

**NEWPORT AND BRISTOL COUNTY
CONVENTION AND VISITORS' BUREAU
(DBA DISCOVER NEWPORT)**

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MARCH 31, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT



SANSIVERI, KIMBALL & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

**NEWPORT AND BRISTOL COUNTY CONVENTION AND VISITORS' BUREAU
(DBA DISCOVER NEWPORT)**

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SANSIVERI, KIMBALL & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Newport and Bristol County Convention and Visitors' Bureau:

Report on the Financial Statements

We have audited the accompanying financial statements of Newport and Bristol County Convention and Visitors' Bureau (DBA Discover Newport) as of and for the years ended March 31, 2017 and 2016, and the related notes to the financial statements, which comprise Discover Newport'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.

Auditors' 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 audits 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 auditors' 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 Discover Newport as of March 31, 2017 and 2016, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2017, on our consideration of Discover Newport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Discover Newport's internal control over financial reporting and compliance.

Sansivni, Kimball & Co., LLP

Providence, Rhode Island
September 19, 2017

**NEWPORT AND BRISTOL COUNTY CONVENTION AND VISITORS' BUREAU
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STATEMENTS OF NET POSITION
MARCH 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash - operating fund | \$ 744,973 | \$ 787,664 |
| Accounts receivable, net of allowance for doubtful accounts | 267,909 | 233,306 |
| Prepaid expenses and other current assets | 189,675 | 149,494 |
| Total current assets | 1,202,557 | 1,170,464 |
| PROPERTY AND EQUIPMENT - NET | 324,356 | 331,676 |
| OTHER ASSETS: | | |
| Board-designated cash: | | |
| Reserve fund | 341,878 | 341,133 |
| Capital improvement fund | 284,700 | 184,228 |
| Intangible assets, net | 48,178 | 60,735 |
| Total other assets | 674,756 | 586,096 |
| TOTAL | \$ 2,201,669 | \$ 2,088,236 |
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 96,985 | \$ 156,261 |
| Deferred revenue | 81,224 | 80,198 |
| Accrued expenses: | | |
| Payroll and related liabilities | 66,232 | 62,328 |
| Other | 184,882 | 166,353 |
| Total current liabilities | 429,323 | 465,140 |
| COMMITMENTS | | |
| NET POSITION: | | |
| Net investment in capital assets | 372,534 | 392,411 |
| Unrestricted | 1,399,812 | 1,230,685 |
| Total net position | 1,772,346 | 1,623,096 |
| TOTAL | \$ 2,201,669 | \$ 2,088,236 |

See notes to financial statements.

**NEWPORT AND BRISTOL COUNTY CONVENTION AND VISITORS' BUREAU
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STATEMENTS OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

| | 2017 | 2016 |
|--|----------------------------|----------------------------|
| REVENUES: | | |
| Public sources - Room and occupancy taxes | \$ 3,393,598 | \$ 3,182,538 |
| Private sources: | | |
| Advertising income | 225,651 | 258,207 |
| Ticket commission income | 145,215 | 132,868 |
| Promotional participation income | 62,622 | 57,603 |
| Event hosting income | 15,066 | 21,770 |
| Other income | 60,158 | 35,791 |
| Total private sources | <u>508,712</u> | <u>506,239</u> |
| TOTAL REVENUES | <u><u>3,902,310</u></u> | <u><u>3,688,777</u></u> |
| EXPENDITURES: | | |
| Visitor's center, maintenance and general operations | 1,073,034 | 1,055,108 |
| Marketing and communications | 1,115,607 | 906,023 |
| Sales and services | 830,003 | 745,329 |
| Administrative | 731,091 | 616,567 |
| Loss on disposal of property and equipment | 3,325 | 2,358 |
| TOTAL EXPENDITURES | <u><u>3,753,060</u></u> | <u><u>3,325,385</u></u> |
| CHANGE IN NET POSITION | 149,250 | 363,392 |
| NET POSITION, BEGINNING OF THE YEAR | <u>1,623,096</u> | <u>1,259,704</u> |
| NET POSITION, END OF THE YEAR | <u><u>\$ 1,772,346</u></u> | <u><u>\$ 1,623,096</u></u> |

See notes to financial statements.

**NEWPORT AND BRISTOL COUNTY CONVENTION AND VISITORS' BUREAU
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net position | \$ 149,250 | \$ 363,392 |
| Adjustments to reconcile change in net position to net cash provided by operating activities: | | |
| Depreciation and amortization | 82,991 | 108,259 |
| Loss on disposal of property and equipment | 3,325 | 2,358 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (34,603) | (30,081) |
| Prepaid expenses and other current assets | (40,181) | 22,126 |
| Accounts payable | (59,276) | 56,527 |
| Deferred revenue | 1,026 | (62,520) |
| Accrued expenses | 22,433 | 37,594 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>124,965</u> | <u>497,655</u> |
| CASH FLOWS FROM CAPITAL ACTIVITIES: | | |
| Purchases of: | | |
| Property and equipment | (66,439) | (53,188) |
| Intangible assets | - | (40,679) |
| NET CASH USED BY CAPITAL ACTIVITIES | <u>(66,439)</u> | <u>(93,867)</u> |
| INCREASE IN CASH | 58,526 | 403,788 |
| CASH, BEGINNING OF THE YEAR | <u>1,313,025</u> | <u>909,237</u> |
| CASH, END OF THE YEAR | <u>\$ 1,371,551</u> | <u>\$ 1,313,025</u> |
| COMPONENTS OF CASH: | | |
| Operating fund | \$ 744,973 | \$ 787,664 |
| Reserve fund | 341,878 | 341,133 |
| Capital improvement fund | 284,700 | 184,228 |
| Total | <u>\$ 1,371,551</u> | <u>\$ 1,313,025</u> |

See notes to financial statements.

**NEWPORT AND BRISTOL COUNTY
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NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Newport and Bristol County Convention and Visitors' Bureau (DBA Discover Newport) was created by the General Assembly of the State of Rhode Island (the State), having a distinct legal existence from the State and not constituting a department of state government. Discover Newport is a governmental agency and public instrumentality of the State.

Discover Newport was created to achieve the following purposes:

- To establish an operating program to promote and encourage tourism.
- To coordinate tourism activities within Newport and Bristol Counties and the State.
- To establish a fund to promote and encourage tourism.
- To aid the municipalities in Newport and Bristol County in resolving problems that may arise due to growth in the tourism industry and to improve the quality of life in Newport and Bristol Counties.

Discover Newport's principal funding source is a percentage of hotel tax collected regionally by the State and locally by the City of Newport (the City). Discover Newport's revenues received directly from the State represented approximately 25% and 24% of total revenues for the years ended March 31, 2017 and 2016, respectively. In addition, Discover Newport's revenues, which were collected by the City, represented approximately 62% of total revenues for each of the years ended March 31, 2017 and 2016. Also, accounts receivable from the State and the City represent approximately 21% and 58%, respectively, of total accounts receivable at March 31, 2017.

Basis of Accounting

The accompanying financial statements of Discover Newport have been prepared on the accrual basis of accounting, under which revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred.

The financial statements are intended to present the net position and results of its activities of only that portion of the financial reporting entity of the State that is attributable to the transactions of Discover Newport.

See independent auditors' report.

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Accounts Receivable

Accounts receivable include hotel tax receivables due from the City and State and advanced billings related to advertising. Discover Newport reports its accounts receivable net of an allowance for doubtful accounts. Discover Newport provides appropriate provisions for doubtful accounts based upon factors surrounding the credit risk and activity of specific customers, historical trends, and other information.

Discover Newport does not accrue interest on accounts receivable. Accounts are written off when Discover Newport has determined that there is no likelihood of collection.

Property and Equipment

Property and equipment is recorded at cost, or if donated, at fair market value. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

Intangible Assets

Discover Newport's intangible assets consist of computer software, website costs, and costs to develop a brand name and are being amortized on a straight-line basis over periods ranging from five to twelve years.

Revenue Recognition

Revenue is substantially derived from the hotel tax imposed by the State on the hospitality industry in Newport and Bristol Counties. Discover Newport receives a percentage of the hotel tax collected by the State and the City in accordance with Rhode Island General Laws Title 42 Chapter 63.1. The hotel tax is recognized as revenue in the month in which the tax was imposed by the State.

Discover Newport receives advertising income for advertisements placed in the visitor center and on their websites. Advertising income is earned over the life of the advertising contract. Revenue billed in advance is deferred, and recognized when earned. Discover Newport also receives commission income for tickets they sell for attractions throughout Newport and Bristol Counties.

Occupancy Expenses

For each of the years ended March 31, 2017 and 2016, Discover Newport paid the City approximately \$40,000 and \$41,000, respectively in connection with its occupancy of facilities owned by the City. The fair market rental value of the facilities has not been

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determined and, accordingly, any market value adjustments in rent are not included in Discover Newport's operating results.

Advertising

Advertising costs are expensed in the period in which the advertisement appears for the first time. Advertising costs amounted to approximately \$486,000 and \$354,000 for the years ended March 31, 2017 and 2016, respectively.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

Subsequent Events

Management has evaluated subsequent events through September 19, 2017, which is the date the financial statements were available to be issued.

2. ACCOUNTS RECEIVABLE

As of March 31, 2017 and 2016, accounts receivable consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Hotel tax due from: | | |
| The City of Newport | \$ 155,308 | \$ 140,311 |
| The State of Rhode Island | 57,483 | 50,444 |
| Other (net of allowance for doubtful accounts of \$2,550 in 2017 and 2016) | <u>55,118</u> | <u>42,551</u> |
| Accounts receivable, net | <u>\$ 267,909</u> | <u>\$ 233,306</u> |

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3. PROPERTY AND EQUIPMENT

As of March 31, 2017 and 2016, property and equipment consisted of the following:

| | 2017 | 2016 |
|--|--------------|--------------|
| Leasehold improvements | \$ 1,058,989 | \$ 1,036,980 |
| Computer, office equipment and furnishings | 269,198 | 253,104 |
| Vehicles | 71,217 | 71,217 |
| Total property and equipment | 1,399,404 | 1,361,301 |
| Less accumulated depreciation | 1,075,048 | 1,029,625 |
| Property and equipment, net | \$ 324,356 | \$ 331,676 |

4. INTANGIBLE ASSETS

As of March 31, 2017 and 2016, intangible assets consisted of the following:

| | 2017 | 2016 |
|-------------------------------|-----------|-----------|
| Computer software | \$ 37,927 | \$ 37,927 |
| Website | 51,750 | 51,750 |
| Brand name | 8,970 | 8,970 |
| Total | 98,647 | 98,647 |
| Less accumulated amortization | 50,469 | 37,912 |
| Intangible assets, net | \$ 48,178 | \$ 60,735 |

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As of March 31, 2017, the aggregate future amortization expense is as follows:

| <u>Year</u> | <u>Amount</u> |
|---------------------|------------------|
| 2018 | \$ 11,390 |
| 2019 | 11,390 |
| 2020 | 11,390 |
| 2021 | 10,373 |
| 2022 | 1,040 |
| 2023 and thereafter | <u>2,595</u> |
| Total | <u>\$ 48,178</u> |

Amortization expense for the years ended March 31, 2017 and 2016 was approximately \$12,500 and \$19,500, respectively. During the year ended March 31, 2016, management wrote-off fully amortized intangibles of approximately \$114,000.

5. SHORT-TERM FINANCING ARRANGEMENT

Discover Newport maintains a line-of-credit with a financial institution that provides for maximum available borrowings of \$100,000. Borrowings on the line-of-credit are due on demand and collateralized by substantially all assets of Discover Newport. Interest is payable monthly and is computed at the financial institution's base rate plus .50%. As of March 31, 2017, the financial institution's base rate was 4%. There were no outstanding borrowings on the line-of-credit as of March 31, 2017 and 2016.

6. ROOM AND OCCUPANCY TAX REVENUE

Discover Newport receives funding from the State in the form of a percentage of the hotel tax collected by the State and by the City. For the years ended March 31, 2017 and 2016, Discover Newport recorded hotel tax revenue as follows:

| | 2017 | 2016 |
|-----------------------|---------------------|---------------------|
| Collected by: | | |
| City of Newport | \$ 2,408,575 | \$ 2,279,281 |
| State of Rhode Island | 985,023 | 903,257 |
| Total | <u>\$ 3,393,598</u> | <u>\$ 3,182,538</u> |

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7. EMPLOYEE BENEFIT PLAN

Discover Newport maintains a retirement plan for employees who have completed one year of service and have attained the age of twenty-one. Discover Newport's contribution is discretionary and determined by its Board of Directors on an annual basis. For the years ended March 31, 2017 and 2016, Discover Newport contributed \$100,000 and \$125,000, respectively, to the plan.

8. COMMITMENTS

Operating Leases - Lessee

Discover Newport leases an automobile and certain property and equipment under non-cancelable operating lease agreements expiring at various dates through February 2019.

As of March 31, 2017, the approximate future minimum lease payments under non-cancelable operating leases with terms of one year or more consisted of the following:

| <u>Year</u> | <u>Amount</u> |
|-------------|------------------|
| 2018 | \$ 27,000 |
| 2019 | 18,000 |
| Total | <u>\$ 45,000</u> |

Also, see Note 10.

Rent expense, under all operating lease agreements, for the years ended March 31, 2017 and 2016 was approximately \$69,000 and \$70,000, respectively.

Operating Leases - Lessor

Discover Newport sub-leases certain space in the Visitor Center that is operated as a gift shop under a non-cancelable operating lease agreement that expires in March 2019.

See independent auditors' report.

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As of March 31, 2017, the approximate future minimum rental income under this agreement is as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------------|
| 2018 | \$ 19,000 |
| 2019 | <u>20,000</u> |
| Total | <u><u>\$ 39,000</u></u> |

Rental income, which is included within other income on the accompanying statements of activities and change in net position, for the years ended March 31, 2017 and 2016 was approximately \$20,000 and \$13,000, respectively.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Net cash flows from capital activities in the accompanying statement of cash flows for the year ended March 31, 2016 excludes the non-cash portion of the acquisition of a vehicle through the trade-in of a vehicle in the amount of approximately \$4,500.

10. SUBSEQUENT EVENT

In April 2017, Discover Newport entered into an operating lease agreement with a bank to lease copy machines. The operating lease agreement commences on May 11, 2017, expires on May 11, 2022, and requires monthly lease payments of approximately \$2,400.

See independent auditors' report.



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*

To the Board of Directors of the
Newport and Bristol County Convention and Visitors' Bureau:

We have audited, 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, the financial statements of Newport and Bristol County Convention and Visitors' Bureau (DBA Discover Newport) as of and for the year ended March 31, 2017, and the related notes to the financial statements, which comprise Discover Newport's basic financial statements, and have issued our report thereon dated September 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Discover Newport's internal control over financial reporting (internal control) 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 Discover Newport's internal control. Accordingly, we do not express an opinion on the effectiveness of Discover Newport'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 Discover Newport's financial statements are free from 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 Discover Newport's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Discover Newport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sansivni, Kimball & Co., LLP

Providence, Rhode Island
September 19, 2017