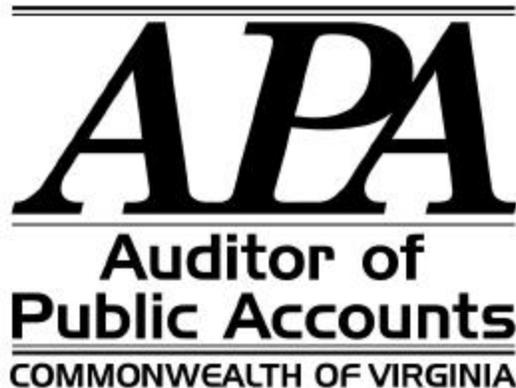


**VIRGINIA TOURISM AUTHORITY  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2001**



## **AUDIT SUMMARY**

Our audit of the Virginia Tourism Authority for the year ended June 30, 2001, found:

- the financial statements are presented fairly in all material respects;
- no internal control matters that we consider to be material weaknesses; and
- no instances of noncompliance with material laws and regulations that are required to be reported.

- T A B L E O F C O N T E N T S -

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INDEPENDENT AUDITOR'S REPORT:

Report on Financial Statements

Report on Compliance and on Internal Control Over Financial Reporting

FINANCIAL STATEMENTS:

Combined Balance Sheet

Combined Statement of Revenues, Expenditures, and Changes  
in Fund Balances

Combined Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Budget and Actual - Cash Basis

Notes to Financial Statements

BOARD MEMBERS

January 17, 2002

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission

Virginia Tourism Authority Board Members  
901 East Byrd Street  
Richmond, Virginia 23218-0798

We have audited the accounts and records of the **Virginia Tourism Authority** as of and for the year ended June 30, 2001, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

#### INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the general purpose financial statements of the Virginia Tourism Authority, a component unit of the Commonwealth of Virginia, for the year ended June 30, 2001. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Tourism Authority as of June 30, 2001, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virginia Tourism Authority as of and for the year ended June 30, 2001, we considered internal control over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Tourism Authority Board, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

WHC:whb  
whb:35

## **FINANCIAL STATEMENTS**

VIRGINIA TOURISM AUTHORITY  
 COMBINED BALANCE SHEET  
 As of June 30, 2001

	Account Groups			Total (Memorandum Only)
	General Fund	General Fixed Assets	General Long-Term Debt	
<b>Assets and Other Debits:</b>				
Assets:				
Cash, cash equivalents, and investments (Note 2)	\$ 1,733,831	\$ -	\$ -	\$ 1,733,831
Petty cash and travel advances	9,932	-	-	9,932
Prepaid expenses	34,347	-	-	34,347
Leasehold improvements, vehicles, furniture, and equipment (Note 5)	-	238,935	-	238,935
Other Debits:				
Amount to be provided for compensated absences	-	-	374,235	374,235
Amount to be provided for installment purchases	-	-	32,821	32,821
Amount to be provided for pension liability	-	-	46,016	46,016
<b>Total assets and other debits</b>	<b>\$ 1,778,110</b>	<b>\$ 238,935</b>	<b>\$ 453,072</b>	<b>\$ 2,470,117</b>
<b>Liabilities, Equity, and Other Credits:</b>				
Liabilities:				
Accounts payable	\$ 230,233	\$ -	\$ -	\$ 230,233
Accrued payroll	68,417	-	-	68,417
Unearned revenues (Note 1-F)	131,314	-	-	131,314
Compensated absences (Note 1-G)	-	-	374,235	374,235
Installment purchases payable (Note 7)	-	-	32,821	32,821
Pension liability (Note 8)	-	-	46,016	46,016
<b>Total liabilities</b>	<b>429,964</b>	<b>-</b>	<b>453,072</b>	<b>883,036</b>
Equity and Other Credits:				
Investment in fixed assets	-	238,935	-	238,935
Fund balances - Unreserved	1,348,146	-	-	1,348,146
<b>Total liabilities, equity, and other credits</b>	<b>\$ 1,778,110</b>	<b>\$ 238,935</b>	<b>\$ 453,072</b>	<b>\$ 2,470,117</b>

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

VIRGINIA TOURISM AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
For the Fiscal Year Ended June 30, 2001

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	<u>General Fund</u>
Revenues:	
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 19,872,076
Revenue provided by the Virginia Department of Transportation	1,000,000
Return of unused grant and co-op awards	214,205
Participation fees	243,270
Advertising display fees	256,537
Interest revenue	311,871
Other revenue	<u>113,038</u>
 Total revenues	 <u>22,010,997</u>
Expenditures:	
Administration and finance	2,432,845
Marketing and promotion	7,839,312
Tourism development	6,634,596
Consumer and visitor services	2,053,830
Virginia film office	730,278
Pass-through payments	<u>1,675,390</u>
 Total expenditures	 <u>21,366,251</u>
 Excess of revenues over expenditures	 <u>644,746</u>
Other financing sources (uses):	
Financing proceeds	35,327
Sale of fixed assets	30,000
Unrealized loss on foreign currency deposits	<u>(348)</u>
 Total other financing sources (uses)	 <u>64,979</u>
 Excess of revenues and other financing sources over expenditures and other financing uses	  709,725
 Fund balance, July 1, 2000	  <u>638,421</u>
 Fund balance, June 30, 2001	  <u>\$ 1,348,146</u>

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

VIRGINIA TOURISM AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CASH BASIS  
For the Fiscal Year Ended June 30, 2001

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Revenue provided by the General Fund of the Commonwealth	\$ 19,872,076	\$ 19,872,076	\$ -
Revenue provided by the Virginia Department of Transportation	1,000,000	1,000,000	-
Return of unused grant and co-op Awards	-	545,905	545,905
Participation fees	269,674	243,270	(26,404)
Advertising display fees	223,000	376,006	153,006
Interest revenue	121,308	311,871	190,563
Other revenue	50,000	111,838	61,838
<b>Total revenues</b>	<b>21,536,058</b>	<b>22,460,966</b>	<b>924,908</b>
Expenditures:			
Administration and finance	2,945,877	2,393,133	552,744
Marketing and promotion	7,657,441	7,842,316	(184,875)
Tourism development	6,858,007	6,651,285	206,722
Consumer and visitor services	2,168,275	2,076,154	92,121
Virginia film office	780,798	729,928	50,870
Pass-through payments	1,695,000	1,675,390	19,610
<b>Total expenditures</b>	<b>22,105,398</b>	<b>21,368,206</b>	<b>737,192</b>
Excess of revenues over (under) expenditures	(569,340)	1,092,760	1,662,100
Other financing sources (uses):			
Financing proceeds	-	35,327	35,327
Sale of fixed assets	-	30,000	30,000
Unrealized loss on foreign currency deposits	-	(348)	(348)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>64,979</b>	<b>64,979</b>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(569,340)	1,157,739	1,727,079
Fund balance, July 1, 2000	569,340	586,024	16,684
Fund balance, June 30, 2001	\$ -	\$ 1,743,763	\$ 1,743,763

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

## **NOTES TO FINANCIAL STATEMENTS**

VIRGINIA TOURISM AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Tourism Authority (VTA) was established on July 1, 1999, by an act of the General Assembly and operates as an authority in accordance with the provisions of Chapter 32.3 of Title 2.1 of the Code of Virginia (Sections 2.1-548.53 through 2.1-548.68). VTA is authorized to do business as the "Virginia Tourism Corporation" in accordance with Section 2.1-548.56. VTA's major activities are to encourage, stimulate, and promote the tourism and film production industries of the Commonwealth.

VTA is a component unit of the Commonwealth of Virginia. A separate report is prepared by the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The VTA is an integral part of the reporting entity of the Commonwealth of Virginia; accordingly, all funds and account groups of the VTA are included in the financial statements of the Commonwealth as a part of the reporting entity.

B. Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All governmental funds are reported using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenditures are recognized when the related fund liability is incurred through the receipt of goods or services, although payment may occur at a later date. The cash basis of accounting is used during the year; reports are prepared on the modified accrual basis at the fiscal year end.

C. Fund Accounting

The accounts of VTA were developed to report on specified financial activities. Resources were allocated to and accounted for in individual funds based upon financing sources. Each fund is an independent fiscal and accounting entity with a set of self-balancing accounts. All of VTA's transactions for the fiscal period ended June 30, 2001, were related to resources received and uses for those services traditionally provided by a state government and were recorded in the General Fund.

D. Account Groups

Account groups are used to establish accounting control over general fixed assets and long-term liabilities. Fixed assets do not provide current financial resources available for appropriation or expenditure, nor are they assets of a particular fund. Long-term liabilities do not require an appropriation or expenditure during the current accounting period. For these reasons, fixed assets and long-term liabilities are accounted for in self-balancing account

groups rather than governmental funds. Fixed assets are recorded in the General Fixed Assets Account Group. Long-term liabilities are recorded in the General Long-Term Debt Account Group.

E. General Fixed Assets

Fixed assets of governmental funds are recorded as expenditures at the time of purchase and are valued at historical cost or estimated historical cost. Donated fixed assets are valued at estimated market value at the date of donation. General fixed assets are comprised of leasehold improvements, vehicles, furniture, and equipment.

F. Unearned Revenues

Unearned revenues are comprised of advertising display fees that had been received by June 30, 2001, but are for the display of advertising materials after the period then ended.

G. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by VTA employees, but not taken at June 30, 2001. Compensated absences were calculated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of the following: sick leave earned by employees who, while not currently vested for payment, will probably attain the years of service required to vest for payment and Social Security and Medicare taxes to be paid by VTA on all accrued compensated absences.

H. Budgets and Cash Basis Accounting

VTA's budget was established primarily by the 2000 Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2001, which is the first year of the biennium ending June 30, 2002. No payments were made to VTA out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into VTA bank accounts in accordance with the provisions of Chapter 32.3 of Title 2.1 of the Code of Virginia and expended for purposes as stated in those provisions.

The budget is prepared principally on the cash basis. Since the cash basis differs from generally accepted accounting principles (GAAP), a reconciliation of actual data reported on the cash basis to actual data reported on the GAAP (modified accrual) basis is presented in Note 3.

Revenues provided by the General Fund of the Commonwealth of Virginia in the financial statements are amounts originally appropriated and allotted to VTA as adjusted by subsequent appropriations authorized by the General Assembly.

I. Total Columns

Total columns on the financial statements are captioned "Total - Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in

conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund elimination has not been made in the aggregation of this data.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents represent cash in the Local Government Investment Pool (LGIP) at the Treasury of Virginia, deposits, and overnight repurchase agreements. The LGIP funds are held in pooled accounts and accordingly, are not categorized as to credit risk as defined by Statement 3 of the Governmental Accounting Standards Board. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and also not categorized as to credit risk.

Repurchase agreements are categorized below to give an indication of the level of credit risk assumed by the VTA. Credit risk is the risk that the VTA may not be able to obtain possession of its investment instruments. Risk category 1 includes investments which are insured or registered or for which the securities are held by the VTA or its safekeeping agent in the VTA's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the VTA's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the VTA's name. There are no accounts or investments in categories 1 or 2.

Cash and Cash Equivalents	Category 3	Non- Categorized	Fair Value
Repurchase agreements	\$ 746,109	\$ -	\$ 746,109
Cash on deposit	-	(661,269)	(661,269)
Cash with Local Government Investment Pool at Treasury	-	1,648,991	1,648,991
Total cash, cash equivalents, and investments	<u>\$ 746,109</u>	<u>\$ 987,722</u>	<u>\$ 1,733,831</u>

## 3. RECONCILIATION OF CASH BASIS FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis presents comparisons of the adopted budget with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

	General Fund
Fund balance, cash basis, June 30, 2001	\$ 1,743,763
Add: Prepaid expenses	34,347
Deduct: Accrued expenses	(298,650)
Unearned revenues	(131,314)
Fund balance, GAAP basis, June 30, 2001	<u>\$ 1,348,146</u>

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

Original appropriation as allotted	\$ 20,758,141
Supplemental appropriation actions:	
Add: Net personal service cost and Technology funds transfers	461,419
Less: Telecommunications, productivity, and management savings	<u>(1,347,484)</u>
Revenue provided by the General Fund of the Commonwealth	<u>\$ 19,872,076</u>

5. CHANGES IN GENERAL FIXED ASSETS

The following schedule presents the changes in the General Fixed Assets Account Group for the fiscal year ended June 30, 2001.

	<u>Balance July 1, 2000</u>	<u>Acquired</u>	<u>Disposed</u>	<u>Balance June 30, 2001</u>
Leasehold improvements, vehicles, furniture, and equipment	<u>\$ 420,395</u>	<u>\$ 40,600</u>	<u>\$ 222,060</u>	<u>\$ 238,935</u>

6. OPERATING LEASE COMMITMENTS

VTA is committed under various operating leases for office facilities and equipment. Rental expense under operating lease agreements amounted to \$159,346 for the year. A summary of minimum future obligations under these lease agreements as of June 30, 2001, follows:

<u>Year Ending June 30</u>	<u>Operating Lease Obligations</u>
2002	\$ 156,906
2003	141,209
2004	127,149
2005	<u>33,183</u>
Total future minimum rental payments	<u>\$ 458,447</u>

7. INSTALLMENT PURCHASES OBLIGATIONS

VTA has two installment purchase contracts to finance the acquisition of office equipment. The term of the first contract is for three years ending August 2001, and the second is for five years ending November 2005. Interest rates charged are 8.5 percent and 10.31 percent respectively. Principal and interest payments for fiscal years subsequent to June 30, 2001 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 7,322	\$ 2,992	\$ 10,314
2003	6,756	2,316	9,072
2004	7,487	1,585	9,072
2005	8,296	776	9,072
2006	<u>2,960</u>	<u>64</u>	<u>3,024</u>
Total	<u>\$ 32,821</u>	<u>\$ 7,733</u>	<u>\$ 40,554</u>

8. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

VTA is a participating employer in a defined benefit plan administered by the Virginia Retirement System. As of June 30, 2001, VTA's net pension obligation was \$46,016.

Plan Description

All full-time and part-time salaried employees of VTA participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS is an agent and cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions. The VRS also administers life insurance and health related plans for retired employees.

All full-time and part-time salaried employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount based on 1.7 percent of their average final compensation (AFC). An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

## Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. The employer may assume this 5 percent member contribution. VTA does pay the member contribution, which amounted to \$148,874 (5 percent of total creditable compensation of \$2,977,481.) In addition, VTA is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. VTA contribution rate for the fiscal year ended June 30, 2001, was 5.22 percent on the same covered payroll of \$2,977,481. The amount contributed for that period was \$155,425.

### 9. RISK MANAGEMENT

The Virginia Tourism Authority is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The VTA is insured for these risks through commercial insurance policies. Further, the VTA is insured for workers compensation and from loss from employee actions by an insurance policy issued by the Chubb Group, the Great Northern Insurance Company. Policy coverage from loss from employee actions is \$50,000 per occurrence with a \$500 deductible for each loss.

The VTA participates in the state health care insurance plan maintained by the Commonwealth of Virginia, which is administered by the Department of Human Resource Management (DHRM). The VTA pays premiums to DHRM for health insurance coverage. Information relating to the Commonwealth's insurance plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

### 10. GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 34

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999, will be effective for the Virginia Tourism Authority for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change significantly as a result of this Statement. Management will be required to provide a management's discussion and analysis that gives readers an analysis of the VTA's overall financial position and results of operations including a comparison of current year results with the prior year. Governmental units will continue to provide budgetary information in their reports; however, under this Statement, they will be required to provide the government's original budget as well as the final budget and actual results. The VTA has completed its assessment of the changes required by this Statement and is fully prepared for implementation.

VIRGINIA TOURISM AUTHORITY  
Richmond, Virginia

Gayle Morgan Vail, Executive Director

Roy Knox, Director of Finance and Administration

TOURISM AUTHORITY BOARD

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