withheld and tax increment financing payments. Tourism promotion expenses were also less than budgeted.

The District posted its second strongest performance on record in 2017 with tourism taxes totaling \$8.1 million. Stone County alone reached its highest tax receipt level on record at \$2.3 million. The City of Branson's separate tourism tax receipts were \$13.1 million and Taney County's sales tax receipts totaled \$15.9 million, both also the second-best figures on record.

Branson welcomed an estimated 8,825,000 visitors according to currently-available information, which is provisional as of this writing due to the lack of certain state information needed to finalize this tax metric (an important element in the visitation forecast model Branson has used for the past decade). It is possible that this projected visitation may increase or decrease by a few hundred thousand visits when the necessary information is ultimately received.

STR (formerly Smith Travel Research) reported that Branson occupancy levels topped the 50% mark for only the second time in history. In 2017, our occupancy rate averaged 52.3% and room demand topped 4.3 million, even though both occupancy and room demand were down 2.9% and 2.8%, respectively. Lower demand was also experienced in both Gatlinburg/Pigeon Forge and Lake of the Ozarks, with demand off in those markets by 2.4% and 1.5%, respectively.

Branson area visitation reached records during the winter season (January-March). The second-highest recorded visitation levels were reached during the spring (April-May), summer (June-August) and holiday (November-December) seasons. Fall season visitation (September-October) reached an all-time record high in 2015 but has fallen short of that peak in each of the past two years.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
December 31, 2017

Economic Factors and Next Year's Budget (continued)

Based on zip codes reported by our visitors, the largest growth was generated from primary markets (101-300 miles distant), while markets beyond 300 miles experienced the slowest growth, even though visitation from that distance continues to represent 56% of all annual visitation. Repeat visitation accounted for 77% of visits, but the strongest growth was the rebound in first-time visitation, which increased to 23% in 2017 from 20% in 2016. This is the strongest ratio of first-time visitors Branson has experienced since 2013 when 25% was achieved.

Thanks to the increased number of first-time visitors, length of stay was 4.3 nights, up 0.2 from 2016. More importantly, we saw the highest spending per person ever recorded, at \$279. Overall party spending of \$946 was an increase of 3.8% over 2016.

In 2017, 2.9% of Branson travelers arrived by air, the smallest ratio of air travelers recorded since 2004 when air travel accounted for 2.0% of Branson visits. More than three-quarters of those who did fly to the area arrived through the Springfield-Branson National Airport, the largest ratio on record.

District visitors continue to exhibit remarkably strong levels of intent to return. More than two-thirds indicated they would definitely return, a ratio that has remained virtually unchanged since 2014. The Branson area continues to be a destination that visitors are eager to recommend to their friends and families, as witnessed by the market's 58% Net Promoter Score – higher than other markets in our competitive set. More than 68% of all visitors indicated they were very likely to recommend Branson as a leisure destination to their friends and family members.

The District's marketing efforts continued to perform very well in 2017. Aided advertising awareness reached nearly 40 million U.S. travelers across the country. Based on the \$0.13 cost per travel household, it was also one of the more efficient marketing campaigns our area has launched. These campaigns have always been comparatively efficient at \$0.15 per aware travel household in an industry where anything below \$0.50 is considered good.

The 2017 marketing campaign generated nearly 415,000 incremental visits and produced \$432 million in incremental travel dollars. Given the \$5.2 million advertising investment, the campaign's overall return on investment reached \$84 in 2017 – meaning the campaign generated \$84 incremental travel dollars for every dollar invested in advertising. The 2017 Public Relations Ad Equivalency metric was \$21.7 million – an all-time record high for the District – up from \$19.3 million in 2016.

Looking forward to 2018, the U.S. Travel Association forecasts that leisure travel growth will slow to 1.8%, compared to 2.0% growth in 2017. Similarly, STR reports that U. S. room demand is expected to grow by 1.9% in 2018 – also slower than the 2.7% growth recorded among hotels in 2017. It is believed that the District's growth in the foreseeable future will more closely mirror national trends. While Branson will have some exciting new product introductions in 2018, the market has historically not performed quite as well in robust economic conditions. As a result, we expect growth in 2018 to come in somewhere closer to 1.0%.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
December 31, 2017

Economic Factors and Next Year's Budget (continued)

In the coming year, we will focus strong advertising support in priority markets, with special consideration given to primary market awareness (101-300 miles distant). Due to a compressed budget in 2018, core media has been eliminated, as has print advertising. Media efforts will continue to be directed to Des Moines and Memphis in 2018, where research shows a strong propensity for reaching high-value consumers. These spot markets were added in 2017 and we will maintain a strong presence there. National cable will be used to target first-time visitors. Both national cable and primary market media will be tagged with a message about new flights to Branson, in order to drive awareness about forthcoming airlift direct to our market.

Combined with layered multi-media marketing and public relations campaigns in select primary and outer markets, these tactics aim to encourage both new and return visitation. Additional marketing efforts for 2018 will include group and individual area familiarization tours, participation in regional and national trade shows and events, and development of an increased presence in the growing youth sports and student youth travel markets.

Next Year's Budget

The national economy gradually improved again in 2017. This trend is cautiously expected to continue, albeit more slowly, with leisure travel and room demand growth also expected to lessen in 2018. Thus, the District has conservatively budgeted 2018 gross tax revenues at \$8,000,000, slightly less than 2017 actual results. Cumulative excess net revenues realized through 2017, less contingency reserves, will be applied to the District's 2018 budget, consistent with prior years.

Contacting the District's Financial Management

For additional information or questions, please contact the District at:

Branson/Lakes Area Tourism
Community Enhancement District
176 Corporate Place
Branson, MO 65616

Phone: (417) 239-0032
Fax: (417) 239-0062
Email: jbenson@blatced.com

Or review the wealth of information about the District at our website: www.blatced.com

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
 STATEMENT OF NET POSITION
 December 31, 2017

	<u>Governmental Activities</u>
ASSETS	
Current	
Cash and cash equivalents - unrestricted	\$ 1,152,733
Accounts receivable	145,228
Sales tax receivable	760,521
Prepaid expenses	<u>1,918</u>
TOTAL ASSETS	2,060,400
LIABILITIES	
Current	
Accounts payable	641,060
Accrued expenses	1,702
Payroll tax liabilities	130
Branson tax increment financing liability	<u>138,071</u>
TOTAL LIABILITIES	780,963
NET POSITION	
Unrestricted	<u>1,279,437</u>
TOTAL NET POSITION	<u><u>\$ 1,279,437</u></u>

See accompanying notes.

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
 STATEMENT OF ACTIVITIES
 Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental Activities					
Tourism promotion	\$ (8,544,470)	\$ 811,775	\$ 749,624	\$ -	\$ (6,983,071)
State-withheld administration fee	(80,991)	-	-	-	(80,991)
Tax increment financing payments	(1,274,587)	-	-	-	(1,274,587)
Interest expense	(12,441)	-	-	-	(12,441)
TOTAL GOVERNMENTAL ACTIVITIES	\$ (9,912,489)	\$ 811,775	\$ 749,624	\$ -	(8,351,090)
General Revenues:					
					8,099,130
					2,920
					613
				Total General Revenues	8,102,663
				Changes in Net Position	(248,427)
				Net Position, Beginning of year	1,527,864
				Net Position, End of year	\$ 1,279,437

See accompanying notes.

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
 BALANCE SHEET – GOVERNMENTAL FUND
 December 31, 2017

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,152,733
Accounts receivable	145,228
Sales tax receivable	760,521
Prepaid expenses	1,918
	<u> </u>
TOTAL ASSETS	<u><u>\$ 2,060,400</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Account payable	\$ 641,060
Accrued expenses	1,702
Payroll tax liabilities	130
Branson tax increment financing liability	138,071
	<u> </u>
TOTAL LIABILITIES	780,963
Fund Balance	
Nonspendable:	
Prepaid items	1,918
Unassigned	1,277,519
	<u> </u>
TOTAL FUND BALANCE	<u><u>1,279,437</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,060,400</u></u>

See accompanying notes.

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
 GOVERNMENTAL FUND
 Year Ended December 31, 2017

	<u>General Fund</u>
REVENUES	
Sales taxes	\$ 8,099,130
Intergovernmental revenues	749,624
Website	176,174
Co-operative programs	162,337
Publications	460,209
Fulfillment	13,055
Interest income	2,920
Miscellaneous	613
	<u>9,664,062</u>
	TOTAL REVENUES
EXPENDITURES	
Current	
Tourism promotion	8,544,470
State-withheld administration fee	80,991
Tax increment financing payments	1,274,587
Debt service	
Interest expense	12,441
	<u>9,912,489</u>
	TOTAL EXPENDITURES
(DEFICIT) OF REVENUES OVER EXPENDITURES	(248,427)
FUND BALANCE, January 1, 2017	<u>1,527,864</u>
FUND BALANCE, December 31, 2017	<u>\$ 1,279,437</u>

See accompanying notes.

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Branson/Lakes Area Tourism Community Enhancement District, (the District) is a political subdivision of the State of Missouri, authorized by state regulations for the purpose of promoting tourism in the Branson/Lakes area. The Taney County Commission (Taney County, Missouri) created and established the District by ordinance as the governing body of the District on November 26, 2001. The Board of Directors is appointed from each taxing authority within the District based on the size of their tax collections in relation to the total. The District is authorized, by voter approval, to impose a one percent sales tax to fund its stated purpose.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to special purpose governments.

Financial Reporting Entity

The District is organized under the laws of the State of Missouri and is a primary government, which is governed by an appointed board. As required by accounting principles generally accepted in the United States of America, the District has evaluated the above criteria to determine whether any other entity meets the definition of a component unit and must be included in these financial statements. The District has determined that no other outside entity meets the above criteria and, therefore, no other entity has been included as a component unit in the District's basic financial statements. In addition, the District is not aware of any entity for which the District would be considered as a component unit of that entity.

Basis of Presentation

The basic financial statements include both the government-wide (the Statement of Net Position and the Statement of Activities) and fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

In the government-wide Statement of Net Position, the governmental activities are presented on the full accrual, economic resources basis of accounting. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or a function. Program revenues include charges for goods or services offered by the programs and grants and contributions that are restricted to meet operating and capital expenses of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FUND FINANCIAL STATEMENTS

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Consequently, the emphasis on near-term inflows and outflows of resources do not present the long-term impact of transactions. Since the accounting differs significantly between the governmental fund's modified accrual and full accrual basis presented in the government-wide financial statements, it is necessary to convert the governmental fund data to arrive at the government-wide financial statements. Therefore, reconciliations have been provided following the Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance identifying categories that required conversion from the fund statements.

The District reports the following major governmental fund:

General Fund: The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for in other funds.

Capital Assets

Capital assets include office equipment assets (e.g., computers, printers, and similar items) and are included in the applicable governmental columns in the government-wide financial statements. Capital assets, excluding land, are defined by the District as assets with a cost of \$5,000 or greater and an estimated useful life of at least three years. All land purchases are capitalized regardless of cost. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The service lives by type of asset are as follows:

Office equipment	10 years
Furniture and fixtures	10 years
Computers and equipment	3 years

Expenditures for maintenance and repairs are charged to expense; renewals and betterments are capitalized.

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The District considers all deposits in checking accounts, demand deposit accounts, NOW accounts, money market accounts, savings accounts, and time deposits (certificates of deposit) with maturities of three months or less to be cash equivalents.

Use of Estimates

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of reserves and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

In the government-wide financial statements, equity is displayed in three components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net position that does not meet the definition of restricted or net investment in capital assets.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District first applies restricted net position.

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance Classification

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on constraints imposed on the use of these resources as follows:

Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted fund balance – This classification reflects the constraints imposed on resources either a) externally by creditors, grantors, contributors, or laws and regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – This consists of fund balance amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the District’s Board of Directors.

Assigned fund balance – This classification reflects the amounts constrained by the District’s “intent” to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include all remaining amounts (except negative balances) that are reported in the governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Assigned fund balances are intended as a tracking device during the year to determine the monthly amount of combined *Unassigned fund balance* and net income. The Board has authority, and the power to delegate authority to the Treasurer or the Financial Oversight Committee if desired, to assign and specify the purpose(s) of any *Assigned fund balances*. The decision or delegation of authority to decide states the intended purpose of each *Assigned* amount effective at the beginning of each year and is accomplished by Board motion or resolution requiring a majority vote of the Board for approval. *Assigned fund balances* are returned to the *Unassigned fund balance* upon expenditure of the related amount, expiration of its intended purpose or at year-end.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is used to report negative fund balances in other governmental funds.

In circumstances when a disbursement is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

The Board of Directors has adopted an operating reserve policy, the goal of which is to achieve an annual year end unassigned fund balance of at least \$1,000,000 as an operating reserve before releasing any prior year excess revenues for use in succeeding year budgets.

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE B – CASH AND CASH EQUIVALENTS

State statutes require that the District’s deposits be insured or collateralized in the name of the District by the trust department of a bank that does not hold the collateralized deposits. As of December 31, 2017, all bank balances or deposits are entirely insured or collateralized.

NOTE C – LINE OF CREDIT

On March 24, 2017, the District entered into an agreement for a \$2.6 million line of credit with Central Bank of Branson, which carries interest at a fixed rate of 2.75%, and matures on March 24, 2018. The principal balance on December 31, 2017, was \$0. Interest paid during the year ended December 31, 2017, was \$12,441. The District may use \$2.1 million of the credit line to fund day-to-day operating expenses and to pay marketing costs. The remaining \$500,000 is to provide for future disbursements, which may be required to meet the District’s obligation under its agreement with the Transportation Development District.

The following is a summary of changes in short-term debt for the year ended December 31, 2017:

Balance, 12/31/2016	\$ -
Additions	1,637,000
Deletions	<u>(1,637,000)</u>
Balance 12/31/2017	<u><u>\$ -</u></u>

NOTE D – TAX ABATEMENTS

As of December 31, 2017, the District did not provide tax abatements to any businesses or individuals. However the District’s sales taxes were reduced by programs entered into by other governments under the Real Property Tax Increment Allocation Redevelopment Act (Tax Increment Financing).

Tax Increment Financing (TIF) is an economic development tool which redirects local tax revenues towards the redevelopment of eligible properties that are otherwise economically unfeasible. Sections 99.800 – 99.865 RSMo, enables local governments to finance certain redevelopment costs with the incremental tax revenue generated by the net increase in local sales taxes in the designated area after redevelopment.

The District encompasses various land areas that have been developed using TIF. During the year ended December 31, 2017, the District collected and distributed \$1,175,492 of TIF related economic activity taxes to the City of Branson, as well as \$99,095 to Stone County (for 2016). These payments are recorded on the District’s financial statements.

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE E – CLAIMS AND ADJUSTMENTS

The District participates indirectly in a number of state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of December 31, 2017, expenditures have not been audited by grantor governments, but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

NOTE F – RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has transferred its risk by obtaining coverage from commercial insurance companies. In addition, it has effectively managed risk through various employee education and prevention programs. There has been no significant reduction in insurance coverage from the previous year.

NOTE G – COMMITMENTS

On January 1, 2015, the District entered into a contract for tourism marketing services with the Branson/Lakes Area Convention and Visitors Bureau. That contract was assigned to Explore Branson Tourism, a separate marketing-only entity, on October 27, 2016. The contract term is from January 1, 2015, through December 31, 2019, subject to annual renewal and budgetary appropriation. The contract was renewed on October 26, 2017, effective for January 1, 2018, through December 31, 2018. That contract includes a provision for administrative fees, which are calculated annually at a maximum of 20% of certain prior year District revenues. The projected fee approved in 2017 for the original 2018 budget was \$1,940,000, of which \$373,077 was paid in equal biweekly installments from January 3 through February 28, 2018, pending determination of the final fee. The final 2018 fee was determined to be \$1,932,106, a fee reduction of \$7,894. After adjustment for this reduction and the payments already made in 2018, the remaining balance due is \$1,559,029, payable in equal biweekly installments of \$74,239 beginning March 14, 2018, with rounding included in the final payment.

At December 31, 2017, the District was obligated to pay Stone County for the District's share of the Indian Point TIF economic development bond for the year 2017, the amount of which was not determinable at year end. On April 6, 2018, the District remitted \$136,612 to Stone County in full payment of this obligation.

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE H – CONTINGENT LIABILITY

On March 26, 2015, the District Board approved a non-binding Letter of Commitment in the amount of \$500,000 for the purpose of attracting a major carrier to the Branson Regional Airport by offsetting the risk of improving and expanding long-term local air services in furtherance of the District's tourism marketing goals and objectives.

On June 25, 2015, the Board approved a two-year intergovernmental agreement, renewable annually, with the Branson Regional Airport Transportation Development District (TDD) to administer use of these risk-mitigation funds. Said agreement was amended on February 25 and April 28, 2016 to approve revision of certain dates due to changing events, which did not negatively impact the District's obligations under the agreement. Airport bondholders have no call on any funds provided by the District.

On March 11, 2016, Central Bank of Branson increased the District's line of credit from \$2.1 million to \$2.6 million so that: (1) \$500,000 could be reserved to provide for possible future claim disbursements without affecting the District's normal marketing line of credit use during the agreement term; and (2) interest would not begin to accrue on any such disbursement until properly made. This amended intergovernmental agreement was renewed for the final year from July 15, 2017, through July 14, 2018 on June 20, 2017. As of December 31, 2017, no District funds had been requested or provided under the terms of this agreement.

On February 22, 2018, the Board made a commitment to enter into a new agreement with the TDD upon similar terms, but with the District's liability reduced from \$500,000 to \$250,000. Instead of a new agreement, however, the TDD provided an amended and restated 2-year agreement draft at the March 22, 2018 Board meeting. The updated terms were discussed and changes were agreed upon. Two officers were authorized to execute the final agreement following its approval by the District's legal counsel, which they did on March 28, 2018. The TDD signed the agreement on April 2, 2018 and it becomes effective on August 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Sales taxes	\$ 8,300,000	\$ 8,300,000	\$ 8,099,130	\$ (200,870)
Intergovernmental revenue	750,000	750,000	749,624	(376)
Web site	180,000	180,000	176,174	(3,826)
Co-Operative programs	154,250	154,250	162,337	8,087
Publications	465,000	465,000	460,209	(4,791)
Fulfillment	5,114	5,114	13,055	7,941
Interest income	1,500	1,500	2,920	1,420
Miscellaneous	-	-	613	613
TOTAL REVENUES	9,855,864	9,855,864	9,664,062	(191,802)
EXPENDITURES				
Current				
Tourism Promotion				
Classified advertising	400	400	888	(488)
Consumer response	190,004	190,004	117,584	72,420
Contingency reserve	24,000	24,000	-	24,000
EBT administrative fees	1,920,000	1,949,879	1,949,879	-
Equipment	400	400	345	55
Fulfillment	32,800	49,960	46,722	3,238
Dues and sponsorships - marketing	666,202	619,042	680,331	(61,289)
Insurance - property and liability	3,400	3,400	3,091	309
Licenses and fees	30	30	3	27
Media advertising	3,602,938	3,803,628	3,759,986	43,642
Office supplies and software	3,280	3,280	1,584	1,696
Payroll taxes and benefits	3,889	3,889	3,721	168
Postage and deliveries	180	180	64	116
Professional fees	28,900	28,900	19,306	9,594
Public relations	446,000	475,000	479,941	(4,941)
Publication expense	481,100	624,700	603,441	21,259
Publications - collateral expense	35,350	30,963	30,849	114
Rent - building	6,660	6,660	6,660	-
Research	135,150	150,000	118,679	31,321
Salaries and wages	44,296	44,296	44,296	-
Special event support	3,000	3,000	3,823	(823)
Special marketing	100,000	106,000	89,954	16,046
Technical references	640	640	350	290
Telephone and data services	2,400	2,400	2,137	263
Trade media advertising	176,290	158,180	128,286	29,894
Travel and trade shows	256,500	264,414	269,675	(5,261)
Websites	202,890	186,890	182,875	4,015
Total Tourism Promotion	8,366,699	8,730,135	8,544,470	185,665
State-withheld administration fee	83,000	83,000	80,991	2,009
Tax increment financing payments	1,370,000	1,350,000	1,274,587	75,413
Interest expense	28,875	28,875	12,441	16,434
TOTAL EXPENDITURES	9,848,574	10,192,010	9,912,489	279,521
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	7,290	(336,146)	(248,427)	87,719
FUND BALANCE, January 1, 2017	1,527,864	1,527,864	1,527,864	-
FUND BALANCE, December 31, 2017	\$ 1,535,154	\$ 1,191,718	\$ 1,279,437	\$ 87,719

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
NOTE TO BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2017

Budgets and Budgetary Accounting

The District utilizes the following procedures in establishing the budgetary data reflected in the Budgetary Comparison Schedule:

1. In October of each year, the Financial Oversight Committee (FOC) determines its best estimates of revenue, expense and reserve levels for the succeeding fiscal year beginning January 1, based on anticipated economic factors and previous District experience.
2. In November, FOC projections and specifics are reviewed, revised as needed, and forwarded to the Board for comment.
3. By December 31 each year, the FOC and the Board approve a final operating budget for the succeeding year, which includes anticipated expenditures for all funds as well as the means of financing them.
4. Formal budgetary integration of the EBT and District budgets is employed as a management control method for all District funds.
5. General Fund budgets are adopted on a basis consistent with GAAP and are amended during the year by the FOC and Board of Directors, as deemed necessary and prudent.
6. The District takes a conservative budgeting approach, part of which is setting a reasonable annual contingency reserve. The District's unused reserve is retained until final results for the year can be established. At that time, any prior year unused reserves in excess of an established base are added to the current year's marketing budget, so that all District tax revenues intended for marketing are used for that purpose.

OTHER REPORTING REQUIREMENTS



**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***

Board of Directors
Branson/Lakes Area Tourism Community Enhancement District
Branson, Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Branson/Lakes Area Tourism Community Enhancement District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Branson/Lakes Area Tourism Community Enhancement District's basic financial statements, and have issued our report thereon, dated June 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Branson/Lakes Area Tourism Community Enhancement District'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 Branson/Lakes Area Tourism Community Enhancement District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Board of Directors
Branson/Lakes Area Tourism Community Enhancement District
Branson, Missouri

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be a material weakness. It is identified as item 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Branson/Lakes Area Tourism Community Enhancement District'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*.

Branson/Lakes Area Tourism Community Enhancement District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Branson/Lakes Area Tourism Community Enhancement District'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 Branson/Lakes Area Tourism Community Enhancement District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
June 26, 2018

BRANSON/LAKES AREA TOURISM COMMUNITY ENHANCEMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017

2017-001 Segregation of duties

Condition: Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

Criteria: Duties should be segregated so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

Effect: Risk is present that errors or irregularities in amounts that would be material to the basic financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation: We realize that because of limited resources and personnel, management may not be able to achieve a proper segregation of duties; however, our professional standards require that we bring this lack of segregation of duties to your attention in this report.

Response: The District is aware of the finding related to segregation of duties and has evaluated the cost/benefit of implementing additional procedures to address this issue. The District believes that at this time, adding staff or implementing additional procedures is not cost justified, nor would it meaningfully improve this finding. The District continues to monitor and evaluate the efficiency and effectiveness of existing procedures.