

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

GENERAL PURPOSE
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MARCH 31, 2014 AND 2013

INDEPENDENT AUDITORS' REPORT



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

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

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Statements of Net Position	3
Statements of Activities and Change in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 11
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 <i>Government Auditing Standards</i>	12 - 13



SANSIVERI, KIMBALL & CO., L.L.P.
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 the business-type activities of Newport and Bristol County Convention and Visitors' Bureau (DBA Discover Newport), a component unit of the State of Rhode Island, as of and for the years ended March 31, 2014 and 2013, 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.

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Discover Newport, a component unit of the State of Rhode Island, as of March 31, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2014, 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.

Sausville, Kinnell & Co., L.L.P.

Providence, Rhode Island
August 19, 2014

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

STATEMENTS OF NET POSITION
MARCH 31, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash	\$ 527,209	\$ 442,197
Accounts receivable, net of allowance for doubtful accounts	194,780	194,782
Prepaid expenses and other current assets	143,530	155,514
Total current assets	865,519	792,493
PROPERTY AND EQUIPMENT - NET	364,429	357,596
OTHER ASSETS:		
Board-designated cash:		
Reserve fund	107,202	124,554
Capital improvement fund	53,511	66,857
Intangible assets, net of accumulated amortization of approximately \$102,000 in 2014 and \$81,000 in 2013	60,699	83,774
Total other assets	221,412	275,185
TOTAL	\$ 1,451,360	\$ 1,425,274
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 91,705	\$ 78,841
Deferred revenue	114,901	80,780
Accrued expenses:		
Payroll and related liabilities	34,136	37,526
Other	105,105	107,160
Total current liabilities	345,847	304,307
COMMITMENTS		
NET POSITION:		
Net investment in capital assets	425,128	441,370
Unrestricted	680,385	679,597
Total net position	1,105,513	1,120,967
TOTAL	\$ 1,451,360	\$ 1,425,274

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED MARCH 31, 2014 AND 2013

	2014	2013
REVENUES:		
Room and occupancy taxes	\$ 2,610,757	\$ 2,529,721
Advertising income	220,047	263,505
Ticket commission income	125,580	117,994
Co-op shows and advertising income	94,321	82,096
Other income	55,940	32,367
Rental income	-	7,000
TOTAL REVENUES	<u>3,106,645</u>	<u>3,032,683</u>
EXPENDITURES:		
Personnel costs	1,755,133	1,672,789
Visitor's center, administrative and general operations	660,036	658,114
Marketing and communications	447,348	438,081
Sales and services	219,375	218,098
Loss on disposal of property, equipment and intangible asset	40,207	9,915
TOTAL EXPENDITURES	<u>3,122,099</u>	<u>2,996,997</u>
CHANGE IN NET POSITION	(15,454)	35,686
NET POSITION, BEGINNING OF THE YEAR	<u>1,120,967</u>	<u>1,085,281</u>
NET POSITION, END OF THE YEAR	<u>\$ 1,105,513</u>	<u>\$ 1,120,967</u>

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net position	\$ (15,454)	\$ 35,686
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation and amortization	96,518	88,097
Bad debt expense	100	1,688
Loss on disposal of property, equipment and intangible asset	40,207	9,915
Changes in assets and liabilities:		
Accounts receivable	(98)	42,612
Prepaid expenses and other current assets	11,984	(72,569)
Accounts payable	12,864	(3,734)
Deferred revenue	34,121	(39,694)
Accrued expenses	(5,445)	14,474
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>174,797</u>	<u>76,475</u>
CASH FLOWS FROM CAPITAL ACTIVITIES:		
Acquisition of:		
Property and equipment	(114,188)	(164,627)
Intangible assets	(6,295)	(6,000)
NET CASH USED BY CAPITAL ACTIVITIES	<u>(120,483)</u>	<u>(170,627)</u>
INCREASE (DECREASE) IN CASH	54,314	(94,152)
CASH, BEGINNING OF THE YEAR	<u>633,608</u>	<u>727,760</u>
CASH, END OF THE YEAR	<u>\$ 687,922</u>	<u>\$ 633,608</u>
COMPONENTS OF CASH:		
Operating fund	\$ 527,209	\$ 442,197
Reserve fund	107,202	124,554
Capital improvement fund	53,511	66,857
Total	<u>\$ 687,922</u>	<u>\$ 633,608</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

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, and for financial reporting purposes, is considered a component unit of the State.

Discover Newport was created to achieve the following purposes through its business-type activities:

- 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 from the State represented approximately 23% and 22% of total revenues for the years ended March 31, 2014 and 2013, respectively. In addition, Discover Newport's revenues from the City represented approximately 61% of total revenues for each of the years ended March 31, 2014 and 2013. In addition, accounts receivable from the State and the City represent approximately 21% and 57%, respectively, of total accounts receivable at March 31, 2014.

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.

Accounts Receivable

Accounts receivable include hotel tax receivables 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 two 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, 2014 and 2013, Discover Newport paid the City approximately \$40,000 in connection with its occupancy of facilities owned by the City. The fair market rental value of the facilities has not been 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 \$248,000 and \$260,000 for the years ended March 31, 2014 and 2013, 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.

Reclassifications

Certain amounts reported in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

Subsequent Events

Management has evaluated subsequent events through August 19, 2014, which is the date the financial statements were available to be issued.

2. ACCOUNTS RECEIVABLE

As of March 31, 2014 and 2013, accounts receivable consisted of the following:

	<u>2014</u>	<u>2013</u>
Hotel tax due from:		
The City of Newport	\$ 112,679	\$ 119,797
The State of Rhode Island	41,101	42,481
Other (net of allowance for doubtful accounts of \$3,650 in 2014 and 2013)	<u>41,000</u>	<u>32,504</u>
Accounts receivable, net	<u>\$ 194,780</u>	<u>\$ 194,782</u>

3. PROPERTY AND EQUIPMENT

As of March 31, 2014 and 2013, property and equipment consisted of the following:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 991,616	\$ 919,414
Computer, office equipment and furnishings	297,513	290,620
Vehicles	55,475	55,475
Construction in progress	15,000	34,806
Total property and equipment	<u>1,359,604</u>	<u>1,300,315</u>
Less accumulated depreciation	<u>995,175</u>	<u>942,719</u>
Property and equipment, net	<u>\$ 364,429</u>	<u>\$ 357,596</u>

4. INTANGIBLE ASSETS

As of March 31, 2014 and 2013, intangible assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Computer software	\$ 82,044	\$ 82,044
Website	71,455	73,360
Brand name	8,970	8,970
Total	<u>162,469</u>	<u>164,374</u>
Less accumulated amortization	<u>101,770</u>	<u>80,600</u>
Intangible assets, net	<u>\$ 60,699</u>	<u>\$ 83,774</u>

As of March 31, 2014, the aggregate future amortization expense is as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 21,700
2016	19,400
2017	8,800
2018	5,300
2019	1,700
2020 and thereafter	<u>3,799</u>
Total	<u>\$ 60,699</u>

Amortization expense for the years ended March 31, 2014 and 2013 was approximately \$21,800 and \$20,200 respectively.

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, 2014, the financial institution’s base rate was 3.25%. There were no outstanding borrowings on the line-of-credit as of March 31, 2014 and 2013.

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, 2014 and 2013, Discover Newport recorded hotel tax revenue as follows:

	<u>2014</u>	<u>2013</u>
Collected by:		
City of Newport	\$ 1,900,648	\$ 1,849,217
State of Rhode Island	<u>710,109</u>	<u>680,504</u>
Total	<u>\$ 2,610,757</u>	<u>\$ 2,529,721</u>

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 each of the years ended March 31, 2014 and 2013, Discover Newport contributed \$80,000 to the plan.

8. COMMITMENTS

Operating Leases

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, 2014, 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>
2015	\$ 61,000
2016	60,000
2017	17,000
2018	16,000
2019	<u>14,000</u>
Total	<u>\$ 168,000</u>

Rent expense, under all operating lease agreements, for the years ended March 31, 2014 and 2013 was approximately \$61,000 and \$63,000, 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, 2013 excludes the acquisition of certain equipment through the trade-in of a vehicle in the amount of \$5,000.

10. SUBSEQUENT EVENTS

In May 2014, Discover Newport entered into an agreement to sublease certain space of its leased property to a third party for a period of one year commencing on May 1, 2014. The lease requires an annual base rent of \$12,500. The leased property consists of space previously used by Discover Newport for its gift shop. In connection with this lease, Discover Newport sold the majority of its gift shop inventory to its tenant for the amount of approximately \$17,700.



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
Newport, Rhode Island

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 the business-type activities of Newport and Bristol County Convention and Visitors' Bureau (DBA Discover Newport), a component unit of the State of Rhode Island, as of and for the year ended March 31, 2014, and the related notes to the financial statements, which comprise Discover Newport's basic financial statements, and have issued our report thereon dated August 19, 2014.

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 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.

Sansivini, Kimball & Co., L.L.P.

Providence, Rhode Island
August 19, 2014