

# **Hillsborough Tourism Development Authority**

**(A Component Unit of the Town of Hillsborough, North Carolina)**

---

**Financial Statements, Supplementary  
Information and Report of Independent Auditor**

**As of and for the year ended June 30, 2020**

***This page left blank intentionally.***

## Table of Contents

### Financial Section

Report of Independent Auditor's .....	1
Management's Discussion and Analysis .....	3

### *Basic Financial Statements*

<u>Exhibit</u>	<i>Government-Wide Financial Statements:</i>	
1	Statement of Net Position .....	11
2	Statement of Activities .....	12
	<i>Fund Financial Statements:</i>	
3	Balance Sheet - Governmental Fund .....	13
4	Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund.....	14
5	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund .....	15
	<b>Notes to Financial Statements</b> .....	17

### *Supplementary Information*

### *Individual Fund Schedules*

<u>Schedule</u>		
1	Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund .....	23

## Report of Independent Auditor

To the Board of Directors  
Tourism Development Authority  
Hillsborough, North Carolina

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Hillsborough Tourism Development Authority (the "Authority"), a component unit of Town of Hillsborough, North Carolina, as of and for the year ended June 30, 2020, 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 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 audit 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 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 Authority'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 Authority'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 financial 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, based on our audit, 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, 2020, 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.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and changes in financial position that are only attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of Town of Hillsborough, North Carolina as of June 30, 2020, or the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") 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 MD&A 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.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Authority. The individual fund schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The individual fund schedule is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the individual fund schedule, as listed in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Chemy Bekaert LLP*

Raleigh, North Carolina  
November 18, 2020

***This page left blank intentionally***

## **Management's Discussion and Analysis**

As management of the Hillsborough Tourism Development Authority (the "Authority" or "TDA"), 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, 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.

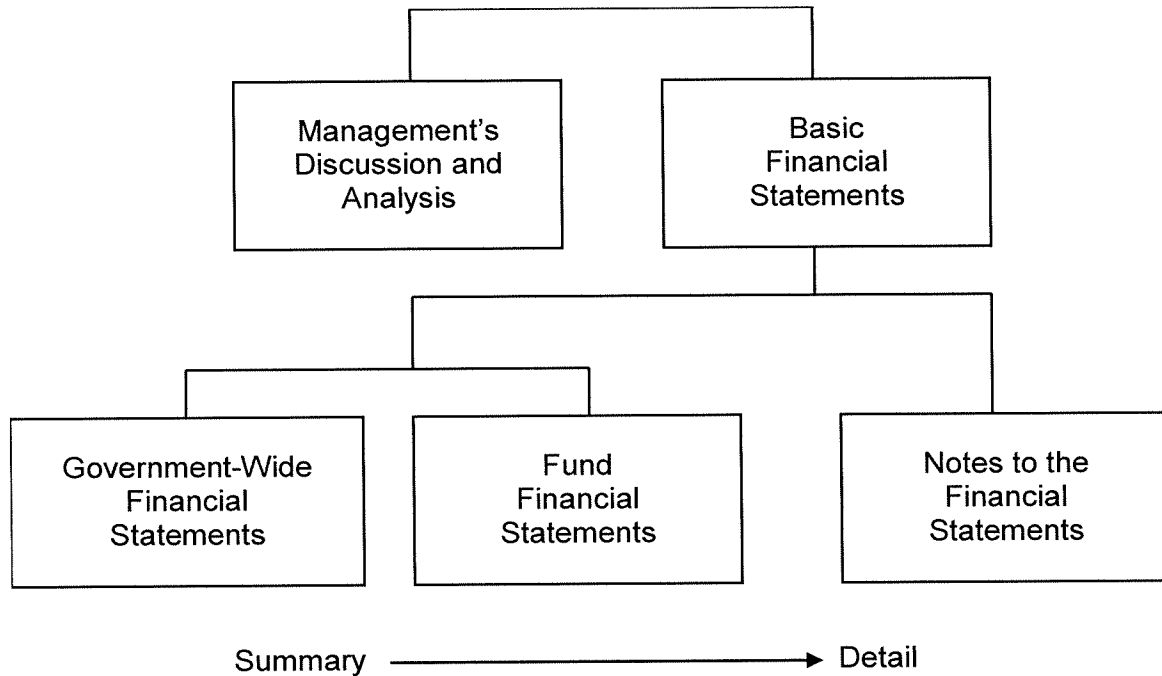
### **Financial Highlights**

- The assets and deferred outflows of resources of the Hillsborough Tourism Development Authority exceeded its liabilities at the close of the fiscal year by \$266,575 (net position).
- The government's total net position increased by \$4,493 due to payments for occupancy taxes collected and remitted to the Authority by the Town of Hillsborough.
- As of the close of the current fiscal year, the Hillsborough Tourism Development Authority's governmental fund reported a fund balance of \$266,575. This amount is comprised of restricted fund balance of \$8,335, assigned fund balance of \$67,572, and unassigned fund balance of \$190,668

### **Overview of the Financial Statements**

This Discussion and Analysis is intended to serve as an introduction to the Hillsborough Tourism Development 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 supplemental information that will enhance the reader's understanding of the financial condition of the Hillsborough Tourism Development Authority.

Required Components of Annual Financial Report  
Figure 1



**Basic financial statements**

The first two statements (Exhibits 1 and 2) 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 3 through 5) 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**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Authority's individual funds. Budgetary information required by the General Statutes also can be found in this part of the 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 deferred outflows of resources, and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Authority's financial condition.

The government-wide statements are comprised of governmental activities. The governmental activities include most of the Authority's basic services related to tourism. Funds received by the Town of Hillsborough for occupancy taxes finance the majority of these activities.



**Hillsborough Tourism Development Authority  
Management's Discussion and Analysis**

---

The government-wide financial statements are on Exhibits 1 and 2 of this report.

***Fund financial statements***

The fund financial statements (see Figure 1) 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 Hillsborough Tourism Development Authority, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the General Statutes or the Authority's budget ordinance. All of the funds of the Hillsborough Tourism Development Authority can be placed into one category: governmental funds.

**Governmental funds** - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Hillsborough Tourism Development Authority's basic services are accounted for in governmental funds. These funds focus 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 relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

**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 are on pages 17 through 20 of this report.

***Government-wide financial analysis***

**The Hillsborough Tourism Development Authority's Net Position  
Figure 2**

	<u>Governmental Activities 2020</u>	<u>Governmental Activities 2019</u>
Current assets	\$ 266,805	\$ 263,541
Total assets	<u>266,805</u>	<u>263,541</u>
Current liabilities	<u>230</u>	<u>1,459</u>
Total liabilities	<u>230</u>	<u>1,459</u>
Net position:		
Restricted	8,335	1,299
Unrestricted	<u>258,240</u>	<u>260,783</u>
Total net position	<u>\$ 266,575</u>	<u>\$ 262,082</u>

**Hillsborough Tourism Development Authority  
Management's Discussion and Analysis**

---

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 Hillsborough Tourism Development Authority exceeded liabilities by \$266,575 as of June 30, 2020. The Authority's net position increased by \$4,493 for the fiscal year ended June 30, 2020. A portion of the Hillsborough Tourism Development Authority's net position, \$8,335, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$258,240 is unrestricted.

**The Hillsborough Tourism Development Authority's Changes in Net Position  
Figure 3**

	<u>Governmental Activities 2020</u>	<u>Governmental Activities 2019</u>
Revenues		
Payments from Town of Hillsborough	\$ 60,347	\$ 71,028
Expenses	<u>55,854</u>	<u>59,824</u>
Increase in net position	4,493	11,204
Net position, July 1	<u>262,082</u>	<u>250,878</u>
Net position, June 30	<u>\$ 266,575</u>	<u>\$ 262,082</u>

**Governmental activities.** Governmental activities increased the Authority's net position by \$4,493, thereby accounting for the total increase in the net position of the Hillsborough Tourism Development Authority. While net position has improved overall revenues have increased slightly.

***Financial analysis of the Authority's funds***

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

**Governmental funds.** The focus of the Hillsborough 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 Hillsborough Tourism Development Authority's financing requirements. Specifically, unassigned 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 chief operating fund of the Hillsborough Tourism Development Authority. At the end of the current fiscal year, total fund balance reached \$266,575, of which \$8,335 was restricted by state statute, \$67,572 was assigned and \$190,668 was unassigned.

At June 30, 2020, the governmental fund of the Hillsborough Tourism Development Authority reported a combined fund balance of \$266,575.

***Economic factors and next year's budgets and rates***

By authority of the General Assembly Session Law 2011-69, Senate Bill 269, the Hillsborough Board of Commissioners has implemented a 3 percent occupancy tax as of April 9, 2012. Effective July 1, 2012, the enabling legislation requires the tax to be paid on 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 Town of Hillsborough that is subject to sales tax imposed by the state under GS 105-164.4(a)(3). This tax is in addition to any state and local sales tax or the Orange County occupancy tax.

## **Hillsborough Tourism Development Authority Management's Discussion and Analysis**

---

The Town of Hillsborough implemented the tax for promotion of travel and tourism in Hillsborough and for other tourism-related expenditures. The responsibility for the distribution and expenditure of the tax is vested within the Hillsborough Tourism Development Authority, of which one-third of the membership must be persons affiliated with businesses that collect the tax in Hillsborough.

### ***Budget highlights for the fiscal year ending June 30, 2021***

Occupancy tax revenues are expected to continue to decline due to the lack of tourism as a result of COVID-19. The fund balance appropriation for FY21 comprises of 71.5% of the budget. The continued focus is on advertising and special projects and partnerships. The combined budget for these two categories comprises 68.3% of the total budget.

The Tourism Development Authority is currently in the final fiscal year of a five-year contract with the Town of Hillsborough (contract expires June 30, 2021) to support and retain 30% of the time of a full time Economic Development Planner position (\$24,000 flat rate) to support the Tourism Development Authority and manage the overall tourism program.

The Tourism Development Authority planned to partner again with the Hillsborough Chamber of Commerce for the fourth annual *Sundays in Hillsborough Concert Series* (\$10,000), with concerts being held from 2:30 to 5:30 p.m. for 12 weeks from September to November. The goal of this program is to offer events that will drive tourism on Sunday and during the early part of the week to create a full weekend of activities and to keep downtown shops and restaurants open in an effort to keep downtown vibrant on Sundays leading up to the holiday season. However, this will not occur due to COVID-19.

There is \$40,000 budgeted for the purchase of a mobile stage to be used for various community concerts and events.

The budget remaining after these initiatives and administrative costs will be used to fund advertising and special project opportunities presented during the fiscal year.

### ***Requests for information***

This report is designed to provide an overview of the Hillsborough Tourism Development 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 the Finance Officer, c/o Hillsborough Tourism Development Authority, Hillsborough, North Carolina, or by telephone at (919) 296-9451.

***This page left blank intentionally.***

## ***Basic Financial Statements***

***This page left blank intentionally.***

**Hillsborough Tourism Development Authority**  
**Statement of Net Position**  
**June 30, 2020**

**Exhibit 1**

	<u>Governmental Activities</u>	<u>Total</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 258,470	\$ 258,470
Due from Town of Hillsborough	8,248	8,248
Sales tax receivable	87	87
	<u>266,805</u>	<u>266,805</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>230</u>	<u>230</u>
<b>NET POSITION</b>		
Restricted for stabilization by State Statute	8,335	8,335
Unrestricted	<u>258,240</u>	<u>258,240</u>
	<u>\$ 266,575</u>	<u>\$ 266,575</u>

**Hillsborough Tourism Development Authority  
Statement of Activities  
Year Ended June 30, 2020**

**Exhibit 2**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expense) and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Economic and physical development	\$ 55,854	\$ -	\$ -	\$ -	\$ (55,854)
Total governmental activities	<u>\$ 55,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(55,854)</u>
General revenues:					
					60,347
					<u>60,347</u>
					4,493
					<u>262,082</u>
					<u>\$ 266,575</u>



**Hillsborough Tourism Development Authority**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2020**

**Exhibit 3**

	<u>Major Fund</u> <u>General</u>	<u>Total</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 258,470	\$ 258,470
Due from Town of Hillsborough	8,248	8,248
Sales tax receivable	87	87
	<u>\$ 266,805</u>	<u>\$ 266,805</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 230	\$ 230
	<u>230</u>	<u>230</u>
<b>FUND BALANCE</b>		
Restricted		
Restricted for stabilization by state statute	8,335	8,335
Assigned		
Subsequent year's expenditures	67,572	67,572
Unassigned	190,668	190,668
	<u>266,575</u>	<u>266,575</u>
Total fund balance	<u>266,575</u>	<u>266,575</u>
Total liabilities and fund balance	<u>\$ 266,805</u>	<u>\$ 266,805</u>

**Hillsborough Tourism Development Authority**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**Year Ended June 30, 2020**

**Exhibit 4**

---

	<u>Major Fund</u> <u>General</u>	<u>Total</u>
Payments from Town of Hillsborough	\$ 60,347	\$ 60,347
Administrative expenditures	<u>55,854</u>	<u>55,854</u>
Net change in fund balance	4,493	4,493
Fund balance, beginning of year	<u>262,082</u>	<u>262,082</u>
Fund balance, end of year	<u><u>\$ 266,575</u></u>	<u><u>\$ 266,575</u></u>

**Hillsborough Tourism Development Authority**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2020**

**Exhibit 5**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>				
Payments from Town of Hillsborough	\$ 65,800	\$ 65,800	\$ 60,347	\$ (5,453)
Total revenues	<u>65,800</u>	<u>65,800</u>	<u>60,347</u>	<u>(5,453)</u>
<b>Expenditures</b>				
Tourism	<u>70,550</u>	<u>113,550</u>	<u>55,854</u>	<u>57,696</u>
Total expenditures	<u>70,550</u>	<u>113,550</u>	<u>55,854</u>	<u>57,696</u>
Revenues over expenditures	<u>(4,750)</u>	<u>(47,750)</u>	<u>4,493</u>	<u>52,243</u>
Appropriated fund balance	<u>4,750</u>	<u>47,750</u>	<u>-</u>	<u>(47,750)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	4,493	<u>\$ 4,493</u>
Fund balance, beginning of year			<u>262,082</u>	
Fund balance, end of year			<u>\$ 266,575</u>	

***This page left blank intentionally.***

## Notes to the Financial Statements

### Summary of Significant Accounting Policies

The accounting policies of the Hillsborough Tourism Development Authority conform to generally accepted accounting principles as applicable to government entities. The following is a summary of the more significant accounting policies:

#### **A. Reporting entity**

The Hillsborough Tourism Development Authority ("Authority") was created on April 9, 2012 by resolution of the Town of Hillsborough, North Carolina, under the authority of the North Carolina General Assembly. The Authority is responsible for promoting travel and tourism in the Hillsborough area. A balanced budget is created for the Authority and adopted by its Board of Directors. The Authority receives revenue through a three percent occupancy tax, which is levied and collected by the Town of Hillsborough. The occupancy tax became effective on July 1, 2012. The Town remits the taxes collected to the Authority, net of administration and collection costs not to exceed three percent of the first \$500,000 of gross proceeds and one percent of the remaining gross proceeds collected each year. At least two-thirds of the remaining proceeds must be used to promote travel and tourism in Hillsborough. The other third shall be used for tourism-related expenditures.

The members of the Authority are appointed by the Town of Hillsborough, North Carolina. In addition, the Town levies and collects the occupancy taxes that are rendered to the Authority. Therefore, the Authority is included in the reporting entity of the Town of Hillsborough under GASB Statement 14.

#### **B. Government-wide and fund financial statements**

**Government-wide financial statements**, the statement of net position and the statement of activities, display information about the government entity. These statements include the financial activities of the overall governmental entity.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include fees and charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues are presented as general revenues.

**Fund Financial Statements** provide information about the Authority's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Authority reports the following major governmental fund:

The **General Fund** is the general operating fund of the Authority. It accounts for all financial resources.

#### **C. Measurement focus and basis of accounting**

**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. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental fund financial statements** 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

**Hillsborough Tourism Development Authority**  
**Notes to Financial Statements**

---

available. Expenditures are recorded when the related fund liability is incurred. Loan disbursements are reported as expenditures and loan proceeds are reported as revenues in governmental funds.

The Authority recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized on the modified accrual basis of accounting when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (or from) another party without receiving (or giving) equal or nearly equal value in return. The Authority considers all revenues available if they are collected within 90 days after year end.

**D. Budgetary data**

Budgets are adopted as required by state statute. An annual budget ordinance is adopted for the General Fund. All annual appropriations lapse at 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. Any revisions that alter total expenditures of any fund must be approved by the governing board.

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 net position or equity**

(1) Deposits and investments

All deposits of the Authority are made in board-designated official depositories and are secured as required by 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 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 nonguaranteed federal agencies; certain high-quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust, an SEC-registered mutual fund. Investments are stated at fair value.

(2) Cash and cash equivalents

All bank deposits are essentially demand deposits and are considered cash and cash equivalents.

(3) Receivables

Receivables at the government – wide level at June 30, 2020, were as follows:

Occupancy taxes due for the month of June	\$8,248
Sales taxes receivable	<u>87</u>
	<u>\$8,335</u>

(4) Allowances for doubtful accounts

The receivables reported do not historically experience any uncollectible amounts and therefore do not include an amount for doubtful accounts.

(5) Net position/fund balance

Net position in 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 externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through state statute.

## Hillsborough Tourism Development Authority Notes to Financial Statements

---

### Fund balances

In the governmental fund financial statements, fund balance may be 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 the Authority's governing body (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

*Assigned fund balance* - portion of fund balance that the 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 in restricted or committed. The governing body approves the appropriation.

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

## 2. Detail Notes on All Funds

### A. Deposits

All of 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 Authority's agents 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 its name. The amount of the pledged collateral is based on an approved averaging method for noninterest-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

**Hillsborough Tourism Development Authority**  
**Notes to Financial Statements**

---

under the Pooling Method, the potential exists for under collateralization, 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 risks for deposits.

At June 30, 2020, the Authority's deposits had a carrying amount and bank balance of \$258,470. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$8,470 of demand deposits were covered under the Pooling Method.

**B. 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; and natural disasters. As a separate entity the Authority has purchased insurance to mitigate these risks.

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.

The Authority does not carry flood insurance.

In accordance with G.S. 159-29, the Authority's employees that have access to \$100 or more at any given time of the Authority's funds are performance bonded through a commercial surety bond. The Finance Officer is individually bonded for \$50,000.

**C. Fund balance**

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

Total fund balance - General Fund	\$ 266,575
Less:	
Stabilization by state statute	8,335
Assigned for subsequent year's expenditures	<u>67,572</u>
Unassigned fund balance	190,668
Working capital/fund balance policy	-
Remaining fund balance	<u>\$ 190,668</u>

**D. Related party transactions**

Occupancy tax revenues of \$60,347 from the Town of Hillsborough are included in the financial statements for the year ended June 30, 2020.

**E. Contingencies**

During 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result of the spread of COVID-19, economic uncertainties have arisen that could negatively impact the Authority's revenue and operations for an indeterminable period of time. Other financial impacts could occur that are unknown at this time.

**F. Subsequent Events**

The Tourism Development Authority has evaluated all subsequent events for potential recognition and disclosure through November 18, 2020, the date these financial statements will be available.



***Supplementary Information***

***This page left blank intentionally.***

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

**Schedule 1**

	<u>Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Payments from Town of Hillsborough	\$ 65,800	\$ 60,347	\$ (5,453)
Total revenues	<u>65,800</u>	<u>60,347</u>	<u>(5,453)</u>
<b>Expenditures</b>			
Advertising	20,970	9,702	11,268
Attorney fees	350	-	350
Audit fees	3,350	3,000	350
Contracted services - support services	24,000	24,000	-
Data processing services	2,900	939	1,961
Insurance	980	925	55
Miscellaneous	1,000	-	1,000
Training, conferences and conventions	1,000	-	1,000
Occupancy tax holdback	-	1,038	(1,038)
Special projects and partnerships	<u>59,000</u>	<u>16,250</u>	<u>42,750</u>
Total expenditures	<u>113,550</u>	<u>55,854</u>	<u>57,696</u>
Revenues over expenditures	<u>(47,750)</u>	<u>4,493</u>	<u>52,243</u>
Appropriated fund balance	<u>47,750</u>	<u>-</u>	<u>(47,750)</u>
Net change in fund balance	<u>\$ -</u>	<u>4,493</u>	<u>\$ 4,493</u>
Fund balance, beginning of year		<u>262,082</u>	
Fund balance, end of year		<u>\$ 266,575</u>	