

HOWARD COUNTY TOURISM COUNCIL, INC.

FINANCIAL REPORT

June 30, 2016 and 2015

HOWARD COUNTY TOURISM COUNCIL, INC.

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DEMBO JONES

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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 statement of financial position as of June 30, 2016 and the related statements of activities and cash flows for the year then ended, 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 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Howard County Tourism Council, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 14 is presented for purposes of additional analysis and is 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Prior Year Financial Statements

The financial statements as of June 30, 2015, were audited by Cardoni Waddell, LLC who merged with Dembo Jones, PC as of January 1, 2016, and whose report dated January 21, 2016, stated that the financial statements and supplementary information presented fairly, in all material respects, the financial position of Howard County Tourism Council, Inc. as of June 30, 2015, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2015, is consistent, in all material respects, with the audited information from which it has been derived.

Dembo Jones, P.C.

Columbia, Maryland
October 21, 2016

HOWARD COUNTY TOURISM COUNCIL, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 72,907	\$ 142,873
Accounts Receivable	24,890	52,736
Grant Receivable	100,903	100,222
Prepaid Expenses and Deposits	20,424	15,671
Investments	207,368	213,362
Total Current Assets	426,492	524,864
Fixed Assets		
Furniture, Fixtures and Equipment	20,504	44,047
Leasehold Improvements	-	12,353
	20,504	56,400
Less: Accumulated Depreciation	(4,838)	(38,468)
Total Fixed Assets, Net	15,666	17,932
Other Assets		
Intangible Assets, Net of Accumulated Amortization of \$5,950	47,600	-
Total Assets	\$ 489,758	\$ 542,796
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 34,317	\$ 124,064
Accrued Expenses	8,453	16,219
Deferred Revenue	500	58,950
Total Liabilities	43,270	199,233
Net Assets		
Unrestricted	442,488	343,563
Temporarily Restricted	4,000	-
Total Net Assets	446,488	343,563
Total Liabilities and Net Assets	\$ 489,758	\$ 542,796

See Independent Auditors' Report and Notes to Financial Statements.

HOWARD COUNTY TOURISM COUNCIL, INC.
STATEMENTS OF ACTIVITIES
For The Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, Gains, and Support					
Contributions, Gifts and Grants	\$ 1,174,203	\$ 4,000	\$ -	\$1,178,203	\$ 1,039,848
Contributed Rental Space	64,800	-	-	64,800	64,800
Program Service Revenue	38,726	-	-	38,726	38,255
Membership Dues and Assessments	54,400	-	-	54,400	47,525
Investment Income	10,309	-	-	10,309	9,709
Unrealized Gains and (Losses)	(6,654)	-	-	(6,654)	(4,686)
Special Events, net	(15,624)	-	-	(15,624)	(9,587)
Sales Income, net	(3,878)	-	-	(3,878)	1,193
Loss on Disposal of Fixed Assets	(3,437)	-	-	(3,437)	-
Net Assets Released From Donor Restrictions	-	-	-	-	-
Total Revenues, Gains, and Support	<u>1,312,845</u>	<u>4,000</u>	<u>-</u>	<u>1,316,845</u>	<u>1,188,057</u>
Expenses					
Program Services					
Tourism Promotion	910,340	-	-	910,340	901,888
Visitor Center	131,116	-	-	131,116	84,039
Tours	5,290	-	-	5,290	5,782
Total Program Services	<u>1,046,746</u>	<u>-</u>	<u>-</u>	<u>1,046,746</u>	<u>991,519</u>
Supporting Services					
Management and General	167,174	-	-	167,174	154,752
Total Supporting Services	<u>167,174</u>	<u>-</u>	<u>-</u>	<u>167,174</u>	<u>154,752</u>
Total Operating Expenses	<u>1,213,920</u>	<u>-</u>	<u>-</u>	<u>1,213,920</u>	<u>1,146,271</u>
Change in Net Assets	98,925	4,000	-	102,925	41,786
Net Assets - Beginning	<u>343,563</u>	<u>-</u>	<u>-</u>	<u>343,563</u>	<u>301,777</u>
Net Assets - Ending	<u>\$ 442,488</u>	<u>\$ 4,000</u>	<u>\$ -</u>	<u>\$ 446,488</u>	<u>\$ 343,563</u>

HOWARD COUNTY TOURISM COUNCIL, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in Net Assets	\$ 102,925	\$ 41,786
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	10,469	3,713
Loss on Disposal of Fixed Assets	3,437	-
Net Realized and Unrealized (Gain) Loss on Investments	5,994	4,470
Changes in Assets and Liabilities		
Accounts Receivable	27,846	(19,965)
Grant Receivable	(681)	(100,222)
Prepaid Expenses and Deposits	(4,753)	2,255
Accounts Payable	(89,747)	55,848
Accrued Expenses	(7,766)	(544)
Deferred Revenue	(58,450)	8,700
	<u>(10,726)</u>	<u>(3,959)</u>
Net Cash Provided by (Used in) Operating Activities		
Cash Flows From Investing Activities		
Purchase of Property and Equipment	(5,690)	(11,314)
Purchase of Intangible Assets	(53,550)	-
Purchase of Long Term Investments	-	(217,832)
	<u>(59,240)</u>	<u>(229,146)</u>
Net Cash Provided by (Used in) Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(69,966)	(233,105)
Cash and Cash Equivalents - Beginning	<u>142,873</u>	<u>375,978</u>
Cash and Cash Equivalents - Ending	<u>\$ 72,907</u>	<u>\$ 142,873</u>
Supplemental Cash Flow information:		
Interest Paid	\$ 62	\$ -

HOWARD COUNTY TOURISM COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 are prepared on the accrual basis of accounting.

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:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations and may be used at the board's discretion.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met by actions of the Organization or the passage of time. When a restriction expires or conditions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had temporarily restricted net assets of \$4,000 and \$0 at June 30, 2016 and 2015, respectively.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization had no permanently restricted net assets at June 30, 2016 and 2015.

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.

HOWARD COUNTY TOURSIM COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

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.

Revenue

The Organization receives contributions, grants, and revenue from individual and corporate donors. Revenues are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence and/or nature of any donor restrictions.

Deferred Revenue

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

Expense Allocation

The Organization's management allocates expenses by function between program and supporting service classifications based on estimated levels of functional time and effort. Such expenses have been summarized on a functional basis in the Statement of Activities and in the Schedule of Functional Expenses.

Advertising

Advertising costs are expensed as incurred.

Fixed Assets and Depreciation

All major expenditures for fixed assets 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 straight-line basis over estimated useful lives of the related assets, ranging from five to fifteen years. Depreciation expense for June 30, 2016 and 2015 was \$4,519 and \$3,713, respectively.

Investments

Investments in marketable securities and debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

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, 2016 and 2015, 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, 2016 and 2015, 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.

HOWARD COUNTY TOURSİM COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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.

Subsequent Events

Management has evaluated subsequent events through October 21, 2016, 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, 2016 and 2015 are comprised of the following:

Balance at June 30, 2014	\$ 50,250
Memberships Sold	58,950
Membership Fees Earned	<u>(50,250)</u>
Balance at June 30, 2015	58,950
Sponsorships	500
Memberships Fees Earned	<u>(58,950)</u>
Balance at June 30, 2016	<u>\$ 500</u>

Note 3: Fair Value Measurements

FASB ASC 820 established a framework for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

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.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

HOWARD COUNTY TOURSIM COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

Note 3: Fair Value Measurements (continued)

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, 2016.

Mutual funds: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes the valuation of the Organization's assets and liabilities measured at fair value on a recurring basis as of:

	June 30, 2016			
	Total	(Level 1)	(Level 2)	(Level 3)
	Fair Value			
Cash and Cash Equivalents	\$ 877	\$ 877	\$ -	\$ -
Mutual Funds	206,491	206,491	-	-
	June 30, 2015			
	Total	(Level 1)	(Level 2)	(Level 3)
	Fair Value			
Cash and Cash Equivalents	\$ 216	\$ 216	\$ -	\$ -
Mutual Funds	213,146	213,146	-	-

Note 4: Concentration of Risk

The Organization maintains cash in banks, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016 and 2015, the Organization's cash in banks was fully insured with federal depository insurance.

Note 5: Other Concentrations

For the fiscal year ended June 30, 2016, approximately 86% or \$1,075,800, of the Organization's revenue came from a Howard County grant. For the fiscal year ended June 30, 2015, approximately 83% or \$936,676, 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 TOURSIM COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

Note 6: Advertising

The Organization utilizes advertising in electronic medial 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 \$386,670 and \$459,614 for the years ended June 30, 2016 and 2015, respectively.

Note 7: Operating Lease

The Organization leases postage equipment under a non-cancelable operating lease that expires in April 2019.

Future minimum lease payments under its lease at June 30, 2016 are as follows:

Fiscal Year:	2017	\$	1,956
	2018		1,956
	2019		<u>1,630</u>
		\$	<u>5,542</u>

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. It was determined that the estimated fair value of the lease (which also included services and utilities) was \$60,000 annually on a gross basis. For the year ended June 30, 2016, contribution revenue and occupancy expense of \$60,000 were recorded in connection with this lease agreement.

The Organization has a year to year lease agreement with Savage Mill, LLLP whereby the Organization leases donated office space either owned or managed by Savage Mill, LLLP. It was determined that the estimated fair value of the lease (which also included services and utilities) was \$4,800 annually on a gross basis. For the year ended June 30, 2016, contribution revenue and occupancy expense of \$4,800 were recorded in connection with this lease agreement.

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 \$3,029 and \$4,780 for the fiscal years ending June 30, 2016 and 2015, respectively.

SUPPLEMENTARY INFORMATION

HOWARD COUNTY TOURISM COUNCIL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2016
(With Comparative Totals for 2015)

	<u>Program Services</u>	<u>Management and General</u>	<u>Total 2016</u>	<u>Total 2015</u>
Advertising	\$ 386,670	\$ -	\$ 386,670	\$ 459,614
Auto Expense	3,175	775	3,950	8,262
Bank Charges	2,641	645	3,286	4,282
Charitable Contributions	61,780	15,080	76,860	3,804
Computer Expense	10,405	2,540	12,945	10,346
Contract Labor	3,815	931	4,746	3,629
Contributed Rental Space	52,087	12,714	64,801	64,800
Depreciation and Amortization	8,415	2,054	10,469	3,713
Dues and Subscriptions	6,673	2,117	10,790	10,491
Equipment Rental	2,224	543	2,767	2,688
Insurance	5,678	1,386	7,064	6,055
Interest Expense	49	12	61	-
Miscellaneous	256	63	319	301
Office Expense	13,874	3,387	17,261	13,622
Payroll Taxes	24,122	5,886	30,010	30,239
Postage and Shipping	28,066	6,851	34,917	25,641
Professional Fees	68,618	22,852	91,670	24,952
Promotional and Sponsorship	9,481	2,314	11,795	11,613
Repairs and Maintenance	4,987	1,217	6,204	3,313
Salaries and Benefits	325,701	79,501	405,202	422,659
Telephone	4,824	1,177	6,001	8,985
Travel and Meetings	21,005	5,127	26,132	27,262
	<u>\$ 1,046,746</u>	<u>\$ 167,174</u>	<u>\$ 1,213,920</u>	<u>\$ 1,146,271</u>
Total				