

**TRANSYLVANIA COUNTY
TOURISM DEVELOPMENT AUTHORITY**

(A COMPONENT UNIT OF TRANSYLVANIA COUNTY, NORTH CAROLINA)

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

MARTIN  STARNES

& ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

**TRANSYLVANIA COUNTY
TOURISM DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF TRANSYLVANIA COUNTY, NORTH CAROLINA)
BREVARD, NORTH CAROLINA**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

Officers

Layton Parker, Chair

Grant Bullard, Vice-Chair

Board Members

Jessica Whitmire

Libby Freeman

David Guice

Mac Morrow

Dee Dee Perkins

Ali Lien

Jonathan Griffin, Finance Director

TRANSYLVANIA COUNTY
TOURISM DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF TRANSYLVANIA COUNTY, NORTH CAROLINA)

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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Independent Auditor's Report

To the Board of Directors
Transylvania County Tourism Development Authority
Brevard, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Transylvania County Tourism Development Authority (the "Authority"), a component unit of Transylvania County, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority'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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our 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 Authority as of June 30, 2021, and the respective changes in financial position, and the respective budgetary comparison for the General Fund 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 on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 8, 2021

Management's Discussion and Analysis

As management of the Transylvania County Tourism Development Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

Financial Highlights

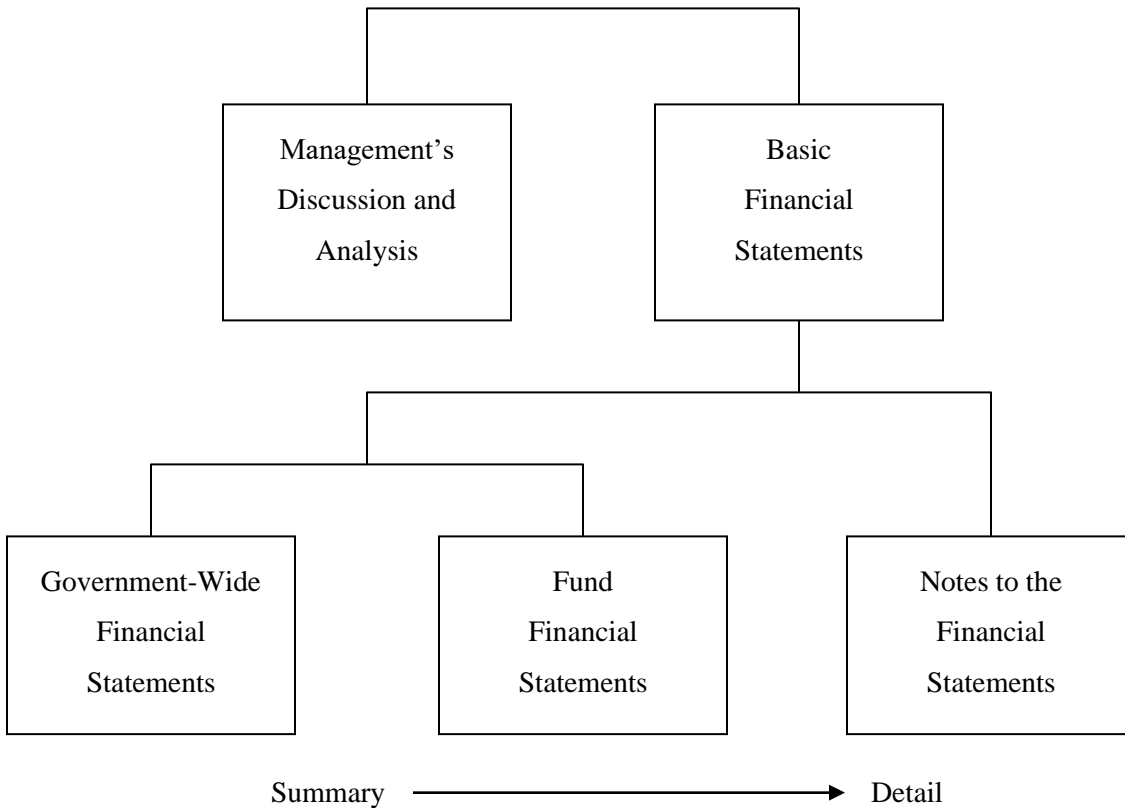
- The assets of the Authority exceeded its liabilities at the close of the period ended June 30, 2021 by \$1,268,653 (*net position*).
- As of the close of the fiscal year, the Authority's governmental fund reported an ending fund balance of \$1,268,653, an increase of \$869,396 in comparison with the prior year. Approximately 81.7 percent of this amount, \$1,036,139, is considered available for tourism promotion and related activities.
- At the end of the current fiscal year, available fund balance for the General Fund was \$1,036,139, or 100.02 percent, of total General Fund expenditures.
- The Authority plans to evaluate and assess how best to utilize its resources after its strongest revenue year ever.
- The Authority plans to continue exploring how best to support the construction of the Ecusta Trail project in Transylvania County to become a premiere tourism asset in the community.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Authority through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the Authority.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information about the Authority's financial status.

The next statements (Exhibits C through E) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Authority's government. These statements provide more detail than the government-wide statements. There are two parts to the fund financial statements: 1) the governmental funds statements and 2) the budgetary comparison statements.

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes to the financial statements explain in detail some of the data contained in those statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Authority's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Authority's financial status as a whole.

The two government-wide statements report the Authority's net position and how they have changed. Net position is the difference between the Authority's total assets and total liabilities. Measuring net position is one way to gauge the Authority's financial condition.

The government-wide statements are comprised of a single category – governmental activities. The governmental activities include the Authority's promotion of tourism to the area. Room occupancy taxes finance these activities. The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Authority's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Authority's budget ordinance. Currently, the Authority only maintains a General Fund.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Currently, the Authority's activities are accounted for in one governmental fund, the General Fund. This fund focuses on how assets can readily be converted into cash flow in and out and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Authority's programs.

The Authority adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from citizens, the Authority's management, and the decisions of the Board members about which services to provide and how to pay for them. It also authorizes the Authority to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Authority complied with the budget ordinance and whether or not the Authority succeeded in providing the services as planned when the budget was adopted. The statement shows four columns: 1) the original budget as adopted by the Authority's Board members; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 14 of this report.

As noted earlier, net position may serve over time as one useful indicator of an authority’s financial condition. The assets of the Authority exceeded liabilities by \$1,268,653 as of June 30, 2021. The Authority’s net position increased by \$869,396 for the fiscal year ended June 30, 2021. The Authority uses its assets to promote tourism; consequently, these assets are for future spending for tourism activities only. The Authority’s total net position of \$1,268,653 represents resources that are restricted.

The Authority maintains a fund balance to have money available for both planned tourism-related projects and unforeseen promotional opportunities that may arise.

The increase in fund balance of \$869,396 is primarily related to the COVID-19 pandemic. The Board of Directors took a strongly conservative approach to anticipated revenues during the development of the FY 2021 budget, and while revenues easily exceeded the initial projects, it was difficult during the pandemic to adjust the Authority’s marketing and tourism promotion strategies in a way that would match the appropriate level of expenditures to the available revenues.

Government-Wide Financial Analysis

**Transylvania County Tourism Development Authority’s
Net Position**

Figure 2

| | Governmental Activities | |
|--|--------------------------------|-------------|
| | 2021 | 2020 |
| Assets: | | |
| Current and other assets | \$ 1,363,534 | \$ 423,899 |
| Liabilities: | | |
| Accounts payable | 94,881 | 24,642 |
| Net Position: | | |
| Restricted for: | | |
| Stabilization by state statute | 232,514 | 164,224 |
| Tourism promotion and related expenditures | 1,036,139 | 235,033 |
| Total net position | \$ 1,268,653 | \$ 399,257 |

**Transylvania County Tourism Development Authority's
Changes in Net Position**

Figure 3

| | <u>Governmental Activities</u> | |
|---------------------------------------|--------------------------------|--------------------------|
| | <u>2021</u> | <u>2020</u> |
| Revenues: | | |
| General revenues: | | |
| Restricted intergovernmental revenues | \$ 1,878,005 | \$ 971,481 |
| Other revenues | <u>27,281</u> | <u>6,315</u> |
| Total revenues | <u>1,905,286</u> | <u>977,796</u> |
| Expenses: | | |
| Economic and physical development | <u>1,035,890</u> | <u>1,010,018</u> |
| Change in net position | 869,396 | (32,222) |
| Net Position: | | |
| Beginning of year - July 1 | <u>399,257</u> | <u>431,479</u> |
| End of year - June 30 | <u><u>\$ 1,268,653</u></u> | <u><u>\$ 399,257</u></u> |

Governmental Activities. Governmental activities increased the Authority's net position by \$869,396. Occupancy tax revenues grew by 92.3 percent, with some returning levels of average daily rate in the final quarter of FY21, but primarily driven by significant increases in disbursements paid from the short-term rental companies of AirBNB and HomeAway. The short-term rental market has added to its growth of FY20, while companies like AirBNB specifically have improved on their filing abilities, combining to, in some months, double previous year occupancy disbursements. The level of growth in occupancy tax remittances was difficult for the Board of Directors to manage at the same time as changing marketing strategies during the COVID-19 pandemic.

Financial Analysis of the Authority's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Authority's governmental fund is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Authority's funding requirements. Specifically, available fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the only operating fund of the Authority. At the end of the current fiscal year, available fund balance of the General Fund was \$1,036,139 while total fund balance reached \$1,268,653. The Authority currently has available fund balance of 100.02 percent of General Fund expenditures, while total fund balance represents 122.5 percent of the same amount.

General Fund Budgetary Highlights

Revenues were 36.8% higher than budgeted due to significantly higher than expected occupancy tax distributions. FY21 saw traditional lodging occupancy return to levels seen prior to the bans on non-essential travel, in addition to continually high growth in the short-term rental market, which was already growing in the prior fiscal year. The Authority saw its highest monthly total of revenues from occupancy tax collections ever, breaking a record set in the previous fiscal year.

Expenditures were slightly down from FY20 as the Authority continued a conservative approach on spending, finishing the year at only 73.4 percent of budgeted expenditures. The governing board sought to revise its budget and increase expenditure outlays on marketing and promotion during the year, but was unable to align expenditures with revenues. Of note is a \$339,071 budgeted transfer to reserves, included in the revised budget to account for excess revenue that was significantly lower than the actual excess revenue for the fiscal year.

Revisions were made to the Authority's budget when as occupancy tax remittances continued to exceed expectations. Recognition of remittance revenue of \$529,365 was used to increase outlays on special project, sustainability, promotional items, and marketing services expenditures, with the most significant increase in advertising. The Authority began the year with a more conservative appropriation of fund balance to sustain certain tourism program appropriations; however, revenue growth meant that these resources were ultimately unused.

Economic Factors

The following factors impact the growth and prosperity of the Authority:

- The Authority works actively to promote the County as a prime tourist destination for all seasons and strives to keep the tourism industry active throughout the entire year.
- Occupancy tax is the primary revenue source for the Authority, and the amount of tax collected is solely dependent on the tourism industry.
- National economic concerns and changing consumer spending patterns have a direct impact on the Authority's planning and budgeting.

Budget Highlights for the Fiscal Year Ending June 30, 2022

Fiscal Year 2022's budget for the Authority assumed occupancy tax remittances from its primary government would be significantly higher throughout FY 2022 and allocated these anticipated higher revenues towards outlays on advertising, its strategic plan and its Transylvania Always initiative. The adopted revenues and expenditures are within one percent of the FY 2021 actual revenues, as traditional occupancy rates and the growth in short-term lodging disbursements appear to have reached a stable point.

Requests for Information

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Jonathan Griffin, Finance Director, Transylvania County Tourism Development Authority, 175 East Main Street, Brevard, North Carolina 28712.

TRANSYLVANIA COUNTY TOURISM DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF TRANSYLVANIA COUNTY, NORTH CAROLINA)

STATEMENT OF NET POSITION
JUNE 30, 2021

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets: | |
| Current assets: | |
| Cash and investments | \$ 1,131,020 |
| Due from primary government | <u>232,514</u> |
| Total current assets | <u>1,363,534</u> |
| Liabilities: | |
| Accounts payable | <u>94,881</u> |
| Net Position: | |
| Restricted for: | |
| Stabilization by state statute | 232,514 |
| Tourism promotion and related expenditures | <u>1,036,139</u> |
| Total net position | <u>\$ 1,268,653</u> |

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

TRANSYLVANIA COUNTY TOURISM DEVELOPMENT AUTHORITY
 (A COMPONENT UNIT OF TRANSYLVANIA COUNTY, NORTH CAROLINA)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense)</u> |
|---------------------------------|---------------------|-----------------------------|---|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Revenue and Changes in Net Position</u> |
| | | | | | <u>Total Governmental Activities</u> |
| Governmental Activities: | | | | | |
| Tourism promotion | \$ 1,035,890 | \$ 27,138 | \$ 10,000 | \$ - | \$ (998,752) |
| Total governmental activities | <u>\$ 1,035,890</u> | <u>\$ 27,138</u> | <u>\$ 10,000</u> | <u>\$ -</u> | <u>(998,752)</u> |
| General Revenues: | | | | | |
| Intergovernmental revenue: | | | | | |
| | | | | | 1,868,005 |
| | | | | | 143 |
| | | | | | <u>1,868,148</u> |
| | | | | | 869,396 |
| Net Position: | | | | | |
| | | | | | <u>399,257</u> |
| | | | | | <u>\$ 1,268,653</u> |

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

TRANSYLVANIA COUNTY TOURISM DEVELOPMENT AUTHORITY
 (A COMPONENT UNIT OF TRANSYLVANIA COUNTY, NORTH CAROLINA)

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2021

| | <u>General Fund</u> |
|--|-------------------------|
| Assets: | |
| Cash and investments | \$ 1,131,020 |
| Due from primary government | <u>232,514</u> |
| Total assets | <u>\$ 1,363,534</u> |
| Liabilities and Fund Balance: | |
| Liabilities: | |
| Accounts payable | <u>\$ 94,881</u> |
| Fund Balance: | |
| Restricted for: | |
| Stabilization by state statute | 232,514 |
| Tourism promotion and related expenditures | <u>1,036,139</u> |
| Total fund balance | <u>1,268,653</u> |
| Total liabilities and fund balance | <u>\$ 1,363,534</u> |

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

TRANSYLVANIA COUNTY TOURISM DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF TRANSYLVANIA COUNTY, NORTH CAROLINA)

**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2021**

| | <u>General Fund</u> |
|--------------------------------------|-------------------------|
| Revenues: | |
| Occupancy Tax | \$ 1,868,005 |
| Investment earnings | 143 |
| Sales and services | 27,138 |
| Restricted intergovernmental revenue | <u>10,000</u> |
| Total revenues | <u>1,905,286</u> |
| Expenditures: | |
| Economic and physical development | <u>1,035,890</u> |
| Net change in fund balance | 869,396 |
| Fund Balance: | |
| Beginning of year - July 1 | <u>399,257</u> |
| Ending of year - June 30 | <u>\$ 1,268,653</u> |

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

TRANSYLVANIA COUNTY TOURISM DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF TRANSYLVANIA COUNTY, NORTH CAROLINA)

**STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2021**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Over/Under</u> |
|--|----------------------------|-------------------------|---------------------|--------------------------------|
| | <u>Original Budget</u> | <u>Final Budget</u> | | |
| Revenues: | | | | |
| Occupancy tax | \$ 647,098 | \$ 1,176,463 | \$ 1,868,005 | \$ 691,542 |
| Investment earnings | 2,000 | 2,000 | 143 | (1,857) |
| Sales and services | 26,500 | 26,500 | 27,138 | 638 |
| Restricted intergovernmental revenues | - | - | 10,000 | 10,000 |
| Total revenues | <u>675,598</u> | <u>1,204,963</u> | <u>1,905,286</u> | <u>700,323</u> |
| Expenditures: | | | | |
| Economic and physical development | <u>697,754</u> | <u>1,372,119</u> | <u>1,035,890</u> | <u>336,229</u> |
| Revenues over (under) expenditures | (22,156) | (167,156) | 869,396 | 1,036,552 |
| Other Financing Sources (Uses): | | | | |
| Appropriated fund balance | <u>22,156</u> | <u>167,156</u> | - | <u>(167,156)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | 869,396 | <u>\$ 869,396</u> |
| Fund Balance: | | | | |
| Beginning of year - July 1 | | | <u>399,257</u> | |
| Ending of year - June 30 | | | <u>\$ 1,268,653</u> | |

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

**TRANSYLVANIA COUNTY
TOURISM DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF TRANSYLVANIA COUNTY, NORTH CAROLINA)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

1. Summary of Significant Accounting Policies

The accounting policies of the Transylvania County Tourism Development Authority (the “Authority”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The North Carolina General Legislature enacted a law which authorized Transylvania County to levy a room occupancy and tourism development tax, and the Transylvania County Commissioners adopted a resolution levying this tax on August 25, 1986 authorized by Chapter 969 of the 1985 Session Laws. The Transylvania County Commissioners created the Transylvania County Tourism Development Authority (a component unit of Transylvania County, North Carolina) as a public authority under the Local Government Budget and Fiscal Control Act. The Authority is composed of seven voting members, serving without compensation and appointed by the County Commissioners, the Brevard City Council, and the Brevard Chamber of Commerce. The Board of the Transylvania County Tourism Development Authority approves the budget of the Authority. The Authority is a component unit of the County and discretely reported in the financial statements of the County. Quarterly reports are to be made to the County Commissioners. The Authority may contract with any person, firm, or organization to advise and assist in carrying out its duty to promote travel, tourism, and conventions for Transylvania County.

Transylvania County Commissioners, Brevard City Council, and Brevard Chamber of Commerce appoint the governing board of the Authority, and the Authority operates within the County’s boundaries for the benefit of the County’s residents. The County is not responsible for the debts or entitled to the surpluses of the Authority. The Authority has the power to approve its own budget and designate its own management.

B. Basis of Presentation

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government, which is a single program government. These statements include the financial activities of the government. The governmental activities are financed primarily through occupancy taxes and to a small extent through advertising revenues. The Authority has no business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenue for the Authority’s single program activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

TRANSYLVANIA COUNTY
TOURISM DEVELOPMENT AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Fund Financial Statements. The fund financial statements provide information about the Authority's funds. The emphasis of fund financial statements is on the major governmental fund.

The Authority reports the following major governmental fund:

General Fund. The General Fund is the Authority's primary and only operating fund. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary source of revenue is occupancy taxes levied and collected by Transylvania County. The primary expenditures are for tourism development.

The General Fund is the Authority's only major fund for the period ended June 30, 2021.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Authority are maintained during the year using the current financial resources measurement funds and the modified accrual basis of accounting.

Government-Wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from Transylvania County's occupancy tax is recognized in the fiscal year for which the taxes are levied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred. Room occupancy taxes collected and held by Transylvania County and taxes receivable by Transylvania County on behalf of the Authority at year-end to be remitted to the Authority, are recognized as revenue. General capital asset acquisitions are reported as expenditures in governmental funds. The Authority considers all revenues available if they are collected within 60 days after year-end.

TRANSYLVANIA COUNTY
TOURISM DEVELOPMENT AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

D. Budgetary Data

As required by the Local Government Budget and Fiscal Control Act (G.S. 159, Article 3), the governing board must adopt an annual balanced budget for all funds by July 1. The annual budget is prepared on the modified accrual basis of accounting to be compatible with the accounting system in recording transactions, as required by G.S. 159-26(c). Appropriations are made at the functional level and are amended as necessary by the governing board. Expenditures may not exceed appropriations at the functional level for the General Fund. All annual appropriations lapse at year-end. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers the time until the annual ordinance can be adopted. During the year ended June 30, 2021, actual expenditures did not exceed the budgeted expenditures.

E. Assets, Liabilities, and Fund Equity

Deposits

All deposits of the Authority are made in Board-designated official depositories and are collateralized as required by North Carolina General Statute [159-31]. The Authority may designate, as an official depository, any bank or savings and loan association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

Investments

State law [G.S. 159-30(c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high-quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT).

Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Accounts Receivable

Accounts receivable come from occupancy taxes, which are centrally collected by Transylvania County and disbursed to the Authority the following month. All receivables of the Authority are deemed collectible, thus no allowance for doubtful accounts has been recorded.

TRANSYLVANIA COUNTY
TOURISM DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF TRANSYLVANIA COUNTY, NORTH CAROLINA)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Net Position/Fund Balance

Net Position

Net position in the government-wide financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Non-Spendable 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 includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State Statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation of G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "Restricted by State Statute". Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stated at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as non-spendable. Outstanding encumbrances are included within RSS. RSS is included as a component of restricted net position and restricted fund balance on the face of the balance sheet.

Restricted for Tourism Promotion and Related Expenditures – portion of fund balance restricted by law to promote travel, tourism, and conventions in the Authority.

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Committed Fund Balance. The committed fund balance classification includes amounts that can only be used for the specific purposes determined by a formal action of the Authority's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing board (the "Board") has by resolution authorized the Finance Director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned Fund Balance. Unassigned fund balance is the portion of fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund.

The Authority has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: federal funds, state funds, local non-Authority funds, and Authority funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Authority or when required by grant or other contractual agreements.

The Authority has not adopted a formal fund balance policy.

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

| | |
|--------------------------------|----------------------------|
| Total Fund Balance: | |
| General Fund | \$ 1,268,653 |
| Less: | |
| Stabilization by state statute | <u>232,514</u> |
| Available fund balance | <u><u>\$ 1,036,139</u></u> |

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Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimate and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. A significant area, where estimates are made, is allowance for doubtful accounts.

2. Detail Notes on All Funds

A. Assets

Deposits

All the deposits of the Authority are either insured or collateralized under the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by the Authority's agent in their name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Authority under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Authority has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2021, the Authority's deposits had a carrying amount of \$1,131,020 and a bank balance of \$1,131,020. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method.

Accounts Receivable

Accounts receivable come from occupancy taxes, which are centrally collected by Transylvania County and disbursed to the Authority the following month. All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. The Authority currently has no receivables at June 30, 2021 deemed uncollectible.

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B. Liabilities

Payables

Payables at the Tourism Development Authority’s level at June 31, 2021 were as follows:

| | |
|---------------------------------|-----------------------|
| | <u>Vendors</u> |
| Governmental Activities: | |
| General Fund | <u>\$ 94,881</u> |

C. Risk Management

The Authority is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. The Authority does not carry commercial insurance to cover these risks of loss. Since the Authority is a component unit of Transylvania County, the County’s insurance coverage for these risks also covers the Authority. The Authority does not carry flood insurance.

In accordance with G.S. 159-29, Transylvania County’s employees that administer and have access to \$100 or more of the Authority’s funds at any given time are performance bonded through a commercial surety bond. Transylvania County’s Finance Officer, who is responsible for accounting of the Authority’s funds, is bonded separately under a surety bond for the Authority for \$50,000.

There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

D. Revenue

Occupancy Taxes

In accordance with state law [S.L. 2005-88], a room occupancy tax of five percent of the gross receipts derived from the rental of any room, lodging, or accommodation furnished by a hotel, motel, inn, tourist camp, or similar place within the County that is subject to sales tax imposed by the state under G.S. 105-164.4(a)(3) and from the rental of private residences and cottages within the County except those that are exempt from the sales tax imposed under G.S. 105-164.4(a)(3) solely because they are rented for less than 15 days or for 90 or more continuous days to the same person. This tax is in addition to any state or local sales tax. Gross proceeds of the tax are collected by Transylvania County and remitted to the Authority. Collection costs are set in the state law at three percent of the first \$500,000 of gross proceeds collected each year and one percent of the remaining gross receipts collected each year.

Occupancy tax distribution for the year ended June 30, 2021 was as follows:

| | |
|----------------------------|---------------------|
| Occupancy tax distribution | <u>\$ 1,868,005</u> |
|----------------------------|---------------------|

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E. Summary Disclosure of Significant Commitments and Contingencies

Coronavirus Disease (COVID-19)

During the fiscal year 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic has had significant effects on global markets, supply chains, businesses, and communities. Specific to the Authority, COVID-19 is expected to impact various parts of its fiscal year 2021-22 operations and financial results. Management believes the Authority is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as events associated with the pandemic continue to develop.