

**Nash County Tourism Development
Authority**

Financial Statements

Year Ended June 30, 2004

**Pate, Horton & Ess, P.A.
Certified Public Accountants**

**Nash County Tourism Development Authority
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Independent Auditors' Report

To the Board Members of
Nash County Tourism Development Authority
Nashville, North Carolina

We have audited the accompanying financial statements of the Nash County Tourism Development Authority, a component unit of Nash County, North Carolina, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Nash County Tourism Development Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activity and the budgetary comparison for the general fund as of June 30, 2004 and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Pate, Horton & Ess, P.A.
Pate, Horton & Ess, P.A.
Nashville, North Carolina
August 12, 2004

Management's Discussion and Analysis

This section of the Nash County Tourism Development Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the financial statements that follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$444,677 (*net assets*). Of this amount \$444,677 (*unrestricted net assets*) may be used to meet the Authority's ongoing obligations.

- The Authority's total net assets decreased by \$157,434, which is a result of expenses exceeding revenues for Tourism Promotions, General and Administration expense, due to one-time funding expenditures for establishment of a Farmer's Market.

- As of the close of the current fiscal year, the Authority's governmental fund reported an ending fund balance of \$444,677 a decrease of \$157,434 in comparison with prior year. All of the Fund Balance is available for spending at the Authority's discretion (*unreserved fund balance*). The unreserved Fund Balance represents approximately 55% of the general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Nash County Tourism Development Authority is considered a Special Purpose Government for reporting purposes. It operates only one program, and therefore, can present a combined Government-wide and Fund Financial Statement. Government wide amounts are presented in one column and fund amounts in another. The column between the two reconciles these amounts.

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

The statement of activities presents information showing how the Authority's net assets 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 has one governmental kind of 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. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a *short-term* view of the 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.

Both Government-wide and Fund Financial Statement information is presented in Exhibits 1- 3.

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 the pages 1 – 5 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$444,677 at the close of June 30, 2004. All of the Authority's net assets, \$ 444,677, are in *unrestricted net assets* – the part of net assets that can be used to finance day-to-day operations of the tourism industry of Nash County and its creditors. Net assets decreased 26.15% from 2003 primarily for a one-time payment for a local Farmer's Market.

The Authority's Net Assets

	2004	2003	% Change 2003-2004
Current assets			
Cash and investments	\$ 407,319	\$ 565,291	-27.95%
Taxes receivable	39,900	42,220	-5.50%
Total assets	\$ 447,219	\$ 607,511	-26.39%
Current liabilities			
Accounts payable	\$ 2,542	\$ 5,400	-52.93%
Total liabilities	\$ 2,542	\$ 5,400	-52.93%
Net assets			
Restricted for Economic & Physical Development	\$ 444,677	\$ 602,111	-26.15%
Total net assets	\$ 444,677	\$ 602,111	-26.15%

The single governmental program activities were responsible for the total decrease of \$157,434 in the Authority's net assets. Revenue only increased moderately but expenses for one-time costs were up \$148,626 for payments to the establishment of a Farmer's Market and N.C. Wesleyan.

Changes in The Authority's Net Assets

	2004	2003	% Change 2003-2004
Revenues			
General Revenues	640,765	\$ 625,481	2.44%
Occupancy taxes	3,353	6,304	-46.81%
Investment earnings	\$ 644,118	\$ 631,785	1.95%
Expenses			
Tourism promotion	796,208	\$ 649,517	22.58%
General and administrative	5,344	3,409	56.76%
Total expenses	801,552	\$ 652,926	22.76%
Decrease in net assets	\$(157,434)	\$ (21,141)	644.69%

Governmental Fund Financial Analysis
The focus of the Authority's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financial requirements. In particular, *unreserved fund balance* may serve as 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 June 30, 2004 fiscal year, the Authority's governmental fund reported an ending fund balance of \$444,677 a decrease of \$157,434 in comparison with the prior year.

In compliance with North Carolina General Statute 105164.4(3) and Senate Bill 56 under which the Authority is authorized, the \$444,677 fund balance as of the end of the current fiscal year is allocated for tourism promotion and special events. Additional information on the Authority's authorization and operations under these statutes can be found beginning on note 1 on page 1 of this report.

The \$157,434 decrease in the Authority's General Fund fund balance during the current fiscal year was a result of revenues of \$644,118 offset by Expenditures of \$801,552 in tourism promotion and general activities.

General Fund Budgetary Highlights

The Authority revised its budget two times with an amendment. During the year the revenues exceeded budget, but the expenditures were less than budget; however, the expenditures exceeded the revenues for the fiscal year, thus necessitating the use of \$157,434 of fund balance.

Capital Assets and Debt Administration

Capital assets. The Authority does not have any capital assets.

Long-term debt. The Authority does not have any longterm debt.

Economic Factors and Next Year's Budget

- Unemployment in the State of North Carolina was 5.5% as of June 30, 2004; however, the Nash County unemployment rate was much higher at 7.7%. Still this is a slight decline from the 8.4% rate in the prior year.
- Factors contributing to the higher than state average for Nash County are the nationwide recession and reductions in workforce, due to plant closings.
- The Nash County area's hotel/lodging accommodation gross rental revenues were \$22,446,064, \$ 21,876,295, and \$22,008,558 for the 2004, 2003 and 2002 fiscal years, respectively.
- Nash County maintained its current 5% occupancy tax rate of which 3% is distributed to the Authority and 2% to the City of Rocky Mount.

The Authority's management considered several factors when setting the fiscal year 2005 budget. One of these factors is the economy. Travel and tourism is reduced when unemployment is increased and thus occupancy tax receipts, which form the backbone of the revenues that support the Authority's programs, are projected to remain the same as that of the 2004 fiscal year budget. The economic downturn has greatly impacted interest rates causing a substantial decline in interest earnings. The Authority will continue to enhance efforts to promote tourism and travel within Nash County by seeking new opportunities to draw individuals to the community.

All of these factors were considered in preparing the Authority's budget for the 2005 fiscal year.

During the current fiscal year, unreserved fund balance reached \$ 379,777. The Authority did not designate any fund balance in the 2005 fiscal year budget.

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 questions about this report or need additional financial information, contact the office of the Director of Finance, Nash County Tourism Development Authority, 120 West Washington Street, Suite 3072, Nashville, NC 27856.

**Nash County Tourism Development Authority
Governmental Fund Balance Sheet/Statement of Net Assets
June 30, 2004**

Statement of Net Assets	Adjustments	General Fund	-	-	ASSETS
		\$ 407,319	-	-	Current assets:
		39,900	-	-	Cash and investments
		447,219	-	-	Taxes receivable
		\$ 447,219	-	-	Total assets
		2,542	-	-	LIABILITIES
		\$ 2,542	-	-	Current liabilities:
		2,542	-	-	Accounts payable
		2,542	-	-	Total liabilities
		39,900			FUND BALANCES/NET ASSETS
		25,000			Fund balances:
		379,777			Reserved by State statute
		444,677			Designated
		447,219			Undesignated
		\$ 447,219			Total fund balances
		444,677			Total liabilities and fund balances
		444,677			Net assets:
		444,677			Unrestricted
		\$ 444,677			

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

Nash County Tourism Development Authority
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/
Statement of Activities
 Year Ended June 30, 2004

Statement of	Fund	Adjustments	Statement of
Net Assets	640,765	-	Net Assets
	3,353	-	
	<u>644,118</u>	-	
Revenues:			
Occupancy taxes	\$ 640,765	-	
Investment earnings	3,353	-	
Total revenues	<u>644,118</u>	-	
Expenditures/Expenses:			
Tourism promotion	796,208	-	
General and administrative	5,344	-	
Total expenditures/expenses	<u>801,552</u>	-	
Revenues over expenditures/expenses	(157,434)	-	
Fund balance/net assets:			
Beginning of year	602,111	-	
End of year	<u>\$ 444,677</u>		

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

**Nash County Tourism Development Authority
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual**

Year Ended June 30, 2004

Variance with Final Budget	Positive (Negative)	Budget			Actual
		Original	Final		
		\$ 615,000	\$ 615,000	\$ 640,765	\$ 25,765
		5,000	5,000	3,353	(1,647)
		620,000	620,000	644,118	24,118
		Revenues:			
		Occupancy taxes			
		Investment earnings			
		Total revenues			
		Expenditures:			
		Tourism promotion:			
		Contributions to:			
		Nash County Visitor's Bureau	400,000	400,000	400,000
		Rocky Mount Chamber of Commerce	-	10,000	10,000
		North Carolina Wesleyan College	25,000	75,000	75,000
		Downeast Football Classic	20,000	20,000	20,000
		Tar River Orchestra	20,000	20,000	20,000
		Economic development	100,000	100,000	100,000
		Utilities-Interstate 64/95 interchange	50,000	50,000	37,708
		City Club	-	25,000	25,000
		Rocky Mount Farmer's Market	-	100,000	100,000
		Tar River Pier Project	-	25,000	25,000
		Miscellaneous	9,500	9,500	8,500
		Total tourism promotion	624,500	834,500	796,208
		General and administrative:			
		Advertising, travel and supplies	2,600	2,600	3,494
		Professional fees	2,000	2,000	1,850
		Total general and administrative	4,600	4,600	5,344
		Total expenditures	629,100	839,100	801,552
		Revenues over(under) expenditures	(9,100)	(219,100)	(157,434)
		Fund balance appropriated	9,100	219,100	-
		Excess of revenues over expenditures	\$ -	\$ -	(157,434)
		Fund balance, beginning of year			602,111
		Fund balance, end of year			\$ 444,677

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

**Nash County Tourism Development Authority
Notes to Financial Statements
Fiscal Year Ended June 30, 2004**

1. Summary of significant accounting policies

The accounting policies of 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 Nash County Tourism Development Authority is a governmental entity established effective July 1, 1987 under a State Senate Bill of the State of North Carolina. Operations of the Authority are to promote travel, tourism and conventions in the County, sponsor tourist-related events and activities in the County, and to finance tourist-related capital projects in the County.

The Board of Commissioners of Nash County, North Carolina selects the governing board of the Authority and, in accordance with the State Senate Bill, the Finance Officer for Nash County also serves as Finance Officer for the Authority. The Authority designates its own management, and approves its own budget. In addition, the County provides no financial support to the Authority, is not obligated for the Authority's debts or entitled to any surpluses of the Authority. Nash County, North Carolina is accountable for the Authority because it appoints the Authority's governing board; however, Nash County, North Carolina is not financially accountable for the Authority. Therefore, the Authority is reported as a component unit to Nash County, North Carolina's general purpose financial statements.

B Basis of Presentation

Government-wide statements:

The statement of net assets and the statement of activities display information about the government. These statements include the financial activities of the overall government. Government activities generally are financed through taxes and other nonexchange transactions.

The statement of activities presents direct expenses and program revenue for the function of the Authority's government activity. 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 and services offered by the program and (b) grants and contributions that are restricted to the 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.

Fund financial statements:

The fund financial statements provide information about the Authority's funds. The Authority has only one governmental fund: the general fund.

General Fund - The General Fund is the only fund of the Authority. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are occupancy taxes and investment earnings. The primary expenditures are for tourism promotion.

C. Measurement Focus and Basis of Accounting
In accordance with North Carolina General Statutes, the fund of the Authority is maintained during the year using the modified accrual basis of accounting.

Government-wide financial statements:
The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using 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. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are earned.

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. The Authority considers all revenues available if they are collected within 60 days after year-end.

There were no modifications to be made between the accrual basis of accounting in the government-wide financial statements and the modified accrual basis of accounting in the governmental fund financial statements.

D. Budgetary Data

The Authority's budget is 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 functional level for all annually budgeted funds and at the object level for the multi-year funds. All budget amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, 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, as 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 accounts, and certificates of deposits.

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 with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

2. Cash and Cash Equivalents

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

3. Allowance for Doubtful Accounts

Allowances for doubtful accounts are not maintained on any types of receivables as they are not material in amount to the financial statements.

4. Net Assets/Fund Balances

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt, restricted, and unrestricted. Restricted net assets represent 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. In governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance or fund equity for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The government fund types classify fund balances as follows:

Reserved:

Reserved by State statute - portion of fund balance which is NOT available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables which have not been offset by deferred revenues.

Unreserved:
Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2004-2005 budget ordinance.

Undesignated:
Portion of total fund balance available for appropriation that is uncommitted at year-end.

II. Detail Notes on Fund

A. Assets

1. Deposits

All the deposits of the Authority are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the unit'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 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. Depositors 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.

At June 30, 2004, the Authority's deposits had a carrying amount of \$146,721 and a bank balance of \$95,063. All of the bank balance was covered by federal depository insurance or collateralized under the Pooling Method.

2. Investments

The investments in the North Carolina Capital Management Trust are exempt from risk categorization because the Authority does not own any identifiable securities, but is a shareholder of a percentage of the fund.

At June 30, 2004, the Authority had \$260,598 invested with the North Carolina Capital Management Trust's Cash Portfolio. This amount reflects both the reported value and the fair value.

B. Liabilities

1. Commitments

On June 30, 2004 the Authority had no material contractual commitments.

2. 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. The Authority's board is covered under Nash County's public officials liability policy. The County participates in a financing pool through the risk management agency of the North Carolina Association of County Commissioners. Through this pool, the County obtains general liability coverage of \$2 million per occurrence.

The finance officer for Nash County is the ex officio finance officer of the Authority. The County carries a \$20,000 fidelity bond on the finance officer.

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.

3. Claims and Judgments

There were no claims or judgments against the Authority at June 30, 2004.

III. Related Party Transactions

Nash County is responsible for collection and distribution of occupancy tax revenue to the Authority. The taxes collected by the County are remitted, net of collection fees, to the Authority on a monthly basis. As of June 30, 2004, the Authority had receivables of \$39,900 from Nash County.