

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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020
AND 2019

INDEPENDENT AUDITORS' REPORT



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



Board of Directors
Discover Newport
23 America's Cup Ave
Newport, RI 02840

We are pleased to present this Comprehensive Annual Financial Report (CAFR) for the Newport and Bristol County Convention and Visitors' Bureau and Subsidiary (the Bureau) for the year ended June 30, 2020.

The Finance Department oversees the audit and assumes responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Finance Department established a comprehensive internal control framework that is designed to provide reasonable assurance that the Bureau's assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of maintaining internal controls should not exceed the benefits derived based on management's estimates and judgments. All internal control evaluations occur within this framework. We believe the Bureau's internal controls adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions.

Sansiveri, Kimball & Co, a public accounting firm fully licensed and qualified to perform audits of local governments within the State of Rhode Island has audited the Bureaus' consolidated financial statements. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the Bureau as of and for the fiscal year ended June 30, 2020, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. The independent auditors concluded, based upon the audit, that the Bureaus' consolidated financial statements as of and for the fiscal year ended June 30, 2020, are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States (GAAP). The independent auditors' report is presented as the first two pages of the financial section of this CAFR.

Management's Discussion and Analysis (MD&A) precedes the independent auditors' report. It provides an analytical overview of the Bureau's operations for fiscal year (FY) 2020. This letter of transmittal is intended to complement the MD&A and other information contained in this report and should be read in conjunction with it.

REPORTING ENTITY

This CAFR includes all funds of the Bureau. The Bureau is comprised of two entities, Newport and Bristol County Convention and Visitors' Bureau (DBA Discover Newport) and the Newport Tourism Marketing Management Authority (DBA Newport Hotel Collection).

Discover Newport is unique, as it does not operate as a typical membership-based convention and visitors' bureau. It is a quasi-governmental organization established by state law, funded primarily by room tax revenues, and the governing body is composed of an autonomous Board of Directors (the Discover Newport Board). This eighteen-member board is comprised of thirteen members appointed by the nine town council's within Newport and Bristol County and five representatives who are nominated by the Discover Newport Board to represent the hotel industry (over 100 rooms), the hotel industry (under 100 rooms), restaurant industry, attractions industry, and general business interests.

Discover Newport's mission statement is:

"To positively influence the economy of Newport and Bristol Counties, Rhode Island, which includes Barrington, Bristol, Jamestown, Little Compton, Middletown, Newport, Portsmouth, Tiverton, and Warren, by marketing the region as a travel and tourism destination."

Discover Newport is charged with marketing and branding Newport and Bristol County as a premier travel destination. Its primary responsibility is attracting visitors to our destination. While resorts advertise and market their individual properties, Discover Newport markets and brands the destination as a whole. Discover Newport integrates its branding campaigns with sales, marketing, and public relations activities, as well as special events, to attract visitors.

The Newport Hotel Collection is a District Management Authority and was established by the Newport City Council in September 2017. It is 100% funded by a special assessment tourism fee of \$1/per room/per night of hotels over 20 rooms within the district. It is governed by an autonomous Board of Directors (the Newport Hotel Collection Board). This nine-member board is comprised of seven members appointed by Discover Newport and two members appointed by the City of Newport. All board members come from properties within the district.

The Newport Hotel Collection is charged with marketing and branding the district by sponsoring and promoting recreational, cultural, and retail activities and to provide general marketing and promotion efforts. The Newport Hotel Collection has no employees; it is managed by Discover Newport.

Funding received by both Discover Newport and the Newport Hotel Collection is received two months in arrears.

ECONOMIC CONDITION

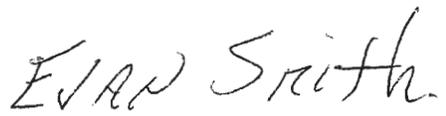
In 2019, tourism was the largest industry and economic driver in Newport and Bristol Counties. As a result, U.S. and international travel trends are closely monitored. In late February and early March 2020 escalating media reports warned of a new, very serious deadly flu virus coming out of China. By March 12th, the reality and disbelief of the magnitude of this problem rocked the entire world. Limiting exposure to spreading germs meant limiting mobility. Limiting mobility meant limiting travel. By mid-March, the global travel industry was faced with a disaster larger than any it had faced in modern history. No one really had any clarity as to how long this health threat would last. A global pandemic

was now clearly going to challenge our way of living in ways most could never have imagined. Week by week more events, conferences and weddings were canceled or postponed. People's confidence in traveling plummeted under 25%. Demand for travel by plane, cruise ship or train quickly dropped by a staggering 75-100%. Travel experts predicted that the only travel that would take place for the balance of 2020 would be the regional drive market (300 miles or less). The enormous shift and decline in travel brought about record high unemployment and an enormous drop in travel - related taxes and fees at the national, state, and local levels.

Here locally on Aquidneck Island, most of the hotels closed during March & April with most reopening in the 3rd week in May in time for the Memorial Day holiday. While top national research firms predicted/ forecasted a decline in lodging occupancy as high as 65% for the third quarter, Newport and Middletown only posted a decline of about 25% (far better than the national figures predicted). We believe this positive trend in Q 3 was a result of multiple factors: 1st- Newport is within 400 miles (one gas tank) of 18% of the American population. 2nd- Newport was offering a lot of outdoors activities for travelers to enjoy. 3rd- Industry partners and the city administration took a very proactive approach to public safety & health guidelines. This resulted in high visitor confidence that Newport was a safe destination to visit.

The Discover Newport staff has been and will continue to work cooperatively with many alliance partners to promote Newport & Bristol Counties as a safe and interesting travel option to consider for those that are ready to travel at this time. We recognize and embrace that safe travel is a shared responsibility between our visitors, our industry employees, and our residents.

Respectfully submitted,



Evan Smith
President & CEO



Alyson Adkins, CPA
VP of Finance

FINANCIAL
SECTION



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 consolidated financial statements of Newport and Bristol County Convention and Visitors' Bureau and Subsidiary (the Bureau) as of and for the years ended June 30, 2020 and 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 (U.S. GAAP); 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, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. GAAP.

Other Matters

Required Supplementary Information

U.S. GAAP requires that the management's discussion and analysis information on pages 3-14 be presented to supplement the basic consolidated financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 1 and 2 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

Dansie, Kimball & Co., LLP

Providence, Rhode Island
November 10, 2020

Management's Discussion and Analysis

As management of the Newport and Bristol County Convention and Visitors' Bureau (Discover Newport) and the Newport Tourism Marketing Management Authority (Newport Hotel Collection), collectively referred to as the Bureau we offer readers of the Bureau's financial statements this narrative overview and analysis of the Bureau's financial performance for the fiscal year (FY) ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the letter of transmittal, which can be found on pages 3 to 5 of this report.

FINANCIAL HIGHLIGHTS

- Total revenues decreased approximately \$508 thousand for FY 2020. Hotel taxes declined by 9% and the tourism fee declined by 21% over prior year. Private source revenue (advertising, ticket commission, etc.) declined by 25% over prior year. The decline in revenue is directly attributable to the coronavirus. Prior to coronavirus, average daily room rate (ADR) was \$191.42, after coronavirus, it dropped to \$170.40.
- Discover Newport invested approximately \$1.9 million in sales and marketing efforts. Some of the leisure investments supported the creation, management and marketing of Newport Restaurant Week, and off-season product development such as Wellness Week, and Burger Bender. Other investments included a series of leisure e-blasts to our feeder markets, creation of a destination video, a destination partnership with TripAdvisor, creation and production of a destination travel guide, and sponsorship of several industry month-long events. On the corporate sales side investments included a mix of print and digital advertising campaigns, hosting 3 client events, attendance at 29 trade shows, and hosted 25 meeting planners site inspections.
- The Newport Hotel Collection invested approximately \$230 thousand in sales and marketing efforts. Some of the investments included two seasonal Expedia Media campaigns, a multi-market targeted digital video campaign, seasonal e-blasts, and the development of photo and video assets of the 14 properties.
- Net position increased \$188 thousand from \$1.7 million to \$1.9 million during FY 2020. This is a direct result of the Bureau's management's quick response to reduce expenses in light of the coronavirus.

CONDENSED COMPARATIVE DATA

ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

The Bureau's change in net position increased \$188 thousand during the year as follows:

CHANGES IN NET POSITION				
			Increase (Decrease)	
	FY 2019	FY 2020	Amount	Percent
Net position – beginning	\$1,584,995	\$ 1,728,975	\$143,980	9%
Revenues	4,326,188	3,817,949	(508,239)	-12%
Expenses	4,182,208	3,629,739	(552,469)	-13%
Change in net position	143,980	188,210	44,230	31%
Net position – ending	\$1,728,975	\$ 1,917,185	\$188,210	11%

Growth in overall net position is a function of Bureau halting all unnecessary spending in the 4th quarter. The decrease in revenues for the year is attributed to the global pandemic.

During FY 2020, net position consists of the following:

CONSOLIDATED STATEMENT OF NET POSITION				
			Increase (Decrease)	
	June 30, 2019	June 30, 2020	Amount	Percent
Current and other assets	\$ 2,221,057	\$ 1,988,462	\$ (232,595)	-10%
Capital assets	250,561	70,902	(179,659)	-72%
Total assets	2,471,618	2,059,364	(412,254)	-17%
Total liabilities-current	742,643	142,179	(600,464)	-81%
Net position				
Net investment in capital assets	250,561	70,902	(179,659)	-72%
Board-designated	763,692	765,617	1,925	0%
Unrestricted	714,722	1,080,666	365,944	51%
Total net position	\$ 1,728,975	\$ 1,917,185	\$ 188,210	11%

A small portion of net position reflects an investment in capital assets. In FY2020, all of the property and equipment in the visitor center was disposed of. The Bureau also revised the estimated useful lives of certain property and equipment in the administrative office due to the fact that there is more than a 50% likelihood of moving. Board-designated net position is reported separately to show resources the Boards have deemed for long-term use. Unrestricted net position improved \$366 thousand due to successful efforts to reduce expenses.

REVENUES

Revenues are classified as either public or private. Private revenues are those directly generated by an activity of the Bureau. For example, the sale of advertising on the website, co-op fees for trade shows, participation fees for Newport Restaurant Week, rental income, etc.

The public revenue classification includes all hotel taxes and tourism fees because the income is not derived by an activity of the Bureau. The State of Rhode Island levies a hotel tax on all transient lodging establishments in Newport and Bristol Counties, and the Bureau receives a portion of that tax, which is the Bureau’s primary source of revenue. The Newport Management Authority assesses a tourism fee on all transient lodging establishments with greater than twenty rooms in Newport County. The Bureau receives 97% of this fee.

Total revenues for FY 2020 amounted to \$3.4 million, a 10% decrease over FY 2019.

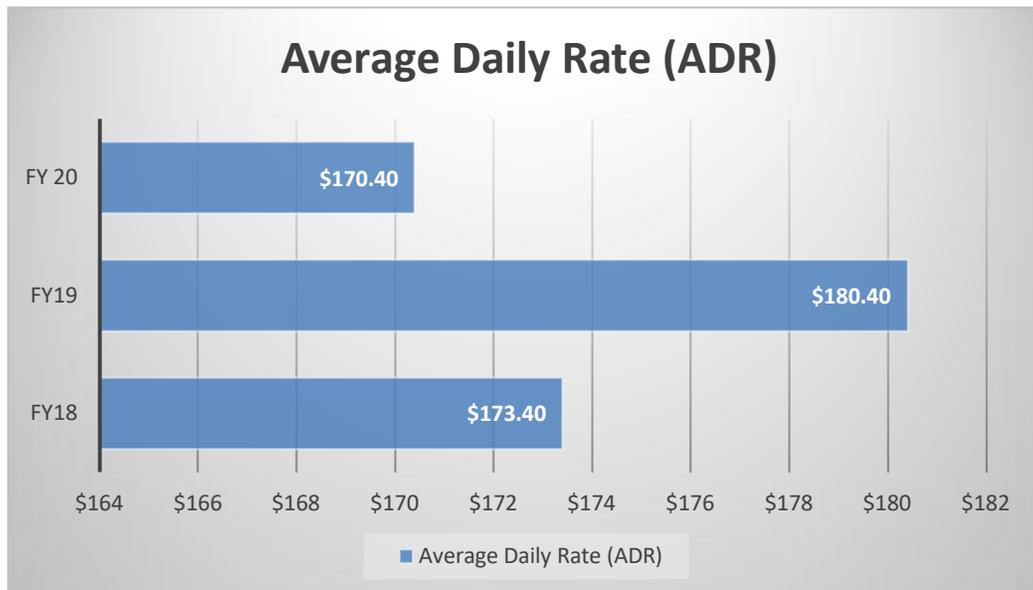
	FY 2019	FY 2020	(Decrease)	
			Amount	Percent
Public revenues				
Hotel taxes	\$ 3,548,073	\$ 3,223,852	\$ (324,221)	-9%
Tourism fee	274,973	218,183	(56,790)	-21%
Total public revenue	3,823,046	3,442,035	(381,011)	-10%
Private revenues				
Advertising	230,977	195,333	(35,644)	-15%
Ticket commission	123,044	76,548	(46,496)	-38%
Promotional participation	60,348	43,450	(16,898)	-28%
Event hosting	16,827	2,119	(14,708)	-87%
Other	71,946	58,464	(13,482)	-19%
Total private revenues	503,142	375,914	(127,228)	-25%
Total revenues	\$ 4,326,188	\$ 3,817,949	\$ (508,239)	-12%

Hotel taxes provided \$3.22 million during FY 2020, a decrease of \$324.2 thousand. The hotel tax is affected by the number of lodging rooms available, occupancy rate, and average daily room rate (ADR). Room inventory held flat compared to FY 2020, while occupancy percentage decreased from 59.3% to 47.2% in FY 2020. The most volatile factor in calculating room taxes is ADR. With hotel rooms being booked over the internet, price fluctuations are common, with hotels having the ability to respond quickly to occupancy trends. ADR averaged \$170.20 in FY 2020, a 6% decrease over the \$180.40 result in FY 2019. The tourism fee is a \$1 fee per room night on all transient lodging establishments within Newport County greater than twenty rooms. The tourism fee provided \$218.2 thousand during FY 2020, a decrease of \$56.7 thousand. The decrease in hotel taxes and the tourism fee is directly attributed to the coronavirus. On March 11, 2020, the World Health Organization declared the coronavirus to be a global pandemic and on March 15, 2020, the State of RI began imposing restrictions on the tourism industry. In April 2020, most lodging properties were closed and did not reopen until late May. Government restrictions on leisure travel have reduced the number of leisure travels and corporate travels have become almost non-existent. We believe this trend will continue during fiscal year 2021. Being a drive market, historically our destination has done better than on a national level during times of economic crisis in the tourism industry.

The majority of hotel tax revenue was generated in city of Newport (\$2.2 million or 67%). The second-largest generator of hotel taxes is the Town of Middletown, at \$933 thousand (26%). The other incorporated towns of Bristol, Barrington, Jamestown, Little Compton, Portsmouth, Warren, and Tiverton combined to provide the remaining 7%.

Private revenues decreased \$127.2 thousand as compared to FY 2019. This is also attributable to the coronavirus. On March 16, 2020, we closed the visitor center. With the closure of the visitor center, we

no longer earned ticket commission, advertising, or rental income derived from the visitor center. The decrease in promotional participation and event hosting is due to the corporate side of travel. These events, trade shows and client events, where industry partners join us for a fee, were cancelled in the fourth quarter.



The hotel tax rate is 6% on lodging facilities in the Newport and Bristol Counties, and such rate can only be modified by the action of the Rhode Island State Legislature. 1% of the hotel tax goes to the town that the lodging facility is physically located in. The remaining 5% hotel tax for hotel room rentals is distributed as follows:

45%	Discover Newport
25%	City/Town where the lodging property is physically located
25%	Rhode Island Commerce Corporation
5%	Greater Providence-Warwick Convention and Visitor's Bureau

EXPENSES

Total expenses by function were as follows:

	FY 2019	FY 2020	Increase (Decrease)	
			Amount	Percent
Visitor's services, etc.	\$ 937,865	\$ 768,986	\$ (168,879)	-18%
Marketing and communications	1,485,865	1,385,149	(100,716)	-7%
Sales and services	994,405	780,689	(213,716)	-21%
Administrative	754,416	598,852	(155,564)	-21%
Loss on disposal of property and equipment	9,657	96,063	86,406	895%
	\$ 4,182,208	\$ 3,629,739	\$ (552,469)	-13%

The Bureau management strategically implemented various cost containment techniques during the fourth quarter to stem the effects of the coronavirus on the tourism industry. Management determined that there would be long-term effects and immediately took action to reduce spending to preserve its cash reserves knowing that the tourism industry would be hard hit by the coronavirus. On March 16, 2020, Discover Newport closed the visitor center it operated and laid off all the visitor center staff. Also, in March, Discover Newport laid off some of the administrative staff. In April 2020, Discover Newport furloughed all the remaining staff except for four employees. The four remaining employees all took a 20% pay reduction. All expenses except for contractual expenses were stopped in March 2020 by the Bureau. The Bureau believes that these cost saving measures will put it in a good position for FY 2021 when expenses will exceed revenue.

The visitor center was a 7,000 square foot space on the first floor of the building Discover Newport resides in. In connection with closing the visitor center, Discover Newport wrote off certain property and equipment with a carrying value of approximately \$104,000 as it is management's intention not to reopen the center. Like many tourism organizations nationwide, in May, Discover Newport began servicing visitors by providing travel-related information outdoors using an unmanned mobile visitor van. Discover Newport is assessing multiple options on how they will service visitors in the future. Discover Newport will be working with the City of Newport to explore smaller, more cost-efficient options to service future visitors.

For FY 2021, the Bureau expects a reduction of revenues of approximately 65% due to continued governmental restrictions on the tourism industry. Discover Newport has found new administrative offices and expects to move by January 2021. Discover Newport expects to bring back up to six staff during FY 2021.

OVERALL FINANCIAL POSITION

The Bureau demonstrated moderate financial results for FY 2020 in the face of tough economic times. Management remains vigilant to maintain fiscal sustainability through conservative budgeting and continuous monitoring of actual financial results and economic trends at the local, state, and national levels. Such approach allows the Bureau the ability to react swiftly to changing conditions and sustain operations during challenging periods. The Bureau is dedicated to the preservation of adequate balances to meet operating cash flow requirements.

ADDITIONAL FINANCIAL INFORMATION

The Bureau's financial statements are designed to present users (citizens, taxpayers, customers, and industry partners) with a general overview of the Bureaus' finances and to demonstrate accountability. If you have any questions about the report or need additional financial information, please contact:

Discover Newport
Vice President of Finance
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aadkins@discovernewport.org
Or, please visit our website at:
www.discovernewport.org/about-us

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

CONSOLIDATED STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash - operating fund	\$ 1,010,468	\$ 755,142
Accounts receivable, net of allowance for doubtful accounts	53,376	417,109
Prepaid expenses and other current assets	159,001	285,114
Total current assets	1,222,845	1,457,365
PROPERTY AND EQUIPMENT - NET	50,675	216,919
OTHER ASSETS:		
Board-designated cash:		
Reserve fund	369,809	368,879
Capital improvement fund	395,808	394,813
Intangible assets, net	20,227	33,642
Total other assets	785,844	797,334
TOTAL	\$ 2,059,364	\$ 2,471,618
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 16,509	\$ 292,752
Deferred revenue	19,961	148,952
Accrued expenses:		
Payroll and related liabilities	37,465	242,676
Other	68,244	58,263
Total current liabilities	142,179	742,643
COMMITMENTS		
NET POSITION:		
Net investment in capital assets	70,902	250,561
Unrestricted:		
Board-designated cash reserves	765,617	763,692
General purpose	1,080,666	714,722
Total unrestricted net position	1,846,283	1,478,414
Total net position	1,917,185	1,728,975
TOTAL	\$ 2,059,364	\$ 2,471,618

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
REVENUES:		
Public sources:		
Hotel taxes	\$ 3,223,852	\$ 3,548,073
Newport tourism fee	218,183	274,973
Total public sources	<u>3,442,035</u>	<u>3,823,046</u>
Private sources:		
Advertising income	195,333	230,977
Ticket commission income	76,548	123,044
Promotional participation income	43,450	60,348
Event hosting income	2,119	16,827
Other income	58,464	71,946
Total private sources	<u>375,914</u>	<u>503,142</u>
TOTAL REVENUES	<u>3,817,949</u>	<u>4,326,188</u>
EXPENDITURES:		
Visitor's services, maintenance and general operations	768,986	937,865
Marketing and communications	1,385,149	1,485,865
Sales and services	780,689	994,405
Administrative	598,852	754,416
Loss on disposal of property and equipment	96,063	9,657
TOTAL EXPENDITURES	<u>3,629,739</u>	<u>4,182,208</u>
CHANGE IN NET POSITION	188,210	143,980
NET POSITION, BEGINNING OF YEAR	<u>1,728,975</u>	<u>1,584,995</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,917,185</u></u>	<u><u>\$ 1,728,975</u></u>

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net position	\$ 188,210	\$ 143,980
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation and amortization	87,976	73,822
Loss on disposal of property and equipment	96,063	9,657
Changes in assets and liabilities:		
Accounts receivable	363,733	21,544
Prepaid expenses and other current assets	126,113	(103,517)
Accounts payable	(276,243)	190,336
Deferred revenue	(128,991)	(13,167)
Accrued expenses	(195,230)	128,673
NET CASH PROVIDED BY OPERATING ACTIVITIES	261,631	451,328
CASH FLOWS FROM CAPITAL ACTIVITIES:		
Purchases of property and equipment	(12,077)	(30,730)
Purchases of intangible assets	-	(11,650)
Proceeds from disposal of property and equipment	7,697	-
NET CASH USED BY CAPITAL ACTIVITIES	(4,380)	(42,380)
NET INCREASE IN CASH	257,251	408,948
CASH, BEGINNING OF YEAR	1,518,834	1,109,886
CASH, END OF YEAR	\$ 1,776,085	\$ 1,518,834
COMPONENTS OF CASH:		
Operating fund	\$ 1,010,468	\$ 755,142
Reserve fund	369,809	368,879
Capital improvement fund	395,808	394,813
Total	\$ 1,776,085	\$ 1,518,834

See notes to consolidated financial statements.

NEWPORT AND BRISTOL COUNTY CONVENTION AND VISITORS' BUREAU AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Discover Newport

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.

Newport Hotel Collection

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.

Funding Source

Public source revenue - 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

See independent auditors' report.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

the City. The Bureau's revenues received directly from the State represented approximately 28% and 27% of total revenues for the years ended June 30, 2020 and 2019, respectively. The Bureau's revenues which were collected by the City represented approximately 62% and 61% of total revenues for the years ended June 30, 2020 and 2019, respectively. Accounts receivable from the State and the City represent approximately 32% and 44%, respectively, of total accounts receivable at June 30, 2020.

See Note 10 related to economic uncertainties affecting Discover Newport's funding source from hotel tax.

Visitors' Center - Discover Newport operated a 7,000 square foot visitors' information center. During the year ended June 30, 2020, management decided to close the visitors' center due to the global pandemic. As a result, certain property and equipment with a carrying value of approximately \$104,000 was written off as a reduction to property and equipment and the recognition of a loss on disposal of property and equipment in the accompanying statement of activities and change in net position. Like many tourism organizations nationwide, in May, Discover Newport began servicing visitors by providing travel-related information outdoors using an unmanned mobile visitor van. Discover Newport is assessing multiple options on how they will service visitors in the future. Discover Newport will not be reopening the current visitors' center as previously operated, but plan to work with the City to explore smaller, more cost-efficient options.

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 years ended June 30, 2020 and 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

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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 are 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.

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 agreement. 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 each of the years ended June 30, 2020 and 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.

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Advertising

Advertising costs are expensed in the period in which the advertisement appears for the first time. Advertising costs amounted to approximately \$763,000 and \$765,000 for the years ended June 30, 2020 and 2019, respectively.

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, 2022, 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

During the year ended June 30, 2020, management revised estimated useful lives of certain property and equipment associated with its administrative office. The revisions resulted in a decrease in the Bureau's change in net position by approximately \$22,000.

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2. ACCOUNTS RECEIVABLE

As of June 30, 2020 and 2019, accounts receivable consisted of the following:

	2020	2019
Hotel tax due from:		
City of Newport	\$ 19,353	\$ 190,901
State of Rhode Island	17,315	100,838
Tourism fee due from City of Newport	4,067	22,913
Other, net of allowance for doubtful accounts of \$2,400	12,641	102,457
Accounts receivable, net	\$ 53,376	\$ 417,109

3. PROPERTY AND EQUIPMENT

As of June 30, 2020 and 2019, property and equipment consisted of the following:

	2020	2019
Leasehold improvements	\$ 182,121	\$ 1,079,921
Computers, office equipment and furnishings	171,125	252,199
Vehicles	45,948	71,217
Total property and equipment	399,194	1,403,337
Less accumulated depreciation	348,519	1,186,418
Property and equipment, net	\$ 50,675	\$ 216,919

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4. INTANGIBLE ASSETS

As of June 30, 2020 and 2019, intangible assets consisted of the following:

	2020	2019
Computer software	\$ 2,929	\$ 37,927
Website	60,350	60,350
Brand names	12,020	12,020
Total	75,299	110,297
Less accumulated amortization	55,072	76,655
Intangible assets, net	\$ 20,227	\$ 33,642

As of June 30, 2020, the aggregate future amortization expense is as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 9,810
2022	3,065
2023	3,065
2024	2,449
2025	598
2026 and thereafter	1,240
Total	\$ 20,227

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5. CAPITAL ASSETS

For the years ended June 30, 2020 and 2019, changes in capital assets were as follows:

	<u>Property and Equipment</u>		<u>Intangible Assets</u>	
	<u>Cost Basis</u>	<u>Accumulated Depreciation</u>	<u>Cost Basis</u>	<u>Accumulated Amortization</u>
Balance as of June 30, 2018	\$ 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 as of June 30, 2019	\$ 1,403,337	\$ (1,186,418)	\$ 110,297	\$ (76,655)
Capital acquisitions	12,077			
Dispositions	(1,016,220)	912,460	(34,998)	34,998
Depreciation and amortization		(74,561)		(13,415)
Balance as of June 30, 2020	<u>\$ 399,194</u>	<u>\$ (348,519)</u>	<u>\$ 75,299</u>	<u>\$ (55,072)</u>

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, 2020, the financial institution's base rate was 3.25%. There were no outstanding borrowings on the line of credit as of June 30, 2020 and 2019.

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7. 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 years ended June 30, 2020 and 2019, Discover Newport recorded hotel tax revenue as follows:

	2020	2019
Collected by:		
City of Newport	\$ 2,167,470	\$ 2,375,707
State of Rhode Island	1,056,382	1,172,366
Total	\$ 3,223,852	\$ 3,548,073

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, 2020, Discover Newport did not contribute to the plan. 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 IRC, 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 of the plan 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 act as agents of the employer for purposes of providing direction to the custodian related to 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 consolidated financial statements.

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9. COMMITMENTS

Operating Leases - Lessee

Discover Newport leased its facility on a month-to-month basis and also leases certain equipment under non-cancelable operating lease agreements expiring at various dates through May 2025. In October 2020, Discover Newport entered into a new lease for office space. See Note 11.

As of June 30, 2020, 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>
2021	\$ 30,000
2022	30,000
2023	28,000
2024	28,000
2025	<u>26,000</u>
Total	<u>\$ 142,000</u>

Rent expense under all operating lease agreements was approximately \$80,000 for the year ended June 30, 2020.

Operating Leases - Lessor

Discover Newport sub-leased certain space in the Visitor Center that was operated as a gift shop. The operating lease agreement that expired in February 2020 required annual lease payments of approximately \$21,000.

In addition, Discover Newport sub-let certain space in the Visitor Center under a cancelable operating lease agreement that required annual lease payments of \$15,000.

Rental income from cancelable and non-cancelable operating lease agreements for the years ended June 30, 2020 and 2019 was approximately \$27,000 and \$36,000, respectively, and is included within other income on the accompanying consolidated statements of activities and change in net position.

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10. RISKS AND UNCERTAINTIES

Concentrations of Credit Risk

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

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, 2020, 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.

The Bureau's exposure to credit risk associated with receivables is concentrated to amounts due from the State and City as disclosed in Note 1.

Economic Uncertainties

On January 30, 2020, the World Health Organization declared the coronavirus to be a public health emergency, which was further upgraded to a pandemic on March 11, 2020. The Bureau derives a significant portion of its revenues from worldwide business and leisure travelers visiting the Newport and Bristol County region. Given regulatory restrictions and discretionary cutbacks in travel since the outbreak was announced, the hotel industry has experienced a significant decline in occupancy which has had a severe negative impact on the hotel tax that the Bureau receives as revenue. The Bureau has budgeted a 65% reduction in revenues as forecasted by the national researching firm Smith Travel Research, and a 51% reduction in expenses for the year ending June 30, 2021. In addition, the cost savings measures implemented during the last quarter of fiscal year 2020 will allow the Bureau to have the necessary cash reserves to offset the reduction in revenue.

11. SUBSEQUENT EVENT

Management has evaluated subsequent events through November 10, 2020, which is the date the consolidated financial statements were available to be issued.

On October 27, 2020, Discover Newport entered into a five-year lease for office space. Beginning January 1, 2021, the lease requires monthly rental payments of \$5,500 with an annual 4% increase. The lease terminates on December 31, 2025 and includes a right to renew for one additional five-year term.

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CONSOLIDATING STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020			2019		
	Discover Newport	Newport Hotel Collection	Total	Discover Newport	Newport Hotel Collection	Total
ASSETS						
CURRENT ASSETS:						
Cash - operating fund	\$ 764,706	\$ 245,762	\$ 1,010,468	\$ 512,955	\$ 242,187	\$ 755,142
Accounts receivable, net	49,309	4,067	53,376	394,196	22,913	417,109
Prepaid expenses and other current assets	143,638	15,363	159,001	250,983	34,131	285,114
Total current assets	<u>957,653</u>	<u>265,192</u>	<u>1,222,845</u>	<u>1,158,134</u>	<u>299,231</u>	<u>1,457,365</u>
PROPERTY AND EQUIPMENT - NET	50,675		50,675	216,919		216,919
OTHER ASSETS:						
Board-designated cash:						
Reserve fund	369,809		369,809	368,879		368,879
Capital improvement fund	395,808		395,808	394,813		394,813
Intangible assets, net	11,159	9,068	20,227	22,549	11,093	33,642
Total other assets	<u>776,776</u>	<u>9,068</u>	<u>785,844</u>	<u>786,241</u>	<u>11,093</u>	<u>797,334</u>
TOTAL	<u>\$ 1,785,104</u>	<u>\$ 274,260</u>	<u>\$ 2,059,364</u>	<u>\$ 2,161,294</u>	<u>\$ 310,324</u>	<u>\$ 2,471,618</u>
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES:						
Accounts payable	\$ 11,609	\$ 4,900	\$ 16,509	\$ 273,388	\$ 19,364	\$ 292,752
Deferred revenue	19,961		19,961	148,952		148,952
Accrued expenses:						
Payroll and related liabilities	37,465		37,465	242,676		242,676
Other	63,713	4,531	68,244	58,263		58,263
Total current liabilities	<u>132,748</u>	<u>9,431</u>	<u>142,179</u>	<u>723,279</u>	<u>19,364</u>	<u>742,643</u>
COMMITMENTS						
NET POSITION:						
Net investment in capital assets	61,834	9,068	70,902	239,468	11,093	250,561
Unrestricted:						
Board-designated cash reserves	765,617		765,617	763,692		763,692
General purpose	824,905	255,761	1,080,666	434,855	279,867	714,722
Total unrestricted net position	<u>1,590,522</u>	<u>255,761</u>	<u>1,846,283</u>	<u>1,198,547</u>	<u>279,867</u>	<u>1,478,414</u>
Total net position	<u>1,652,356</u>	<u>264,829</u>	<u>1,917,185</u>	<u>1,438,015</u>	<u>290,960</u>	<u>1,728,975</u>
TOTAL	<u>\$ 1,785,104</u>	<u>\$ 274,260</u>	<u>\$ 2,059,364</u>	<u>\$ 2,161,294</u>	<u>\$ 310,324</u>	<u>\$ 2,471,618</u>

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CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Discover Newport	Newport Hotel Collection	Total	Discover Newport	Newport Hotel Collection	Total
REVENUES:						
Public sources:						
Hotel taxes	\$ 3,223,852	\$ -	\$ 3,223,852	\$ 3,548,073	\$ -	\$ 3,548,073
Newport tourism fee		218,183	218,183		274,973	274,973
Total public sources	3,223,852	218,183	3,442,035	3,548,073	274,973	3,823,046
Private sources:						
Advertising income	195,333		195,333	230,977		230,977
Ticket commission income	76,548		76,548	123,044		123,044
Promotional participation income	43,450		43,450	60,348		60,348
Event hosting income	2,119		2,119	16,827		16,827
Other income	58,464		58,464	71,946		71,946
Total private sources	375,914	-	375,914	503,142	-	503,142
TOTAL REVENUES	3,599,766	218,183	3,817,949	4,051,215	274,973	4,326,188
EXPENDITURES:						
Visitor's center, maintenance and general operations	766,961	2,025	768,986	937,308	557	937,865
Marketing and communications	1,167,534	217,615	1,385,149	1,437,602	48,263	1,485,865
Sales and services	764,949	15,740	780,689	994,323	82	994,405
Administrative	589,918	8,934	598,852	743,303	11,113	754,416
Loss on disposal of property and equipment	96,063		96,063	9,657		9,657
TOTAL EXPENDITURES	3,385,425	244,314	3,629,739	4,122,193	60,015	4,182,208
CHANGE IN NET POSITION	214,341	(26,131)	188,210	(70,978)	214,958	143,980
NET POSITION, BEGINNING OF YEAR	1,438,015	290,960	1,728,975	1,508,993	76,002	1,584,995
NET POSITION, END OF YEAR	\$ 1,652,356	\$ 264,829	\$ 1,917,185	\$ 1,438,015	\$ 290,960	\$ 1,728,975

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