Financial Statements

Years Ended June 30, 2013 and 2012



**Financial Statements** 

Years Ended June 30, 2013 and 2012

# **Contents**

Independent Auditors' Report	3-4
Financial Statements	
Statements of financial position	5
Statement of activities – year ended June 30, 2013	6
Statement of activities – year ended June 30, 2012	7
Statements of cash flows	8
Summary of significant accounting policies	9-11
Notes to financial statements	12-13
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	14-15
Schedules of Expenditures of State Awards	16
Note to Schedules of Expenditures of State Awards	17
Schedule of Findings and Questioned Costs	18





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## **Independent Auditors' Report**

Board of Directors High Point International Home Furnishings Market Authority Corporation High Point, North Carolina

## **Report on the Financial Statements**

We have audited the accompanying financial statements of High Point International Home Furnishings Market Authority Corporation (the "Organization"), which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

#### 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 audits. We conducted our audits 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 from 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Point International Home Furnishings Market Authority Corporation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

## Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards, as required by North Carolina General Statute G.S. 143C-6-22, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of High Point International Home Furnishings Market Authority Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering High Point International Home Furnishings Market Authority Corporation's internal control over financial reporting and compliance.

High Point, North Carolina September 30, 2013 Certified Public Accountants

Smith Leonard PLIC

Statements of Financial Position June 30, 2013 With Comparative Totals for 2012

	U	nrestricted	nporarily estricted	Total 2013	Total 2012
Assets					
Cash and cash equivalents Support receivables:	\$	3,371,027	\$ 60,073	\$ 3,431,100	\$ 2,898,758
General support		5,000	-	5,000	-
Showroom taxes		19,069	-	19,069	34,885
Occupancy taxes		24,230	-	24,230	20,309
Prepaid expenses		32,899	-	32,899	29,704
Property and equipment, less accumulated depreciation		74,005	-	74,005	132,973
Total assets	\$	3,526,230	\$ 60,073	\$ 3,586,303	\$ 3,116,629
<b>Liabilities and Net Assets</b>					
Liabilities					
Accounts payable	\$	33,849	\$ -	\$ 33,849	\$ 56,642
Lease payable		20,461	-	20,461	24,485
Accrued expenses		20,748	-	20,748	4,277
Deferred revenue		-	60,073	60,073	14,521
Total liabilities		75,058	60,073	135,131	99,925
Net assets		3,451,172	-	3,451,172	3,016,704
Total net assets – unrestricted		3,451,172	-	3,451,172	3,016,704
Total liabilities and net assets	\$	3,526,230	\$ 60,073	\$ 3,586,303	\$ 3,116,629

Statement of Activities Year Ended June 30, 2013

	Į	Inrestricted	ŗ	Femporarily Restricted		Total
Revenue and support						
Showroom licenses	\$	1,616,271	\$	_	\$	1,616,271
City of High Point	Ċ	1,000,000	Ċ	_	'	1,000,000
Transportation		-		1,000,000		1,000,000
North Carolina Department of Commerce – marketing		_		655,472		655,472
Occupancy taxes		303,243		, <u> </u>		303,243
HPCVB		150,000		_		150,000
Sponsorships		283,950		_		283,950
Guilford County		75,000		_		75,000
Interest		15,563		_		15,563
Miscellaneous		34,218		_		34,218
Net assets released from restrictions:						
Satisfaction of pre-market conditions		-		295,850		295,850
Transportation and marketing		1,951,322		(1,951,322)		-
Total revenue and support		5,429,567		-		5,429,567
Expenditures						
Marketing		1,779,794		-		1,779,794
Transportation		1,439,301		_		1,439,301
Guest entertainment		548,865		-		548,865
Executive leadership and management		524,143		-		524,143
Pre-market – exhibitor funded		295,850		-		295,850
Centralized registration		209,844		-		209,844
Buyer parking		134,634		-		134,634
Depreciation		59,898		-		59,898
Miscellaneous		2,770		_		2,770
Total expenditures		4,995,099		-		4,995,099
Change in net assets		434,468		-		434,468
Net assets, beginning of year		3,016,704		-		3,016,704
Net assets, end of year	\$	3,451,172	\$	-	\$	3,451,172

Statement of Activities Year Ended June 30, 2012

	ι	Inrestricted	Ī	Гетрогагіly Restricted		Total
Revenue and support						
Showroom licenses	\$	1,576,348	\$	_	\$	1,576,348
City of High Point	7	1,000,000	_	_	_	1,000,000
Transportation		-		928,000		928,000
North Carolina Department of Commerce – marketing		_		685,507		685,507
Occupancy taxes		304,722		-		304,722
HPCVB		150,000		_		150,000
Sponsorships		95,300		_		95,300
Guilford County		75,014		_		75,014
Blogger		17,200		_		17,200
Interest		7,298		_		7,298
Miscellaneous		9,599		_		9,599
Net assets released from restrictions:		- ,				- ,
Satisfaction of pre-market conditions		_		287,108		287,108
Transportation and marketing		1,900,615		(1,900,615)		, -
Total revenue and support		5,136,096		-		5,136,096
Expenditures						
Marketing		1,689,663		_		1,689,663
Transportation		1,406,043		_		1,406,043
Guest entertainment		488,132		_		488,132
Executive leadership and management		467,783		_		467,783
Pre-market – exhibitor funded		287,108		_		287,108
Centralized registration		249,574		_		249,574
Buyer parking		133,829		_		133,829
Depreciation		64,918		_		64,918
Unrelated business income tax		3,043		-		3,043
Total expenditures		4,790,093		-		4,790,093
Change in net assets		346,003		-		346,003
Net assets, beginning of year		2,670,701		-		2,670,701
Net assets, end of year	\$	3,016,704	\$	-	\$	3,016,704

Statements of Cash Flows Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 434,468	\$ 346,003
Adjustments to reconcile the change in net assets		
to net cash provided by operating activities:		
Depreciation and amortization	59,898	64,918
Loss on disposal of assets	2,090	-
Changes in assets and liabilities:	2,000	
Support receivables	6,895	565,568
Prepaid expenses	(3,195)	21,128
Accounts payable	(22,793)	3,533
Accrued expenses	16,471	(8,770)
Deferred revenue	45,552	(67,885)
Total adjustments	104,918	578,492
Net cash provided by operating activities	539,386	924,495
Cash flows from investing activities		
Purchase of property and equipment	(3,020)	(30,827)
Net cash used in investing activities	(3,020)	(30,827)
Cash flows from financing activities		
Change in lease payable	(4,024)	24,485
Net cash provided by (used in) financing activities	(4,024)	24,485
Net increase in cash and cash equivalents	532,342	918,153
Cash and cash equivalents, beginning of year	2,898,758	1,980,605
Cash and cash equivalents, end of year	\$ 3,431,100	\$ 2,898,758

# **Summary of Significant Accounting Policies**

#### **Organization**

The High Point International Home Furnishings Market Authority Corporation (the "Organization") is organized as a 501(c)(6) not-for-profit corporation founded in 2001 for the purpose of promoting and facilitating the International Home Furnishings Market in High Point, North Carolina. The Organization's support comes from showroom licenses, hotel taxes, and grants from various organizations.

#### **Basis of Presentation**

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Unrestricted net assets Net assets that are not subject to donorimposed stipulations.
- Temporarily Restricted net assets Net assets subject to donorimposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.
- Permanently Restricted net assets Net assets subject to donorimposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all of or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions between the applicable classes of net assets. There are no permanently restricted net assets as of June 30, 2013 and 2012.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with a maturity of twelve months or less when purchased to be cash equivalents. At various times throughout the year, the Organization may have cash balances in financial institutions that exceed federally insured amounts.

# **Summary of Significant Accounting Policies**

### **Support Receivable**

Support receivable is comprised substantially of previously agreed upon amounts due from city and county municipalities and industry trade organizations.

#### **Property and Equipment**

Property and equipment above \$1,000 are stated at cost if purchased, or fair value at the date the property was contributed. Assets are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Leasehold improvements	8-10
Equipment	3-10
Office furniture	7-10

Property held under capital leases are amortized over the lesser of the lease term or the useful life of the property. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation is removed from the accounts and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

#### **Use of Estimates**

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

### **Functional Expenses**

Functional expenses have been allocated between marketing, transportation, guest entertainment, executive leadership and management, centralized regulation and buyer parking expenses as indicated in the statements of activities.

# **Summary of Significant Accounting Policies**

# Donated Equipment and Goods

Donations of equipment and goods are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless donors indicate a specified purpose for contributed assets. Donations with explicit restrictions regarding their use, including contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding holding periods for donated assets, the Organization reports expirations of donor restrictions when the contributed or acquired assets are placed in service as indicated by the donors, at which time the Organization reclassifies temporarily restricted net assets to unrestricted net assets.

#### **Income Taxes**

The Organization is exempt from income taxes under Section 501(a) as an organization described in Section 501(c)(6) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements.

It is the Organization's policy to evaluate all tax positions and to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified for 2013 and 2012. Currently, the statute of limitations remains open subsequent to and including 2009; however, no examinations are in process or anticipated. Any changes in the amount of a tax position will be recognized in the period the change occurs.

#### **Subsequent Events**

Management has evaluated events occurring subsequent to the balance sheet date through September 30, 2013, the date that the financial statements were available to be issued determining no events require adjustment to or additional disclosure in the financial statements.

## **Notes to Financial Statements**

# 1. Property and Equipment

Major classes of property and equipment consist of the following:

	2013	2012
Leasehold improvements	\$ 512,355	\$ 509,335
Computer equipment	88,850	189,250
Office equipment	51,413	53,064
Office furniture	71,395	71,395
Market equipment	22,598	29,198
Less: accumulated depreciation	746,611 (672,606)	852,242 (719,269)
Net property and equipment	\$ 74,005	\$ 132,973

# 2. Restrictions on Net Assets

Temporarily restricted revenue is comprised of amounts paid to the Organization by participating exhibitors for food and beverage, lodging and local transportation costs associated with Pre-market activities, as well as support derived directly or indirectly from the State of North Carolina. Exhibitors contribute to the Organization, with such funds used solely to finance Pre-market. No unrestricted funds of the Organization are used for Pre-market.

### 3. Capital Leases

The Organization leases equipment under a capital lease, which has a capitalized cost of \$24,813 and related amortization of \$5,376 and \$414 at June 30, 2013 and 2012, respectively. Payments of \$392 are due each month through February 2018, with an imputed interest rate of 3% per annum. Minimum future lease payments for the years ended June 30 are as follows:

Year ending June 30,	
2014	\$ 4,704
2015	4,704
2016	4,704
2017	4,704
2018	3,136
Total minimum lease payments	21,952
Less amount representing interest	1,491
Present value of minimum lease payments	20,461
Less current portion	4,147
Long-term obligation	\$ 16,314

## **Notes to Financial Statements**

#### 4. Commitments

**Leases** – The Organization leases its office facilities, telephone equipment, reception facilities and market parking lots under operating leases expiring through June 30, 2016. Future minimum rental payments required under these leases are as follows:

2014	\$ 117,802
2015	46,042
2016	39,583
	\$ 203,427

Total rent expense and other related charges pursuant to these leases amounted to \$190,505 and \$185,687 for the years ended June 30, 2013 and 2012, respectively.

**Retirement Plan** – The Organization has a SIMPLE IRA plan to provide retirement benefits for eligible employees, into which employees may contribute up to \$7,000 of their annual compensation. The Organization matches employees' contributions up to 3% of their gross wages. Total Organization contributions for the years ended June 30, 2013 and 2012 were \$20,490 and \$19,681, respectively.

### 5. Concentrations

The Organization's primary sources of revenue and support, as a percentage of total unrestricted revenue and support, are as follows:

	2013	2012
City of High Point, net showroom licenses and		
hotel occupancy taxes	36%	39%
Transportation, contract	18%	19%
City of High Point, grant	18%	21%
North Carolina Department of Commerce, grant	12%	14%
Other	16%	7%





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# Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors High Point International Home Furnishings Market Authority Corporation High Point, North Carolina

We have audited, in accordance with the 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, the financial statements of High Point International Home Furnishings Market Authority Corporation (the "Organization"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2013.

## **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered High Point International Home Furnishings Market Authority Corporation's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether High Point International Home Furnishings Market Corporation'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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

High Point, North Carolina September 30, 2013 Certified Public Accountants

Smith Leonard PLLC

# **Schedules of Expenditures of State Awards**

Year ended June 30,	2013	2012
Grantor/Program Title	Receipts and <b>Expenditures</b>	Receipts and Expenditures
North Carolina Department of Commerce Special Appropriations (Senate Bill 897)	\$ 655,472	\$ 685,507

See accompanying note to Schedules of Expenditures of State Awards.

# Note to Schedules of Expenditures of State Awards

#### 1. Basis of Presentation

The accompanying Schedule of Expenditures of State Awards includes the state grant activity of the High Point International Home Furnishings Market Authority Corporation and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and North Carolina General Statute 143C-6-22. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Schedule of Findings and Questioned Costs Year Ended June 30, 2013

## Section I – Summary of Auditors' Results

State Awards		
Internal control over major State programs:		
<ul> <li>Material weakness(es) identified?</li> </ul>	yes X	no
<ul> <li>Significant deficiency(s) identified that are not</li> </ul>		
considered to be material weaknesses?	yes X	no
Type of auditors' report issued on compliance		
for major State programs:	Unqualified	
Any audit findings disclosed that are required to be	•	
reported in accordance with the OMB Circular A-133?	yes X	no
Identification of major State programs:		
Name of State program		
North Carolina Department of Commerce Special Appropriations		
(Senate Bill 897)		