

**Cherokee County  
Tourism Development Authority**

**Financial Statements**

**June 30, 2020**

**Turner & Company CPAs P.A.**

31 Peachtree Street • Murphy, NC 28906 • Phone (828) 837-8188 • Fax (828) 837-5313

**Cherokee County Tourism Development Authority  
Board of Directors  
as of June 30, 2020**

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**CHAIRPERSON**

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Sandra Daley

**BOARD MEMBERS**

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Phyllis Blackmon  
Steve Dickey  
Joan Posey-Neumann  
Michael Sheidy  
Aurelia Stone  
Cal Stiles

**FINANCE OFFICER**

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Candy R. Anderson, CPA

**Cherokee County Tourism Development Authority**  
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**June 30, 2020**

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# Turner & Company CPAs P.A.

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Cherokee County Tourism Development Authority  
Murphy, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of the Cherokee County Tourism Development Authority, a component unit of Cherokee County, as of and for the year ended June 30, 2020, and the related notes to the 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 an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 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 opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and general fund of the Authority as of June 30, 2020, and the respective changes in financial position, and where applicable, the respective budgetary comparison for the General Fund for the year 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 Management's Discussion and Analysis on pages 3-7 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 principally 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.

*Turner & Company CPAs P.A.*

Turner & Company CPAs P.A.  
Murphy, North Carolina

December 29, 2020

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## Management's Discussion and Analysis

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**Cherokee County Tourism Development Authority**  
**Management's Discussion and Analysis**  
**June 30, 2020**

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As management of the Cherokee County Tourism Development Authority, we offer readers of the Cherokee County Tourism Development Authority's financial statements this narrative overview and analysis of the financial activities of the Cherokee County Tourism Development Authority for the fiscal year ended June 30, 2020. 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 and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$862,385 (net position). Of this amount, \$614,380 (unrestricted net position) or 71.24% may be used to meet the Authority's ongoing obligations.
- The Authority's total net position increased by \$166,092.
- At the close of the current fiscal year, the Authority's governmental fund reported an ending fund balance of \$713,922 an increase of \$169,343 in fund balance. Of this amount, \$614,380 (unassigned fund balance) or 86.06% is *available for spending* at the Authority's discretion.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged in a single governmental program, the fund financial statements and the government-wide statements are combined using a columnar format that reconciles the individual fund financial data in a separate column on the face of the financial statements. The financial statements also include notes that explain some of the information and provide more detailed data.

**Government-wide financial statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**Fund financial statements**

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. The fund of the Cherokee County Tourism Development Authority is considered a governmental fund.

*Governmental funds* All of the Authority's services are reported in a governmental fund, the General 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. The fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can be readily converted to cash. The governmental fund statements provide a *short-term* view of Authority's general governmental operations and the basic services it provides. Governmental financial information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. As noted above, the fund financials and the government-wide financials are combined with a reconciling adjustment column.

The combined fund and government-wide financial statements can be found on pages 8 - 11 of this report.

The Cherokee County Tourism Development 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 the citizens of the Authority, the management of the Authority, and the decisions of the Board 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 budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 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 combined statements. The notes can be found on pages 12-20 of this report.

### Government-Wide Financial Analysis

**Figure 1**  
**The Authority's Net Position**

	<u>2020</u>	<u>2019</u>	<u>Total Percentage Change</u>
<b>Assets</b>			
Current and other assets	\$ 736,072	\$ 559,373	31.59%
Capital assets	<u>148,463</u>	<u>151,714</u>	( 2.14%)
Total assets and deferred outflows of resources	<u>884,535</u>	<u>711,087</u>	24.39%
<b>Liabilities</b>			
Current liabilities	<u>22,150</u>	<u>14,794</u>	49.72%
Total liabilities and deferred inflows inflows of resources	<u>22,150</u>	<u>14,794</u>	49.72%
<b>Net position</b>			
Invested in capital assets	148,463	151,714	( 2.14%)
Restricted			
Stabilization by state statute	99,542	79,776	24.78%
Unrestricted	<u>614,380</u>	<u>464,803</u>	32.18%
Total net position	<u>\$ 862,385</u>	<u>\$ 696,293</u>	23.85%

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Authority exceeded liabilities and deferred inflows by \$862,385 as of June 30, 2020. The Authority's net position increased by \$166,092 for the fiscal year ended June 30, 2020. However, a large portion (17.22%) reflects the Authority's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Cherokee County Tourism Development Authority uses these capital assets for tourism promotion; consequently, these assets are not available for future spending. An additional portion of the Authority's net position, \$99,542 (11.54%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$614,380 (71.24%) is unrestricted.



**Figure 2**  
**Change in The Authority's Net Position**

	<u>2020</u>	<u>2019</u>	<u>Total Percentage Change</u>
<b>Revenues</b>			
Occupancy tax	\$ 416,224	\$ 394,480	5.51%
Total revenues	<u>416,224</u>	<u>394,480</u>	5.51%
<b>Expenses</b>			
Tourism promotion and development	246,881	267,708	-7.78%
Capital expenses	<u>3,251</u>	<u>3,251</u>	0.00%
Total expenses	<u>250,132</u>	<u>270,959</u>	-7.69%
Increase (decrease) in net position	166,092	123,521	34.46%
Net position, beginning	<u>696,293</u>	<u>572,772</u>	21.57%
Net position, ending	<u>\$ 862,385</u>	<u>\$ 696,293</u>	23.85%

**Governmental activities.** Governmental activities increased the Authority's net position by \$166,092, thereby accounting for 100% of the total growth in the net position of the Authority.

### Financial Analysis of the Authority's Funds

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

**Governmental Funds.** The focus of the Cherokee County Tourism Development Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Authority's financing requirements.

At the end of the current fiscal year, the Authority's fund balance available was \$614,380 while total fund balance reached \$713,922. The Authority currently has an available fund balance of 245.62% of general fund expenditures, while total fund balance represents 285.42% of the same amount.

### General Fund Budgetary Highlights

During the fiscal year, the Authority revised the budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, and 3) increases in appropriations that become necessary to maintain services.

There were several reasons the Authority revised its budget throughout the year. As more current information became available, the Authority amended the budget to shift allocations within departments however overall expenditures remained the same.

### Capital Assets and Debt Administration

**Capital Assets.** At June 30, 2020 the Authority had \$148,463 (net of accumulated depreciation) invested in capital assets that included a building. Information on the Authority's capital assets can be found in notes I.E.3. on pages 13-14 and IV.A.3. on page 17.

There were no capital transactions during the year.

**Figure 3**  
**Authority's Capital Assets**  
**(net of depreciation)**

	<b>2020</b>	<b>2019</b>
Buildings	\$ 148,463	\$ 151,714
Total	\$ 148,463	\$ 151,714

**Long-term debt.** The Authority does not have any long-term debt.

### Economic Factors and Next Year's Budget

The following key economic indicator reflects the growth and prosperity of the Authority.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Cherokee County Tourism Development Authority is operating under guidelines suggested for the health and safety of workers and the community. The length or severity of this pandemic cannot be reasonably estimated. In addition, it is not possible to determine the extent to which the pandemic may materially impact the financial position, results of activities, and cash flows of the Authority in subsequent years.

### Budget Highlights for the Fiscal Year Ending June 30, 2021

The 2020-21 budget is very similar to the preceding year's budget with no anticipated increase in occupancy tax revenue reflected in the adopted budget. To alleviate any deficit in revenues the Authority continues to monitor strict spending policies. Advertising and event dollars will be carefully allocated to provide the greatest impact.

### Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional information contact the Candy R. Anderson, CPA, Finance Officer, 75 Peachtree Street, Suite 211, Murphy, NC 28906.

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## Basic Financial Statements

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**Cherokee County Tourism Development Authority**  
**Governmental Fund Balance Sheet / Statement of Net Position**  
**June 30, 2020**

	<u>General Fund</u>	<u>Adjustments (Note II.A)</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
Cash and investments	\$ 636,530	\$ -	\$ 636,530
Due from governmental agencies	99,542	-	99,542
Capital assets:			
Buildings, net of depreciation	-	148,463	148,463
Total assets	<u>736,072</u>	<u>148,463</u>	<u>884,535</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	<u>22,150</u>	-	<u>22,150</u>
<b>FUND BALANCES / NET POSITION</b>			
Fund balances:			
Restricted			
Stabilization by State Statute	99,542	(99,542)	-
Unassigned	<u>614,380</u>	<u>(614,380)</u>	-
Total fund balances	<u>713,922</u>	<u>(713,922)</u>	-
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 736,072</u>		
Net position:			
Net investment in capital assets		148,463	148,463
Restricted			
Stabilization by State Statute		99,542	99,542
Unrestricted		<u>614,380</u>	<u>614,380</u>
Total net position		<u>\$ 862,385</u>	<u>\$ 862,385</u>

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

**Cherokee County Tourism Development Authority**  
**Statement of Governmental Fund Revenues, Expenditures, and**  
**Changes in Fund Balance/Statement of Activities**  
**For the Year Ended June 30, 2020**

	<u>General Fund</u>	<u>Adjustments (Note II.B)</u>	<u>Statement of Activities</u>
Revenues:			
Occupancy tax	\$ 416,224	\$ -	\$ 416,224
Total revenues	<u>416,224</u>	<u>-</u>	<u>416,224</u>
Expenditures/expenses:			
Economic development:			
Tourism promotion and development	246,881	-	246,881
Depreciation expense	-	3,251	3,251
Total expenditures/expenses	<u>246,881</u>	<u>3,251</u>	<u>250,132</u>
Net program revenues	169,343	(3,251)	166,092
Excess (deficiency) of revenues over expenditures	<u>169,343</u>	<u>(169,343)</u>	<u>-</u>
Change in net position	-	166,092	166,092
Fund balance/net position:			
Beginning of year	<u>544,579</u>	<u>151,714</u>	<u>696,293</u>
End of year	<u>\$ 713,922</u>	<u>\$ 148,463</u>	<u>\$ 862,385</u>

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

**Cherokee County Tourism Development Authority**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Positive (Negative)</u>
<b>REVENUES</b>				
Occupancy tax	\$ 340,000	\$ 340,000	\$ 416,224	\$ 76,224
Total revenues	<u>340,000</u>	<u>340,000</u>	<u>416,224</u>	<u>76,224</u>
<b>EXPENDITURES</b>				
Tourism promotion and development:				
Grant program:				
Events and entertainment	6,000	6,000	3,900	2,100
Total grant program	<u>6,000</u>	<u>6,000</u>	<u>3,900</u>	<u>2,100</u>
Strategic plan initiative:				
Action Adventure	3,000	3,000	-	3,000
Great Outdoors	10,000	10,000	286	9,714
Mountain Culture	2,000	2,000	1,000	1,000
Tourism promotion	87,500	87,500	45,970	41,530
Chamber Support	49,000	49,000	47,000	2,000
Miscellaneous expense	2,000	2,000	1,470	530
Total strategic plan initiative	<u>153,500</u>	<u>153,500</u>	<u>95,726</u>	<u>57,774</u>
Visitor Center US 64 Murphy	98,000	98,000	95,442	2,558
Visitor Center US 74 Andrews	53,000	53,000	47,578	5,422
Administrative expenses	300	300	35	265
Professional service expenses	5,000	5,000	4,200	800
Total tourism promotion and development	<u>315,800</u>	<u>315,800</u>	<u>246,881</u>	<u>68,919</u>
Capital outlay	5,000	5,000	-	5,000
Contingency	19,200	19,200	-	19,200
Total expenditures	<u>340,000</u>	<u>340,000</u>	<u>246,881</u>	<u>93,119</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>169,343</u>	<u>169,343</u>
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>169,343</u>	<u>\$ 169,343</u>
Fund balance, beginning			<u>544,579</u>	
Fund balance, ending			<u>\$ 713,922</u>	

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

**Cherokee County Tourism Development Authority**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2020**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Cherokee County Tourism Development 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 Cherokee County Tourism Development Authority is a component unit of Cherokee County. The Authority was created to promote activities and programs, which encourage travel and tourism to the area, is a public authority under the North Carolina General Statutes and is governed by a 7-member appointed board.

The Authority receives room occupancy taxes which are levied on gross receipts derived from the rental of any room, lodging, or similar accommodation furnished by a hotel, motel, or similar establishment within Cherokee County, which is subject to the three percent tax authorized by the State of North Carolina under General Statute 105-164.4(3). The occupancy taxes are levied and collected by the Cherokee County Finance Department and remitted to the Authority.

There is an additional levy of one percent of gross receipts for establishments within Cherokee County which was authorized by the Cherokee County Board of Commissioners under North Carolina Session Law 2009-445, Section 228 and House Bill 2783. These occupancy taxes are collected by the Cherokee County Finance Department and remitted to the Authority.

The accompanying financial statements present the financial position of the Authority. The Authority has no component units.

Cherokee County Board of Commissioners are responsible for appointing the members of the Authority's board. Cherokee County levies the occupancy tax, which is the major source of Authority revenues. Therefore, the Authority is considered a discretely presented component unit of the County and is presented in the County's government-wide financial statements in a separate column.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on the financial activities of the Authority. The Statement of Activities demonstrates the degree to which direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Investment earnings and other items not properly included among the program revenues are reported instead as *general revenues*.

Since the Authority is engaged in a single governmental program, the fund financial statements and the government-wide statements are combined using a columnar format that reconciles the individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements.

**C. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as soon as all the eligibility requirements imposed by the provider have been met.

**C. Measurement Focus and Basis of Accounting**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. All revenues are susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.

The General Fund is the operating fund of the Authority and is used to account for all financial resources.

**D. Budgetary Data**

The Authority's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the object level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity****1. Deposits and Investments**

All deposits of the Authority are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Authority may designate an official depository, any bank or savings 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 depository accounts, and certificates of deposit.

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). The Authority's investments are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT- Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2020, the Term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

**2. Deposits and Investments**

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. The cash resources of the Authority include a checking account held by the Authority for operating needs.

**3. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. The Authority defines capital assets as assets with an initial, individual cost of more than \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.



Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Furniture and Fixtures	7 years
Equipment	5 years
Vehicles	5 years

#### **4. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has no items that meet this criterion.

#### **5. Net Position/Fund Balances**

##### Net Position

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

##### Fund Balances

In the fund financial data column of the combined fund financial statements and government-wide 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:

**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 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 in 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 stand 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 nonspendable. 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.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Cherokee County Tourism Development Authority’s governing body (highest level of decision-making authority). The governing body 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 – portion of fund balance that Cherokee County Tourism Development Authority intends to use for specific purposes.

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified as restricted or committed.

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

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.

**6. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statement, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of adjustments between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position**

When capital assets that are used in governmental activities are purchased, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those assets among the assets of the Authority as a whole.

Cost of capital assets	\$ 162,551
Accumulated depreciation	<u>(14,088)</u>
	<u>\$ 148,463</u>

**B. Explanation of adjustments between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities**

The Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance includes a reconciliation between changes in fund balance-governmental funds and changes in net position of governmental activities as reported in the Government-wide Statement of Activities. One element of this adjustment is that, in the governmental fund, capital outlays are recorded as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their useful lives and reported as depreciation.

Depreciation expense	<u>\$ 3,251</u>
	<u>\$ 3,251</u>

**III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****A. Significant Violations of Finance-Related Legal and Contractual Provisions****1. Noncompliance with North Carolina General Statutes**

None Noted.

**2. Contractual Violations**

None Noted.

**B. Deficit in Fund Balance of Individual Funds not Appropriated in Subsequent Year's Budget Ordinance**

None Noted.

**C. Excess of Expenditures over Appropriations**

None Noted.

**IV. DETAILED NOTES ON THE GENERAL FUND****A. Assets****1. Deposits**

The deposits of the Authority are governed by North Carolina General Statutes which allow depositories to collateralize excess deposits above Federal depository insurance coverage under one of two methods. Under the Dedicated Method, all deposits that exceeding the Federal depository insurance coverage level are collateralized with securities held by the Authority's agents in the Authority's name. 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 agents 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 with 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 under collateralization. This risk may increase in periods of high cash flow. 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 does not have policies 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, 2020, the Authority's deposits had a carrying amount of \$636,530 and a bank balance of \$636,565. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$386,565 was covered by collateral held under the Pooling Method.

**2. Receivables**

Due from governmental agencies at the government-wide level at June 30, 2020, were as follows:

	<u>Accounts</u>	<u>Total</u>
Governmental Activities:		
General	\$ 99,542	\$ 99,542
Total governmental activities	<u>\$ 99,542</u>	<u>\$ 99,542</u>

**3. Capital Assets**

Capital asset activity for the year ended June 30, 2020, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets being depreciated:				
Buildings	\$ 162,551	\$ -	\$ -	\$ 162,551
Total capital assets being depreciated	<u>162,551</u>	<u>-</u>	<u>-</u>	<u>162,551</u>
Less accumulated depreciation for:				
Buildings	10,837	3,251	-	14,088
Total accumulated depreciation	<u>10,837</u>	<u>3,251</u>	<u>-</u>	<u>14,088</u>
Total capital assets being depreciated, net	<u>\$ 151,714</u>			<u>\$ 148,463</u>

Depreciation expense for the year was \$3,251.

**B. Liabilities**

**1. Payables**

Payables at the government-wide level at June 30, 2020, were as follows:

	<u>Vendors</u>	<u>Other</u>	<u>Total</u>
Governmental activities:			
General	\$ 22,150	\$ -	\$ 22,150
Total governmental activities	<u>\$ 22,150</u>	<u>\$ -</u>	<u>\$ 22,150</u>

**2. Operating Leases**

The Authority has no lease agreements.

**C. Fund Balance**

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

Total Fund Balance - General Fund	\$ 713,922
Less:	
Stabilization by State Statute	99,542
Remaining Fund Balance	614,380

**V. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts: theft of; damage to; and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims have not exceeded purchased insurance coverage in any of the past three fiscal years.

The Authority protects itself from potential loss through the County's purchase of insurance from commercial

In accordance with G.S. 159-29, The County's employees that have access to \$100 or more at any given time of the County's funds are required to be performance bonded through a commercial surety bond. The Finance Officer was bonded for the fiscal year ended June 30, 2020 for \$50,000 with a separate bond solely for the Authority.

**VI. NEW ACCOUNTING PRONOUNCEMENTS*****Pronouncements effective for the 2020 Financial Statements:***

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

***Pronouncements issued, but not yet effective, which will be adopted by the Authority in future years. As of the date of this report, the Authority has not determined the financial impact of implementing the following Statements:***

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The effective date of this Statement has been postponed for reporting periods beginning after December 15, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The effective date of this Statement has been postponed for reporting periods beginning after June 15, 2021.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The effective date of this Statement has been postponed for reporting periods beginning after December 15, 2020.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*. This new standard aims to provide consistency in the reporting of majority equity interests and improve the relevance of information related to certain component units. The effective date of this Statement has been postponed for reporting periods beginning after December 15, 2019.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The effective date of this Statement has been postponed for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement are effective as follows:

The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.

The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

## **VII. SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through December 29, 2020, the date the financial statements were available to be issued, for possible recognition of events requiring recording or disclosure in the accompanying financial statements for the year ended June 30, 2020. No events have occurred which would have a material effect on the financial statements of the Authority as of that date.