

**NEWPORT AND BRISTOL COUNTY
CONVENTION AND VISITORS' BUREAU
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

INDEPENDENT AUDITORS' REPORT



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



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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 consolidated financial statements of Newport and Bristol County Convention and Visitors' Bureau and Subsidiary (the Bureau) as of and for the year ended June 30, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Newport and Bristol County Convention and Visitors' Bureau and Subsidiary as of June 30, 2019, and the changes in its financial position and its cash flows for the year ended June 30, 2019 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 consolidated financial statements. Such missing information, although not a part of the basic consolidated 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 consolidated financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic consolidated financial statements is not affected by this missing information.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Sansiveri, Kimball & Co., LLP

Providence, Rhode Island
November 22, 2019

**NEWPORT AND BRISTOL COUNTY
CONVENTION AND VISITORS' BUREAU AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS	
CURRENT ASSETS:	
Cash - operating fund	\$ 755,142
Accounts receivable, net of allowance for doubtful accounts	417,109
Prepaid expenses and other current assets	285,114
Total current assets	<u>1,457,365</u>
PROPERTY AND EQUIPMENT - NET	216,919
OTHER ASSETS:	
Board-designated cash:	
Reserve fund	368,879
Capital improvement fund	394,813
Intangible assets, net	33,642
Total other assets	<u>797,334</u>
TOTAL	<u><u>\$ 2,471,618</u></u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable	\$ 292,752
Deferred revenue	148,952
Accrued expenses:	
Payroll and related liabilities	242,676
Other	58,263
Total current liabilities	<u>742,643</u>
COMMITMENTS	
NET POSITION:	
Net investment in capital assets	250,561
Unrestricted:	
Board-designated cash reserves	763,692
General purpose	714,722
Total unrestricted net position	<u>1,478,414</u>
Total net position	<u>1,728,975</u>
TOTAL	<u><u>\$ 2,471,618</u></u>

See notes to consolidated financial statements.

**NEWPORT AND BRISTOL COUNTY
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CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

REVENUES:	
Public sources:	
State and local hotel taxes	\$ 3,548,073
Newport tourism fee	274,973
Total public sources	3,823,046
Private sources:	
Advertising income	230,977
Ticket commission income	123,044
Promotional participation income	60,348
Event hosting income	16,827
Other income	71,946
Total private sources	503,142
TOTAL REVENUES	4,326,188
 EXPENDITURES:	
Visitor's center, maintenance and general operations	937,865
Marketing and communications	1,485,865
Sales and services	994,405
Administrative	754,416
Loss on disposal of property and equipment	9,657
TOTAL EXPENDITURES	4,182,208
 CHANGE IN NET POSITION	 143,980
 NET POSITION, BEGINNING OF YEAR	 1,584,995
 NET POSITION, END OF YEAR	 \$ 1,728,975

See notes to consolidated financial statements.

**NEWPORT AND BRISTOL COUNTY
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net position	\$ 143,980
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation and amortization	73,822
Loss on disposal of property and equipment	9,657
Changes in assets and liabilities:	
Accounts receivable	21,544
Prepaid expenses and other current assets	(103,517)
Accounts payable	190,336
Deferred revenue	(13,167)
Accrued expenses	128,673
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>451,328</u>
 CASH FLOWS FROM CAPITAL ACTIVITIES:	
Purchases of property and equipment	(30,730)
Purchases of intangible assets	(11,650)
NET CASH USED BY CAPITAL ACTIVITIES	<u>(42,380)</u>
 NET INCREASE IN CASH	 408,948
 CASH, BEGINNING OF YEAR	 <u>1,109,886</u>
 CASH, END OF YEAR	 <u>\$ 1,518,834</u>
 COMPONENTS OF CASH:	
Operating fund	\$ 755,142
Reserve fund	368,879
Capital improvement fund	394,813
Total	<u>\$ 1,518,834</u>

See notes to consolidated financial statements.

NEWPORT AND BRISTOL COUNTY CONVENTION AND VISITORS' BUREAU AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

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:

- Establish an operating program to promote and encourage tourism,
- Coordinate tourism activities within Newport and Bristol Counties and the State,
- Establish a fund to promote and encourage tourism, and
- 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.

Established by the Newport City Council on September 13, 2017 as a District Management Authority, Newport Tourism Marketing Management Authority (DBA Newport Hotel Collection) was created to achieve an increase in room night sales and revenue therefrom at assessed lodging properties within the district by performing the following:

- Sponsor and promote recreational, cultural and retail activities,
- Promote the development of the district including collecting and disseminating information, and
- Provide general marketing and promotion efforts.

Discover Newport holds the power to appoint the majority of the governing board of the Newport Hotel Collection. As a result, Newport Hotel Collection is considered a subsidiary of Discover Newport and is consolidated with Discover Newport in the accompanying consolidated financial statements. Discover Newport and Newport Hotel Collection are collectively referred to as the Bureau.

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). Newport Hotel Collection's principal funding source is a special assessment tourism fee collected by the City. The Bureau's revenues received directly from the State represented approximately 27% of total revenues for the year ended June 30, 2019. The Bureau's revenues which were collected by the City represented approximately 61% of total revenues for the year ended June 30, 2019. Accounts receivable from the State and the City represent approximately 24% and 51%, respectively, of total accounts receivable at June 30, 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

Basis of Accounting

The accompanying consolidated financial statements 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.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Discover Newport and Newport Hotel Collection.

All significant intercompany accounts have been eliminated in consolidation. As of and for the year ended June 30, 2019, there were no intercompany accounts requiring elimination.

Accounts Receivable

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

Interest is not accrued on accounts receivable. Accounts are written off when management 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

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 Law Title 42 Chapter 42-63.1. Discover Newport recognizes its percentage of the hotel tax as revenue in the month in which the tax was collected by the State and the City.

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Newport Hotel Collection receives a special assessment tourism fee which is collected by the City from the district members in accordance with Rhode Island General Law Title 45 Chapter 45-59-15. Newport Hotel Collection recognizes the fee as revenue in the month in which the assessment was collected by the City.

Discover Newport receives advertising income for advertisements placed in the visitor center and on its website. Advertising income is earned over the term of the advertising contract. Revenue billed in advance is deferred and recognized when earned. Discover Newport also receives commission income for tickets it sells for attractions throughout Newport and Bristol Counties.

Occupancy Expenses

For the year ended June 30, 2019, Discover Newport paid the City approximately \$41,000 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 \$765,000 for year ended June 30, 2019.

Accounting Pronouncement Affecting Future Periods

In February 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases* which requires that a lessee recognize an operating lease for a term of greater than twelve months as a liability and capitalize a right-of-use asset in the lessee's balance sheet. Such amounts would be recorded at the present value of the lease payments. Currently, entities are only required to disclose the future minimum payments under such operating leases and to record expenses as such amounts are paid. The Statement is effective for the Bureau's fiscal year ending June 30, 2021, with early adoption permitted. Management has not elected to early adopt this Statement and is currently evaluating the effect it will have on the Bureau's consolidated financial statements and related disclosures.

Accounting Estimates

The preparation of consolidated 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 consolidated

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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 November 22, 2019, which is the date the consolidated financial statements were available to be issued.

2. ACCOUNTS RECEIVABLE

As of June 30, 2019, accounts receivable consisted of the following:

Hotel tax due from:	
City of Newport	\$ 190,901
State of Rhode Island	100,838
Tourism fee due from City of Newport	22,913
Other, net of allowance for doubtful accounts of \$2,400	<u>102,457</u>
Accounts receivable, net	<u><u>\$ 417,109</u></u>

3. PROPERTY AND EQUIPMENT

As of June 30, 2019, property and equipment consisted of the following:

Leasehold improvements	\$ 1,079,921
Computers, office equipment and furnishings	252,199
Vehicles	<u>71,217</u>
Total property and equipment	<u>1,403,337</u>
Less accumulated depreciation	<u>1,186,418</u>
Property and equipment, net	<u><u>\$ 216,919</u></u>

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4. INTANGIBLE ASSETS

As of June 30, 2019, intangible assets consisted of the following:

Computer software	\$	37,927
Website		60,350
Brand names		12,020
Total		110,297
Less accumulated amortization		76,655
Intangible assets, net	\$	33,642

As of June 30, 2019, the aggregate future amortization expense is as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 13,416
2021	9,810
2022	3,065
2023	3,065
2024	2,449
2025 and thereafter	1,837
Total	\$ 33,642

5. CAPITAL ASSETS

For the year ended June 30, 2019, changes in capital assets were as follows:

	Property and Equipment		Intangible Assets	
	Cost Basis	Accumulated Depreciation	Cost Basis	Accumulated Amortization
Balance, beginning of the year	\$ 1,414,699	\$ (1,156,979)	\$ 98,647	\$ (64,707)
Capital acquisitions	30,730		11,650	
Dispositions	(42,092)	32,435		
Depreciation and amortization		(61,874)		(11,948)
Balance, end of the year	\$ 1,403,337	\$ (1,186,418)	\$ 110,297	\$ (76,655)

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6. 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 June 30, 2019, the financial institution's base rate was 5.5%. There were no outstanding borrowings on the line of credit as of June 30, 2019.

7. STATE AND LOCAL HOTEL 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 year ended June 30, 2019, Discover Newport recorded hotel tax revenue as follows:

Collected by:	
City of Newport	\$ 2,375,707
State of Rhode Island	<u>1,172,366</u>
Total	<u>\$ 3,548,073</u>

8. EMPLOYEE BENEFIT PLAN

Discover Newport maintains a defined contribution retirement plan, which qualifies under Section 401(a) of the Internal Revenue Code (IRC), 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 year ended June 30, 2019, Discover Newport contributed \$120,000 to the plan.

Discover Newport also maintains a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan are held in trust as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Bureau's financial statements.

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9. COMMITMENTS

Operating Leases - Lessee

Discover Newport leases its facility on a month-to-month basis and also leases an automobile and certain equipment under non-cancelable operating lease agreements expiring at various dates through September 2022.

As of June 30, 2019, 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>
2020	\$ 36,000
2021	31,000
2022	<u>26,000</u>
Total	<u>\$ 93,000</u>

Rent expense under all operating lease agreements was approximately \$80,000 for the year ended June 30, 2019.

Operating Leases - Lessor

Discover Newport sub-leases certain space in the Visitor Center that is operated as a gift shop under an operating lease agreement that expires in February 2020 and requires annual lease payments of \$21,000. The lease includes an option to renew through February 2021.

In addition, Discover Newport sub-leases certain space in the Visitor Center under a cancelable operating lease agreement that expires in July 2021 and requires annual lease payments of \$15,000.

Rental income from cancelable and non-cancelable operating lease agreements for the year ended June 30, 2019 was approximately \$36,000 and is included within other income on the accompanying consolidated statement of activities and change in net position.

10. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Bureau to concentrations of credit risk consist principally of cash.

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The Bureau maintains its cash deposits in accounts at a high credit quality financial institution. From time to time, cash deposits exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000. As of June 30, 2019, Discover Newport's cash deposits at the institution were in excess of the FDIC insurance limit. Management considers such circumstances to be normal business risks.

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CONSOLIDATING STATEMENT OF NET POSITION
JUNE 30, 2019

	Discover Newport	Newport Hotel Collection	Total
ASSETS			
CURRENT ASSETS:			
Cash - operating fund	\$ 512,955	\$ 242,187	\$ 755,142
Accounts receivable, net	394,196	22,913	417,109
Prepaid expenses and other current assets	250,983	34,131	285,114
Total current assets	<u>1,158,134</u>	<u>299,231</u>	<u>1,457,365</u>
PROPERTY AND EQUIPMENT - NET	216,919		216,919
OTHER ASSETS:			
Board-designated cash:			
Reserve fund	368,879		368,879
Capital improvement fund	394,813		394,813
Intangible assets, net	22,549	11,093	33,642
Total other assets	<u>786,241</u>	<u>11,093</u>	<u>797,334</u>
TOTAL	<u>\$ 2,161,294</u>	<u>\$ 310,324</u>	<u>\$ 2,471,618</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES:			
Accounts payable	\$ 273,388	\$ 19,364	\$ 292,752
Deferred revenue	148,952		148,952
Accrued expenses:			
Payroll and related liabilities	242,676		242,676
Other	58,263		58,263
Total current liabilities	<u>723,279</u>	<u>19,364</u>	<u>742,643</u>
COMMITMENTS			
NET POSITION:			
Net investment in capital assets	239,468	11,093	250,561
Unrestricted:			
Board-designated cash reserves	763,692		763,692
General purpose	434,855	279,867	714,722
Total unrestricted net position	<u>1,198,547</u>	<u>279,867</u>	<u>1,478,414</u>
Total net position	<u>1,438,015</u>	<u>290,960</u>	<u>1,728,975</u>
TOTAL	<u>\$ 2,161,294</u>	<u>\$ 310,324</u>	<u>\$ 2,471,618</u>

See independent auditors' report.

**NEWPORT AND BRISTOL COUNTY
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CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	Discover Newport	Newport Hotel Collection	Total
REVENUES:			
Public sources:			
State and local hotel taxes	\$ 3,548,073	\$ -	\$ 3,548,073
Newport tourism fee		274,973	274,973
Total public sources	3,548,073	274,973	3,823,046
Private sources:			
Advertising income	230,977		230,977
Ticket commission income	123,044		123,044
Promotional participation income	60,348		60,348
Event hosting income	16,827		16,827
Other income	71,946		71,946
Total private sources	503,142	-	503,142
TOTAL REVENUES	4,051,215	274,973	4,326,188
EXPENDITURES:			
Visitor's center, maintenance and general operations	937,308	557	937,865
Marketing and communications	1,437,602	48,263	1,485,865
Sales and services	994,323	82	994,405
Administrative	743,303	11,113	754,416
Loss on disposal of property and equipment	9,657		9,657
TOTAL EXPENDITURES	4,122,193	60,015	4,182,208
CHANGE IN NET POSITION	(70,978)	214,958	143,980
NET POSITION, JUNE 30, 2018	1,508,993	76,002	1,584,995
NET POSITION, JUNE 30, 2019	\$ 1,438,015	\$ 290,960	\$ 1,728,975

See independent auditors' report.