

VIRGINIA TOURISM AUTHORITY



Doing Business As

VIRGINIA TOURISM CORPORATION

Annual Financial Statements

For the Year Ended June 30, 2007

Virginia is for Lovers 

AUDIT SUMMARY

Our audit of the Virginia Tourism Authority for the year ended June 30, 2007, found:

- the financial statements are presented fairly, in all material respects; in accordance with generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance or other matters required to be reported.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The discussion and analysis for the Virginia Tourism Authority's (Authority) financial performance provides an overview of its financial activities for the year ended June 30, 2007. We believe the information presented is accurate in all material aspects and that all necessary disclosures to enable the reader to obtain an understanding of the Authority's financial activities have been included.

GOVERNMENTAL AND ORGANIZATION STRUCTURE

The Authority has five organizational divisions of management which are Administration and Finance; Marketing and Promotions; Corporate Communications; Customer Service and Industry Relations; and the Virginia Film Office. Responsibility for each of these areas is vested with managing vice-presidents to oversee Authority activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements provide the reader with an overview of the Authority in a manner similar to private sector business.

The Statement of Net Assets presents information about 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 an indicator of whether the Authority's financial position is improving or declining.

The Statement of Activities presents how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that would result in cash flows in past or future fiscal years. Some examples are accrued interest earned but not yet collected (revenue), earned but unused employee vacation leave (expense) and advance collections for advertising and program fees (revenue).

Funds Financial Statements

The financial activities of the Authority are reported within governmental funds. A fund is a set of related accounts used to report resources segregated for specific activities or objectives. The Authority, like other political subdivisions of the Commonwealth of Virginia, uses fund accounting to ensure and demonstrate compliance with financial and legal requirements.

The governmental funds report on essentially the same functions reported as governmental activities within the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of appropriated and earned resources and balances available at the end of the prior fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Reconciliations between Government-Wide and Fund Financial Statements

Two reconciliations explain the differences between the government-wide financial statements and the fund financial statements. The first, found on the Balance Sheet, explains the difference between the total fund balance on the Balance Sheet and total net assets as shown on the Statement of Net Assets. The second, found on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities, explains the differences between the net change in fund balances on the fund-based statement and the change in net assets on the government-wide based statement.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as an indicator of an organization's financial position. The Authority's assets exceeded liabilities by \$2,025,472 at the close of the fiscal year ended June 30, 2007, as shown below.

| | <u>Net Assets</u> | | |
|---|-----------------------------|-----------------------------|-------------------|
| | <u>Fiscal Year 2007</u> | <u>Fiscal Year 2006</u> | <u>Variance</u> |
| Assets: | | | |
| Current and other assets | \$3,797,712 | \$2,821,661 | \$ 976,051 |
| Capital assets | <u>191,608</u> | <u>130,725</u> | <u>60,883</u> |
| Total assets | <u>3,989,320</u> | <u>2,952,386</u> | <u>1,036,934</u> |
| Liabilities: | | | |
| Other liabilities | 725,471 | 634,060 | 91,411 |
| Long-term liabilities | <u>1,238,377</u> | <u>774,236</u> | <u>464,141</u> |
| Total liabilities | <u>1,963,848</u> | <u>1,408,296</u> | <u>555,552</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 191,608 | 129,878 | 61,730 |
| Unrestricted | <u>1,833,864</u> | <u>1,414,212</u> | <u>419,652</u> |
| Total net assets | <u>\$2,025,472</u> | <u>\$1,544,090</u> | <u>\$ 481,382</u> |

Total assets increased by \$1,036,934 from the prior year primarily in cash and advance deposits for advertising and marketing efforts. The Authority awarded matching grants in 2007 of which \$804,138 was carried into 2008 for distribution, contributing to the increase in total assets. Total liabilities increased by \$555,552 largely due to increases in accrued long-term pension liability.

Changes in Net Assets

| | <u>Fiscal Year</u> <u>2007</u> | <u>Fiscal Year</u> <u>2006</u> | <u>Variance</u> |
|--|-----------------------------------|-----------------------------------|-------------------|
| General revenues: | | | |
| Revenue provided by the General Fund of the Commonwealth | \$17,009,448 | \$14,857,528 | \$2,151,920 |
| Interest earned | 246,656 | 135,808 | 110,848 |
| Program revenues: | | | |
| Charges for services | 529,774 | 942,716 | (412,942) |
| Operating grants and contributions | <u>2,014,850</u> | <u>2,152,269</u> | <u>(137,419)</u> |
| Total revenues | <u>19,800,728</u> | <u>18,088,321</u> | <u>1,712,407</u> |
| Expenses: | | | |
| Administration and Finance | 1,608,130 | 2,060,197 | (452,067) |
| Marketing and Promotion | 6,672,560 | 5,483,237 | 1,189,323 |
| Customer Service and industry relations | 3,625,868 | 3,379,455 | 246,413 |
| Virginia Film Office | 1,708,335 | 1,444,046 | 264,289 |
| Corporate communications | 5,354,453 | 5,447,551 | (93,098) |
| Pass-through payments | <u>350,000</u> | <u>810,000</u> | <u>(460,000)</u> |
| Total expenses | <u>19,319,346</u> | <u>18,624,486</u> | <u>694,860</u> |
| Increase (decrease) in net assets | 481,382 | (536,165) | 1,017,547 |
| Net assets, beginning of year | <u>1,544,090</u> | <u>2,080,255</u> | <u>(536,165)</u> |
| Net assets, end of year | <u>\$ 2,025,472</u> | <u>\$ 1,544,090</u> | <u>\$ 481,382</u> |

Total revenues of the Authority increased by \$1,712,407 in fiscal year 2007. The Authority received additional General Fund appropriations from the Commonwealth to market the commemoration of the 400th anniversary of the founding of Jamestown and to acquire two additional welcome centers. In addition, funds were appropriated from license plate fees for marketing the commemoration of the 400th anniversary.

General Fund Budgetary Highlights

The Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis – General Fund provides information on the Authority’s original budget and the final budget on which it operated during the fiscal year. The final budgeted revenues and expenditures are compared to cash-basis actual results by revenue source and major program activity. During the fiscal year, the Authority revised the spending plan to include additional resources derived from additional earned revenue sources and applied carryover funds from fiscal year 2006. Budgeted expenditures exceeded actual expenditure by approximately \$1.8 million primarily due to the carry-forward of a matching grant and new welcome centers acquisition funding into 2008.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information essential to gain a complete understanding of the financial information presented in the government-wide and fund financial statements. They describe the nature of the Authority's reporting entity and the relationship to the Commonwealth of Virginia as a whole; the basis on which the financial statements were prepared; and the methods used for presentation. The notes also provide explanations of accounts with significant balances.

Request for Information

The financial report provides an overview of the Virginia Tourism Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the President, Virginia Tourism Corporation, 901 East Byrd Street, Richmond, Virginia 23218.

FINANCIAL STATEMENTS

VIRGINIA TOURISM AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2007

| | Governmental <u>Activities</u> |
|---|-----------------------------------|
| ASSETS | |
| Cash and cash equivalents (Note 2) | \$ 3,188,873 |
| Petty cash and travel advances | 1,758 |
| Prepaid expenses (Note 1-C) | 607,081 |
| Capital assets, net of accumulated depreciation (Notes 1-D and 5) | <u>191,608</u> |
| Total assets | <u>3,989,320</u> |
| LIABILITIES | |
| Accounts payable | 403,610 |
| Accrued payroll | 110,927 |
| Unearned revenue (Note 1-E) | 210,934 |
| Noncurrent liabilities: | |
| Compensated absences (Note 1-F and 7) | |
| Due within one year | 205,722 |
| Due in more than one year | 242,189 |
| Pension liability due in more than one year (Note 8) | <u>790,466</u> |
| Total liabilities | <u>1,963,848</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 191,608 |
| Unrestricted | <u>1,833,864</u> |
| Total net assets | <u><u>\$ 2,025,472</u></u> |

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

VIRGINIA TOURISM AUTHORITY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

| | | Program Revenues | | Net Revenue |
|--|----------------------|-------------------|---------------------|---------------------|
| | | Charges | Operating | (Expense) and |
| | | for | Grants and | Changes in |
| | Expenses | Services | Contributions | Net Assets |
| Governmental activities: | | | | |
| Administration and finance | \$ 1,608,130 | \$ 22,254 | \$ - | \$ (1,585,876) |
| Marketing and promotion | 6,672,560 | 121,988 | 1,000,000 | (5,550,572) |
| Customer service and industry relations | 3,625,868 | 370,532 | 1,014,850 | (2,240,486) |
| Virginia Film Office | 1,708,335 | 15,000 | - | (1,693,335) |
| Corporate communications | 5,354,453 | - | - | (5,354,453) |
| Pass-through payments | 350,000 | - | - | (350,000) |
| Total governmental activities | <u>\$ 19,319,346</u> | <u>\$ 529,774</u> | <u>\$ 2,014,850</u> | <u>(16,774,722)</u> |
| General revenues: | | | | |
| Revenue provided by the General Fund of the Commonwealth (Note 4) | | | | 17,009,448 |
| Interest revenue | | | | <u>246,656</u> |
| Total general revenues | | | | <u>17,256,104</u> |
| Change in net assets | | | | 481,382 |
| Net assets July 1, 2006 | | | | <u>1,544,090</u> |
| Net assets June 30, 2007 | | | | <u>\$ 2,025,472</u> |

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

VIRGINIA TOURISM AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2007

| | <u>General Fund</u> |
|---|---------------------|
| Assets: | |
| Cash and cash equivalents (Note 2) | \$ 3,188,873 |
| Petty cash and travel advances | 1,758 |
| Prepaid expenses (Note 1-C) | <u>607,081</u> |
| Total assets | <u>3,797,712</u> |
| Liabilities and Fund Balances: | |
| Liabilities: | |
| Accounts payable | 403,610 |
| Accrued payroll | 110,927 |
| Unearned revenue (Note 1-E) | <u>210,934</u> |
| Total liabilities | <u>725,471</u> |
| Fund balances: | |
| Unreserved | <u>3,072,241</u> |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in general fund activities are not financial resources and, therefore, are not reported in the general fund. | 191,608 |
| Non-current liabilities including compensated absences and pension liability, are not due in the current period and therefore are not reported in the general fund. | <u>(1,238,377)</u> |
| Net assets of governmental activities | <u>\$ 2,025,472</u> |

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

VIRGINIA TOURISM AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2007

| | <u>General Fund</u> |
|---|---------------------|
| Revenues: | |
| Revenue provided by the General Fund of the Commonwealth (Note 4) | \$ 17,009,448 |
| Revenue provided by the Virginia Department of Transportation | 1,000,000 |
| Revenue provided by the Virginia Department of Motor Vehicles | 1,000,000 |
| Participation fees | 120,762 |
| Welcome Center advertising fees | 360,218 |
| Interest revenue | 246,656 |
| Other revenue | <u>63,644</u> |
| Total revenues | <u>19,800,728</u> |
| Expenditures: | |
| Administration and finance | 1,644,511 |
| Marketing and promotion | 6,517,494 |
| Customer service and industry relations | 3,470,370 |
| Virginia Film Office | 1,665,806 |
| Corporate communications | 5,267,907 |
| Pass-through payments | <u>350,000</u> |
| Total expenditures | <u>18,916,088</u> |
| Net increase in fund balance | 884,640 |
| Fund balance, July 1, 2006 | <u>2,187,601</u> |
| Fund balance, June 30, 2007 (Note 3) | <u>\$ 3,072,241</u> |

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

VIRGINIA TOURISM AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

Amounts reported for governmental activities in the Statement of Activities are different because:

| | |
|---|------------|
| Net increase in fund balances-total governmental fund | \$ 884,640 |
|---|------------|

| | |
|--|--------|
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | 60,883 |
|--|--------|

| | |
|--|-----|
| The issuance of long-term debt (installment purchases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt. | 847 |
|--|-----|

| | |
|--|------------------|
| Some expenses reported in the Statement of Activities (increases in net pension obligation and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | <u>(464,988)</u> |
|--|------------------|

| | |
|---|--------------------------|
| Change in net assets of governmental activities | <u><u>\$ 481,382</u></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 - GENERAL FUND
For the Fiscal Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance |
|--|---------------------|-------------------|---------------------|------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | Positive (Negative) |
| Revenues: | | | | |
| Revenue provided by the General Fund of the Commonwealth - (Note 4) | \$ 16,805,049 | \$ 17,009,448 | \$ 17,009,448 | \$ - |
| Revenue provided by the Virginia Department of Transportation | 1,100,000 | 1,100,000 | 1,000,000 | (100,000) |
| Revenue provided by the Virginia Department of Motor Vehicles | 1,000,000 | 1,000,000 | 1,000,000 | - |
| Participation fees | 160,000 | 160,000 | 120,762 | (39,238) |
| Welcome center advertising fees | 361,000 | 361,000 | 354,513 | (6,487) |
| Interest revenue | 115,000 | 115,000 | 246,656 | 131,656 |
| Other revenue | <u>6,700</u> | <u>21,700</u> | <u>62,789</u> | <u>41,089</u> |
| Total revenues | <u>19,547,749</u> | <u>19,767,148</u> | <u>19,794,168</u> | <u>27,020</u> |
| Expenditures: | | | | |
| Administration and finance | 2,790,912 | 2,628,468 | 1,639,530 | 988,938 |
| Marketing and promotion | 7,162,368 | 6,872,876 | 6,487,116 | 385,760 |
| Customer service and industry relations | 3,282,039 | 3,810,688 | 3,469,987 | 340,701 |
| Virginia Film Office | 1,728,466 | 1,726,655 | 1,686,373 | 40,282 |
| Corporate communications | 5,426,794 | 5,598,291 | 5,546,139 | 52,152 |
| Pass-through payments | <u>350,000</u> | <u>350,000</u> | <u>350,000</u> | <u>-</u> |
| Total expenditures | <u>20,740,579</u> | <u>20,986,978</u> | <u>19,179,145</u> | <u>1,807,833</u> |
| Revenues over (under) expenditures | (1,192,830) | (1,219,830) | 615,023 | 1,834,853 |
| Fund balance, July 1, 2006 | <u>2,192,830</u> | <u>1,219,830</u> | <u>2,575,608</u> | <u>1,355,778</u> |
| Fund balance, June 30, 2007 (Note 3) | <u>\$ 1,000,000</u> | <u>\$ -</u> | <u>\$ 3,190,631</u> | <u>\$ 3,190,631</u> |

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, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Tourism Authority was established on July 1, 1999, by an act of the General Assembly and operates as an authority in accordance with the Code of Virginia (Sections 2.2-2315 through 2.2-2326). The Authority is authorized to do business as the "Virginia Tourism Corporation" in accordance with Section 2.2-2315. The Authority's major activities are to encourage, stimulate, and promote the tourism and film production industries of the Commonwealth.

Virginia Tourism Authority 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. Accordingly, the financial statements of the Authority are included in the financial statements of the Commonwealth as a discretely presented component unit.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. The Statement of Net Assets and the Statement of Activities are referred to as "government-wide" financial statements and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Program revenues include 1) charges for services consisting of participation fees and brochure rental fees and 2) a transfer from Department of Transportation for support of Welcome Centers.

The Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due.

The Authority reports its activities in governmental funds. The general fund is used for its primary operating fund and accounts for all the Authority's financial resources.

C. Prepaid Expenses

The Authority's prepaid expenses included amounts paid for advertising placements, services and portions of insurance premiums for which the economic benefits had not been received as of June 30, 2007.

D. Capital Assets

Capital assets are defined by the Authority as those assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at estimated market value at the date of donation. Capital assets are comprised of leasehold improvements, furniture, and equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over useful lives of three to ten years.

E. Unearned Revenue

Unearned revenue is comprised of advertising display fees that were received at June 30, 2007, but were not yet earned.

F. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Authority's employees, but not taken at June 30, 2007. Compensated absences were calculated in accordance with the Governmental Accounting Standards Board (GASB) Statement 16, *Accounting for Compensated Absences*. This statement requires the accrual of Social Security and Medicare taxes to be paid by the Authority on all accrued compensated absences.

G. Budgets and Budgetary Accounting

The Authority's budget was established primarily by the 2007 Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2007, which is the first year of the biennium budget ending June 30, 2008. No payments were made to the Authority out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Virginia Tourism Authority bank accounts in accordance with the Code of Virginia, Section 2.2-2322 and expended for purposes as stated in those provisions. The budget is prepared on the cash basis.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and carry no significant risk. The LGIP funds are held in pooled accounts, are considered cash equivalents and, accordingly, also carry no significant risk as defined by Statement

40 of the Governmental Accounting Standards Board. VTA deposits are secured in accordance with the provisions of the Virginia Security for Public Deposit Act § 2.2-4400 of the Code of Virginia.

3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - General Fund presents comparisons of the legally adopted budget prepared on the cash basis 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:

| | <u>General Fund</u> |
|--|---------------------|
| Fund balance, cash basis, June 30, 2007 | \$3,190,631 |
| Add: Prepaid expenses | 607,081 |
| Deduct: Accrued expenses and unearned revenues | <u>(725,471)</u> |
| Fund balance, GAAP basis, June 30, 2007 | <u>\$3,072,241</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, Chapter 847 | \$16,805,049 |
| Supplemental appropriation actions: | |
| Add: Central appropriations adjustments | <u>204,399</u> |
| Revenue provided by the General Fund of the Commonwealth | <u>\$17,009,448</u> |

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

| Capital Assets <u>Being Depreciated</u> | <u>Balance June 30, 2006</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2007</u> |
|---|----------------------------------|------------------|------------------|----------------------------------|
| Leasehold improvements, furniture and equipment | \$387,379 | \$89,102 | \$(82,801) | \$393,680 |
| Less: accumulated depreciation | <u>256,654</u> | <u>28,219</u> | <u>(82,801)</u> | <u>202,072</u> |
| Leasehold improvements, furniture and equipment, net of accumulated depreciation | <u>\$130,725</u> | <u>\$60,883</u> | <u>\$ -</u> | <u>\$191,608</u> |

6. OPERATING LEASE COMMITMENTS

The Authority is committed under various operating leases for office facilities and equipment. Rental expense under operating lease agreements amounted to \$92,508 for the year. A summary of minimum future obligations under these lease agreements as of June 30, 2007 follows:

| Year Ending <u>June, 30</u> | Operating Lease <u>Obligations</u> |
|--------------------------------------|--|
| 2008 | \$ 74,373 |
| 2009 | 25,690 |
| 2010 | 15,240 |
| 2011 | <u>6,426</u> |
| Total future minimum rental payments | <u>\$121,729</u> |

7. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2007, was as follows:

| <u>Balance</u> <u>July 1, 2006</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>June 30, 2007</u> |
|---------------------------------------|------------------|---------------------------|--|
| <u>\$391,486</u> | <u>\$277,635</u> | <u>\$221,210</u> | <u>\$447,911</u> |
| | | Due within one year | <u>(205,722)</u> |
| | | Due in more than one year | <u>\$242,189</u> |

8. PENSION PLAN AND OTHER RETIREMENT BENEFITS

The Authority is a participating employer in a defined benefit plan administered by the Virginia Retirement System. As of June 30, 2007, the Authority's net pension obligation was \$790,466.

Plan Description

All full-time and part-time salaried employees of the Authority 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.

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 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 ten 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 VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the VRS. A copy of that report may be obtained by writing to the Virginia Retirement 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 5.0 percent member contribution. The Authority does pay the member contribution, which amounted to \$181,521 (5.0 percent of total creditable compensation of \$3,630,421). In addition, the Authority 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. The Authority's contribution rate for the fiscal year ended June 30, 2007, was 5.74 percent resulting in contributions of \$208,386 by the Authority for the fiscal year ended June 30, 2007.

9. DEFERRED COMPENSATION PLAN

Employees of the Authority may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Authority matching up to \$20 per pay period. The dollar amount of the match can change depending on the funding available in the Authority's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were \$21,540 for the fiscal year 2007.

10. RISK MANAGEMENT

The Authority is exposed to various risk 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 Authority is insured for these risks through commercial insurance policies. Further, the Authority is insured for workers compensation and from loss from employee actions by an insurance policy issued by the Chubb Group and the Federal Insurance Company. Policy coverage from loss from employee actions is \$50,000 per year with a \$1,000 deductible.

The Authority 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 Authority 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.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

April 4, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Virginia Tourism Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the General Fund, a major fund, of the **Virginia Tourism Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund, a major fund, of the Virginia Tourism Authority, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 4 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally

accepted in the United States of America. 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 the information and express no opinion on it.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other Matters

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, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

Report Distribution

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the 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

SAH:clj

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Richmond, Virginia

Alisa Bailey, Executive Director

Roy Knox, Vice President of Administration and Finance

TOURISM AUTHORITY BOARD

Cal Simmons, Chair

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