

**HOWARD COUNTY TOURISM  
COUNCIL, INC.**

**FINANCIAL REPORTS**

**June 30, 2019 and 2018**

**HOWARD COUNTY TOURISM COUNCIL, INC.**

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## Independent Auditors' Report

To the Board of Directors  
Howard County Tourism Council, Inc.  
Ellicott City, MD

We have audited the accompanying financial statements of Howard County Tourism Council, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended June 30, 2019, 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 controls 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. 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 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 auditors consider 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 Howard County Tourism Council, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter – Effect of Adopting New Accounting Standard**

As discussed in Note 1, Howard County Tourism Council, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Delmo Jones, P.C.". The signature is written in a cursive, flowing style.

Columbia, Maryland  
November 25, 2019

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 246,084	\$ 140,923
Accounts receivable	500	1,621
Grant receivable	48,350	60,199
Prepaid expenses and deposits	37,593	8,710
Inventory	3,606	5,754
Investments	268,503	256,324
 Total current assets	 604,636	 473,531
<b>Fixed Assets</b>		
Furniture, fixtures and equipment	23,254	25,671
Less: accumulated depreciation	(16,045)	(13,607)
 Total fixed assets, net	 7,209	 12,064
<b>Other Assets</b>		
Intangible assets, net of accumulated amortization of \$53,550 and \$41,650, respectively	-	11,900
 <b>Total Assets</b>	 \$ 611,845	 \$ 497,495
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 24,713	\$ 11,662
Accrued expenses	9,914	8,204
Deferred revenue	6,000	4,750
 Total current liabilities	 40,627	 24,616
<b>Net Assets</b>		
Net assets without donor restrictions	571,218	472,879
 <b>Total Liabilities and Net Assets</b>	 \$ 611,845	 \$ 497,495

*The accompanying notes are an integral part of these financial statements.*

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**STATEMENTS OF ACTIVITIES**  
**For The Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Revenues, Gains, and Support</b>		
Contributions, gifts and grants	\$ 1,065,727	\$ 1,142,864
Contributed rental space	64,800	60,000
Program service revenue	19,532	25,833
Membership dues and assessments	13,950	14,995
Interest and dividends	14,559	17,617
Realized losses	(8,324)	-
Unrealized gains and (losses)	7,068	(12,531)
Special events, net	1,252	(7,087)
Sales income, net	48	3,881
Loss on disposal of fixed assets	(2,562)	-
	<u>1,176,050</u>	<u>1,245,572</u>
<b>Expenses</b>		
Program services		
Tourism promotion	774,572	612,042
Visitor center	156,321	392,166
	<u>930,893</u>	<u>1,004,208</u>
Supporting services		
Management and general	146,818	245,386
	<u>146,818</u>	<u>245,386</u>
Total operating expenses	<u>1,077,711</u>	<u>1,249,594</u>
<b>Change in Net Assets</b>	98,339	(4,022)
<b>Net Assets - Beginning of Year</b>	<u>472,879</u>	<u>476,901</u>
<b>Net Assets - End of Year</b>	<u>\$ 571,218</u>	<u>\$ 472,879</u>

*The accompanying notes are an integral part of these financial statements.*

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For The Year Ended June 30, 2019**  
**(With Comparative Totals for 2018)**

	<u>Program Services</u>		<u>Management and General</u>	<u>Total 2019</u>	<u>Total 2018</u>
	<u>Tourism Promotion</u>	<u>Visitor Center</u>			
Advertising	\$ 382,612	\$ -	\$ -	\$ 382,612	\$ 373,675
Auto expense	2,760	1,216	1,016	4,992	3,822
Bank charges	634	279	234	1,147	2,034
Charitable contributions	183	80	67	330	36,859
Computer expense	4,952	2,181	1,823	8,956	8,697
Contract labor	-	-	-	-	1,845
Contributed rental space	35,825	15,782	13,193	64,800	60,000
Depreciation and amortization	9,344	4,117	3,441	16,902	22,519
Development grant	31,099	-	-	31,099	36,050
Dues and subscriptions	11,097	4,889	4,087	20,073	20,152
Employee benefits	16,185	7,130	5,961	29,276	48,799
Insurance	3,178	1,400	1,170	5,748	7,585
Interest expense	-	-	-	-	12
Miscellaneous	229	101	84	414	600
Office expense	2,565	1,130	945	4,640	10,857
Payroll taxes	17,638	7,771	6,496	31,905	35,563
Payroll processing fee	3,181	1,401	1,172	5,754	4,224
Postage and shipping	9,762	4,300	3,595	17,657	17,863
Professional fees	6,020	-	16,140	22,160	39,850
Promotional and sponsorship	379	167	139	685	3,567
Repairs and maintenance	164	72	60	296	1,493
Salaries	177,968	78,403	65,541	321,912	401,506
Telephone	6,616	2,915	2,437	11,968	10,189
Travel and meetings	21,166	9,324	7,795	38,285	53,265
Website	31,015	13,663	11,422	56,100	48,568
	<hr/>				
Total	\$ 774,572	\$ 156,321	\$ 146,818	\$ 1,077,711	\$ 1,249,594

*The accompanying notes are an integral part of these financial statements.*

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For The Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 98,339	\$ (4,022)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	16,902	22,519
Loss on disposal of fixed assets	2,562	-
Net realized loss on investments	8,324	-
Net unrealized (gain) loss on investments	(7,068)	12,531
Changes in assets and liabilities		
Accounts receivable	1,121	8,129
Grant receivable	11,849	(27,757)
Prepaid expenses and deposits	(28,883)	22,568
Inventory	2,148	17
Accounts payable	13,051	(17,847)
Accrued expenses	1,710	372
Deferred revenue	1,250	(950)
	<u>121,305</u>	<u>15,560</u>
 Net cash provided by operating activities	 <u>121,305</u>	 <u>15,560</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(2,709)	(5,167)
Sale of long term investments	259,254	-
Purchase of long term investments	(272,689)	(17,312)
	<u>(16,144)</u>	<u>(22,479)</u>
 Net cash used in investing activities	 <u>(16,144)</u>	 <u>(22,479)</u>
 <b>Net increase (decrease) in cash and cash equivalents</b>	 <u>105,161</u>	 <u>(6,919)</u>
 <b>Cash and cash equivalents at beginning of year</b>	 <u>140,923</u>	 <u>147,842</u>
 <b>Cash and cash equivalents at end of year</b>	 <u>\$ 246,084</u>	 <u>\$ 140,923</u>
 <b>Supplemental cash flow information:</b>		
Interest paid	\$ -	\$ 12

*The accompanying notes are an integral part of these financial statements.*



**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies**

*Nature of Organization*

Howard County Tourism Council, Inc. (the Organization) is a not-for-profit organization which incorporated on March 6, 1981 in the State of Maryland. The primary purpose of the Organization is to encourage and promote tourism within Howard County, Maryland.

The Organization is designated by the Howard County Council to receive 1.33% of the 7% sales and use tax that Howard County is authorized to impose on room rentals in the county for hotel accommodations. The Organization has agreed to use these funds to improve and expand the marketing of the County to travelers and tourists.

The Organization maintains a grant agreement with the State of Maryland to promote development of travel and tourism in the state. Through the grant funds, the State of Maryland reimburses the Organization for certain tourism marketing activities at a reimbursement rate of 50% to 100% of the expenditure up to an amount agreed to annually.

The Organization offers annual memberships to partners in the travel and hospitality industry, and other interested businesses and organizations, at a variety of membership levels.

*Basis of Accounting*

The financial statements of the Organization have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United State of America.

*Basis of Presentation*

The financial statements of the Organization are prepared on the accrual basis of accounting using the not-for-profit accounting model. Net assets and revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets are classified as follows:

*Net assets without donor restrictions* – Net assets not subject to donor-imposed stipulations and may be used at the board’s discretion.

*Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization had no net assets with donor restrictions at June 30, 2019 and 2018.

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies (continued)**

*Basis of Presentation (continued)*

*Recent Accounting Pronouncements Adopted*

In August 2016, the *Financial Accounting Standards Board (FASB)* issued *Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has adopted this ASU as of and for the year ended June 30, 2019. The Organization opted to not disclose liquidity and availability information and the statement of functional expenses for 2018, as permitted under the ASU in the year of adoption.

*Use of Estimates*

The preparation of 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, the disclosure of contingent assets and liabilities, and reported revenue and expenses during the reporting period. Actual results could differ from those estimates.

*Expense Allocation*

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include auto expense, bank charges, charity, computer expense, rent, depreciation & amortization, payroll expenses, employee benefits, insurance, and office expenses which are allocated on the basis of time and effort.

*Cash and Cash Equivalents*

For purposes of financial statement reporting, the Organization considers all unrestricted highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies (continued)**

***Inventories***

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. When evidence exists that the net realizable value of inventory is lower than its cost, the difference is recognized as a loss in the statement of activities in the period in which it occurs.

***Investments***

Investments are comprised of mutual funds and are reported at fair value with realized and unrealized gains and losses included in the accompanying statements of activities. The fair value of the mutual funds is determined primarily by reference to quoted market prices.

***Fixed Assets and Depreciation***

Furniture, fixtures and equipment purchases in excess of \$500 are capitalized. Fixed assets are stated at cost if purchased or fair market value at the date of gift if donated. Depreciation is computed on the straight-line basis over estimated useful lives of the related assets, ranging from five to fifteen years. Depreciation expense for years ended June 30, 2019 and 2018 was \$5,002 and \$4,669, respectively.

***Intangible Assets***

In March 2016, the Organization entered in to an agreement with a developer for the development of a new website. The cost of the certain phases of the website's development were capitalized and are being amortized on a straight-line basis over three years. Annual amortization of intangibles was \$11,900 and \$17,850 for the years ended June 30, 2019 and 2018.

***Deferred Revenue***

Income from membership dues and subscription fees is deferred and recognized over the periods to which the dues and fees relate.

***Revenue***

The Organization receives contributions, grants, and revenue from individual and corporate donors. Revenues are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions.

***Advertising***

Advertising costs are expensed as incurred.

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**Note 1: Nature of Organization and Summary of Significant Accounting Policies (continued)**

*Donated Assets*

Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

*Tax Status*

The Organization is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code and is classified by the Internal Revenue Service as an organization that is not a private foundation. Accordingly, no income tax expense has been provided in the accompanying financial statements. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

Accounting principles generally accepted in the United States of America require the Organization to evaluate tax positions taken and recognize a tax liability if it is more likely than not that uncertain tax positions taken would not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken and has concluded that, as of June 30, 2019 and 2018, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. For the years ended June 30, 2019 and 2018, the Organization had no interest and penalties related to income taxes. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Generally, the Organization's tax returns remain open for three years for federal and state examination.

*Subsequent Events*

Management has evaluated subsequent events through November 25, 2019, the day the financial statements were available to be issued.

**Note 2: Deferred Revenue**

The changes in the Organization's deferred revenue account for the years ended June 30, 2019 and 2018 are comprised of the following:

Balance at June 30, 2017	\$ 5,700
Memberships sold	4,750
Membership fees earned	<u>(5,700)</u>
Balance at June 30, 2018	4,750
Memberships sold	6,000
Membership fees earned	<u>(4,750)</u>
Balance at June 30, 2019	<u><u>\$ 6,000</u></u>

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**Note 3: Investments and Fair Value Measurements**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

*Level 1*

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

*Level 2*

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3*

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value, on a recurring basis. There have been no changes to the methodologies used at June 30, 2019 and 2018.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission (SEC). These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the organization are deemed to be actively traded.

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**Note 3: Investments Fair Value Measurements (continued)**

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019 and 2018:

	<b>June 30, 2019</b>		
	Level 1	Level 2	Level 3
Cash & cash alternatives	\$ 53	\$ -	\$ -
Mutual funds			
Balanced fund	268,450	-	-
Total investments	\$ 268,503	\$ -	\$ -
	<b>June 30, 2018</b>		
	Level 1	Level 2	Level 3
Mutual funds			
Value dividend fund	\$ 124,466	\$ -	\$ -
Income fund	131,858	-	-
Total investments	\$ 256,324	\$ -	\$ -

**Note 4: Concentration of Credit Risk**

The Organization's cash balances in financial institutions at times, throughout the year, exceeded federally insured limits.

**Note 5: Other Concentrations**

For the fiscal year ended June 30, 2019, approximately 86% or \$1,009,877, of the Organization's revenue came from a Howard County grant. For the fiscal year ended June 30, 2018, approximately 85% or \$1,057,080, of the Organization's revenue came from a Howard County grant. Furthermore, the Organization also received grants from the State of Maryland. Thus, its funding is vulnerable to changes in the legislative priorities of federal, state, and local governments.

The Organization conducts its operations primarily in Howard County, Maryland, and, therefore, is subject to risks from changes in local economic or other conditions of the geographic area.

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**Note 6: Advertising**

The Organization utilizes advertising in electronic media outlets, niche publications, and the internet to generate greater consumer awareness of Howard County, Maryland as a travel destination to increase tourism expenditures to Maryland from its primary and secondary markets through increased visitation, increased spending by visitors, and increased length of stay. Advertising costs were \$382,610 and \$373,675 for the years ended June 30, 2019 and 2018, respectively.

**Note 7: Operating Lease**

The Organization leases postage equipment under a non-cancelable operating lease that expires in May 2020.

Future minimum lease payments under its lease at June 30, 2019 are as follows:

Fiscal year:	2020	<u><u>\$ 148</u></u>
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**Note 8: Donated Facilities**

The Organization has a year to year lease agreement with Howard County whereby the Organization leases donated office space either owned or managed by the County. The fair value of the lease (which also includes services and utilities) is estimated annually on a gross basis. Contribution revenue and occupancy expense in connection with this lease agreement of \$64,800 and \$60,000 were recorded for the years ended June 30, 2019 and 2018, respectively.

**Note 9: Retirement Plan**

The Organization has in place a Simple IRA Plan. An employee is eligible to become a participant in the Plan on date of hire if they are reasonably expected to receive at least \$5,000 in compensation. Elective deferrals may equal the lesser of IRS prescribed amounts or 100% of the participant's compensation specified by certain limitations and catch up allowances for specific employees. The Organization also contributes a matching contribution to each eligible employee's plan up to a limit of 3% of the employee's compensation. The Organization made contributions to the plan totaling \$14,715 and \$14,458 for the fiscal years ending June 30, 2019 and 2018, respectively.

**HOWARD COUNTY TOURISM COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**Note 10: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 246,084
Investments	268,503
Accounts receivable	500
Grants receivable	<u>48,350</u>
	<u>\$ 563,437</u>

As part of the organization's liquidity management, it invests cash in various mutual funds. Total investments per the statement of financial position are included above as any investment can be liquidated immediately to meet general expenditures.