

Pennsylvania Dutch Tourist Bureau
T/A Discover Lancaster

Years Ended December 31, 2015 and 2014



TROUT, EBERSOLE & GROFF_{LLP}

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**Pennsylvania Dutch Tourist Bureau
T/A Discover Lancaster**

Financial Statements

Years Ended December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pennsylvania Dutch Tourist Bureau
T/A Discover Lancaster
Lancaster, Pennsylvania

We have audited the accompanying financial statements of the **Pennsylvania Dutch Tourist Bureau T/A Discover Lancaster** (a nonprofit organization) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the organization'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 organization'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Pennsylvania Dutch Tourist Bureau T/A Discover Lancaster** as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

June 9, 2016
Lancaster, Pennsylvania

Trout, Ebersole + Groff, LLP
TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

**Pennsylvania Dutch Tourist Bureau
T/A Discover Lancaster**

STATEMENTS of FINANCIAL POSITION
December 31, 2015 and 2014

	2015	2014
ASSETS		
ASSETS		
Cash and Cash Equivalents	\$ 980,329	\$ 1,171,310
Hotel Room Excise Tax Receivable	225,388	209,380
Accounts Receivable - less Allowance for Doubtful Accounts of \$2,000 for 2015 and 2014	81,933	27,419
Inventories	10,555	-0-
Prepaid Expenses	81,881	52,892
Other Assets	18,690	-0-
Property and Equipment, net	629,315	664,038
Trademarks	<u>5,910</u>	<u>-0-</u>
TOTAL ASSETS	<u>2,034,001</u>	<u>2,125,039</u>
LIABILITIES and NET ASSETS		
LIABILITIES		
Accounts Payable	71,434	47,068
Accrued Salaries and Wages	50,668	71,196
Compensated Absences	25,676	23,522
Deferred Revenue	600,456	636,130
Accrued Expenses	671	108
Security Deposits	<u>1,000</u>	<u>1,000</u>
TOTAL LIABILITIES	749,905	779,024
NET ASSETS		
Unrestricted	<u>1,284,096</u>	<u>1,346,015</u>
TOTAL LIABILITIES and NET ASSETS	<u>\$ 2,034,001</u>	<u>\$ 2,125,039</u>

See notes to financial statements.

**Pennsylvania Dutch Tourist Bureau
T/A Discover Lancaster**

STATEMENTS of ACTIVITIES and CHANGES in NET ASSETS
Years Ended December 31, 2015 and 2014

	2015	2014
CHANGES in UNRESTRICTED NET ASSETS		
Revenues		
Excise Tax Revenue	\$ 1,738,588	\$ 1,668,024
Advertising	773,475	741,136
Membership	678,184	663,302
Visitor Center	92,487	103,209
Sales Department	24,470	18,000
Reservation Center	156,686	139,314
Other	50,188	50,005
Total Revenues	3,514,078	3,382,990
Expenses		
Excise Tax Expense	72,391	67,005
Advertising	1,351,412	1,826,628
Membership	32,007	21,634
Visitor Center	21,100	9,829
Sales Department Expenses	120,565	160,680
Reservation Center	144,687	114,877
Other	21,713	21,317
Wages, Benefits, and Staff	1,194,575	1,237,493
Operating/Administrative	524,443	347,623
Depreciation	93,104	89,388
Total Expenses	3,575,997	3,896,474
DECREASE in UNRESTRICTED NET ASSETS	(61,919)	(513,484)
OTHER INCOME (EXPENSE)		
Interest Income	-0-	1,189
Loss on Disposal of Assets	-0-	(40,748)
Net Other Expense	-0-	(39,559)
CHANGES in NET ASSETS	(61,919)	(553,043)
NET ASSETS		
Beginning of Year	<u>1,346,015</u>	<u>1,899,058</u>
End of Year	<u>\$ 1,284,096</u>	<u>\$ 1,346,015</u>

See notes to financial statements.

Pennsylvania Dutch Tourist Bureau

T/A Discover Lancaster

STATEMENTS of CASH FLOWS

Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS from OPERATING ACTIVITIES		
Changes in Net Assets	\$ (61,919)	\$ (553,043)
Adjustments to Reconcile Changes in Net Assets to Net Cash		
Used by Operating Activities:		
Depreciation	93,104	89,388
Loss on Sale of Asset	-0-	40,748
(Increase) Decrease in:		
Hotel Room Excise Tax Receivable	(16,008)	(19,301)
Accounts Receivable	(54,514)	29,783
Inventory	(10,555)	-0-
Prepaid Expenses	(28,989)	(531)
Other Assets	(18,690)	-0-
Increase (Decrease) in:		
Accounts Payable	24,366	(71,302)
Accrued Salaries and Wages	(20,528)	32,558
Compensated Absences	2,154	(10,813)
Deferred Revenue	(35,674)	54,755
Accrued Expenses	<u>563</u>	<u>(525)</u>
Net Cash Used by Operating Activities	(126,690)	(408,283)
CASH FLOWS from INVESTING ACTIVITIES		
Payments for Trademarks	(5,910)	-0-
Purchases of Property and Equipment	<u>(58,381)</u>	<u>(105,008)</u>
Net Cash Used by Investing Activities	<u>(64,291)</u>	<u>(105,008)</u>
DECREASE in CASH and CASH EQUIVALENTS	(190,981)	(513,291)
CASH and CASH EQUIVALENTS		
Beginning	<u>1,171,310</u>	<u>1,684,601</u>
Ending	<u>\$ 980,329</u>	<u>\$ 1,171,310</u>

See notes to financial statements.

Pennsylvania Dutch Tourist Bureau

T/A Discover Lancaster

NOTES to FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The **Pennsylvania Dutch Tourist Bureau T/A Discover Lancaster** (the Organization) is a non-stock membership organization. The Organization's principal business activities and purposes are educational, philanthropic, civic, and patriotic, including the following: to promote and encourage tourist travel and the holding of conventions in Lancaster County; to encourage the restoration of points of interest and places of historical significance; and to assemble and disseminate information designed to maintain and further develop the strong position of Lancaster County in the tourist, vacation, and convention fields. The Organization also operated a reservation center until May 2015.

Basis of Presentation

The Organization's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). Current US GAAP standards are contained in the Accounting Standards Codification (ASC) as set forth by the Financial Accounting Standards Board (FASB).

The financial statement presentation follows the recommendations of FASB ASC Topic 958, *Not-For-Profit Entities*. Under this standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments and certificates of deposit purchased with a maturity of twelve months or less to be cash equivalents.

In accordance with ASC Subtopic 820-10, certain investments in money market funds that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. Included in cash and cash equivalents at December 31, 2015 and 2014 is \$-0- and \$752,250, respectively, invested in money market funds with a net asset value of \$1 per share. Management believes these funds to be redeemable at the net asset value on the measurement date. During the year ended December 31, 2015, the Organization closed its money market account.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of temporary cash deposits and accounts receivable. The Organization maintains its cash deposits with various financial institutions where the account balances may, at times, exceed FDIC insured limits. The Organization grants credit to its members, without collateral, substantially all of whom are located in Lancaster County.

Receivables

Receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at outstanding principal adjusted for allowance for doubtful accounts. Account balances generally are written off when management judges such balances uncollectible, such as an account in bankruptcy. Management continually monitors and reviews receivable balances.

Pennsylvania Dutch Tourist Bureau

T/A Discover Lancaster

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables (Continued)

The Organization charges interest on past due accounts that are over 90 days old. Interest is recognized as income when it is billed to the customer. Interest continues to accrue until the account is deemed uncollectible by management. The Organization stopped charging interest on past due accounts during the year ended December 31, 2015. Receivables past due 90 days or more and still accruing interest amounted to \$-0- and \$11,232 at December 31, 2015 and 2014, respectively.

The allowance for doubtful accounts is based on management's assessment of the collectability of specific customer accounts and the aging of the receivables. If there is a deterioration of a major customer's creditworthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the Organization could be adversely affected. For the hotel excise tax receivable, the Organization only records receivables for the actual amounts collected by the County; therefore, the allowance is determined to be zero at December 31, 2015 and 2014.

The Organization considers various factors as of the date of the financial statements in evaluating the credit quality of the hotel room excise tax receivable, including the value of collateral, if any, historical collection experience and the Organization's assessment of the counterparties' ability to pay their obligations. To date, the Organization has not experienced any losses with respect to the hotel room excise tax receivable and believes that all receivables will be received.

Inventories

Inventory consists of clothing, souvenirs, and other small items held for resale, and is stated at the lower of cost or market using the specific identification method.

Property and Equipment

Property and equipment are stated at cost or at fair market value at the date of donation. Depreciation is calculated on an annual straight-line basis over the estimated useful lives. The cost of routine repairs and maintenance are expensed as incurred. The Organization does not imply time restrictions on gifts of long-lived assets. Capital assets are defined by the Organization as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Estimated useful lives, in years, for depreciable assets are generally as follows:

Buildings and Improvements	10 - 50 Years
Office Equipment and Furniture	3 - 7 Years

Trademarks

Trademarks are intangible assets and consist of costs for applications for trademarks used in the Organization's operations. Trademarks have indefinite useful lives and are not being amortized. Under FASB ASC Topic 350, *Intangibles - Goodwill and Other*, an intangible asset with an indefinite useful life should not be amortized, but rather shall be tested for impairment annually. The Organization's management has considered ASC Topic 350, but has not performed the required assessment as they believe the cost of performance exceeds the benefit received. At December 31, 2015 and 2014, the balance of trademarks was \$5,910 and \$-0-, respectively, which is not considered material to the financial statements.

Pennsylvania Dutch Tourist Bureau

T/A Discover Lancaster

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue and Support

Revenue is recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and nature of any donor restrictions.

All donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Restricted donations whose restrictions are met in the same reporting period are accounted for as temporarily restricted support and as net assets released from restrictions.

The Organization had no permanently restricted net assets at December 31, 2015 and 2014.

Land Lease

In 1990, the Organization entered into a lease with the Pennsylvania Department of Transportation for the land its building is located on. The lease requires a nominal \$1 per year payment for the 50-year term lease.

Revenue Recognition

Membership Dues - Membership dues generally cover a one year period from inception. Membership dues are recognized ratably over the year. Dues received or billed in advance of the fiscal year to which they pertain are treated as deferred revenue.

Advertising - Members can purchase advertising space in the Getaway Guide and Group Planning Guide which are distributed by the Organization. Revenue from the purchase of advertising space is recognized as the related costs of production, printing, and distribution are incurred. Member payments received prior to incurring related expenses have been shown as deferred revenue.

Retail Sales - The Organization sells various items at the visitor center. This revenue is recognized at the time of sale. The Organization receives commissions from bus tours and from other items on consignment that are sold at the Organization. Commission revenue is recognized when received.

Display Rentals - Members can display information about their businesses in the visitor center. The rental income from these displays is recognized ratably over the rental period. Rental income received or billed in advance of the fiscal year to which it pertains is treated as deferred revenue.

Hotel Room Excise Tax and Room Rental Tax - A substantial portion of the Organization's revenue is derived from the hotel room excise tax collected by Lancaster County. This revenue is recognized at the time Lancaster County collects the tax from lodging establishments. Lancaster County also charges collection and administrative fees which are recognized when the related revenue is recorded.

Pennsylvania Dutch Tourist Bureau

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NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Hotel Room Excise Tax and Room Rental Tax (Continued) - In prior years, the Organization also received 20% of the hotel room rental tax assessed by Lancaster County on hotels, motels, and bed and breakfasts that have more than ten rooms. Beginning in February 2013, the Organization's 20% portion of the hotel room rental tax was diverted to the Lancaster County Convention Center Authority (LCCCA) due to LCCCA's debt covenant violation. Accordingly, the Organization did not receive any portion of the hotel room rental tax for the year ended December 31, 2014. Any redistribution of the hotel room rental tax will not be repaid to the Organization.

In August 2014, the Organization agreed to the terms of an agreement between Lancaster County, LCCCA, and other parties that effectively diverts the 20% portion of the room rental tax from the Organization to the LCCCA until 2019.

Functional Expense Classification

The costs of providing the Organization's services are summarized on a natural basis in the statements of activities and changes in net assets. The following schedules summarize costs according to their functional classification. Certain costs that are directly related to various program or supporting services are classified accordingly. Costs that are not directly related to either program services or supporting services are allocated to program services or supporting services based on the estimated amount of time Organization personnel spend on these various activities or other statistical bases.

Estimated program expenses and supporting services expenses at December 31, 2015 and 2014 are as follows:

	2015	2014
Program Expenses	2,889,725	3,508,466
Supporting Services Expenses	<u>686,272</u>	<u>388,008</u>
	3,575,997	3,896,474

Donated Services

Donated services by volunteers for certain functions including member services, committees, and operational activities have not been recognized in the financial statements because they do not require specialized skills and do not meet the requirements for recognition under FASB ASC Topic 958-25-16, *Not-for-Profit Entities Contributed Services*.

Bartered Transactions

In the normal course of operations, the Organization accepts gift cards, gift certificates, or vouchers to member events, or services in payment for portions of their membership or advertising fees. These transactions are recorded at fair market value when the services are provided and received. The amount from bartering transactions included in revenues and expenses for the year ended December 31, 2015 was \$20,235 and \$1,545, respectively. The amount from bartering transactions included in revenues and expenses for the year ended December 31, 2014 was \$-0-. The unused portion at December 31, 2015, totaling \$18,690, is included in other assets on the statement of financial position.

Pennsylvania Dutch Tourist Bureau

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NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates relate primarily to depreciation, deferred revenue, expense allocations, and the allowance for doubtful accounts. Accordingly, actual results may differ from estimated amounts.

Tax-Exempt Status

The Organization is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The Organization was incorporated in 1972 in the Commonwealth of Pennsylvania under the Nonprofit Corporation Law of 1933 and, as such, is exempt from federal and state income taxes.

Income Taxes

The Organization adopted the provisions of FASB ASC 740, related to accounting for uncertainty in income taxes. The Organization recognizes the benefits or liability associated with a tax position during the period which, based on all available evidence, management believes it is “more likely than not” (greater than fifty percent probability) that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The portion of the benefits associated with income tax positions claimed on income tax returns that does not meet the above threshold is reflected as a liability for uncertain tax positions in the accompanying statements of financial position. Any interest and penalties associated with uncertain tax positions (those not meeting the fifty percent probability threshold) are recorded in the statements of activities and changes in net assets and any related accrual is recognized on the statements of financial position. Tax positions that are other than routine business transactions are reevaluated on an annual basis for both potential recognition and derecognition.

Management is not aware of any uncertain tax positions taken by the Organization.

Taxes Collected and Paid on Revenue-Producing Transactions

Sales taxes assessed by a governmental authority on applicable revenue-producing transactions between the Organization and its customers are recorded on a net basis, excluding both the collection and payment of such transactions from the Organization’s revenues and expenses.

Advertising

Advertising and promotion costs are expensed as they are incurred.

Pennsylvania Dutch Tourist Bureau

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NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 2 - PROPERTY and EQUIPMENT

Property and equipment consist of the following at December 31, 2015 and 2014:

	2015	2014
Building and Improvements	1,357,507	1,321,524
Office Equipment and Furniture	<u>865,372</u>	<u>842,973</u>
	2,222,879	2,164,497
Accumulated Depreciation	<u>(1,593,564)</u>	<u>(1,500,459)</u>
	629,315	664,038

NOTE 3 - COMPENSATED ABSENCES

Employees of the Organization are entitled to paid time off to be used for vacation, personal or family illness, or other needs. Unused paid time off can be carried over to the next year; however, there is a five day cap on the amount of paid time off that can be carried over each year and a total cap of twenty-five days. Compensated absences for paid time off earned was \$25,676 and \$23,522 at December 31, 2015 and 2014, respectively.

NOTE 4 - DEFERRED REVENUE

Deferred revenue consists of the following at December 31, 2015 and 2014:

	2015	2014
Membership Dues	333,324	359,954
Display Boxes	30,708	34,125
Getaway and Group Planning Guides	210,415	231,421
Other	<u>26,009</u>	<u>10,630</u>
	600,456	636,130

NOTE 5 - LINE of CREDIT

The Organization has a line of credit with a borrowing limit of \$100,000. Interest is charged at the bank's prime rate plus 3.50%. The line of credit is secured by the Organization's assets. There were no outstanding borrowings on the line of credit at December 31, 2015 and 2014.

Pennsylvania Dutch Tourist Bureau

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NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 6 - OPERATING LEASE

The Organization leases office equipment under operating lease agreements. Rental expense under the operating leases was \$10,910 and \$7,828 for the years ended December 31, 2015 and 2014, respectively. Minimum future rental payments under non-cancelable operating leases with initial or remaining terms in excess of one year at December 31, 2015 are as follows:

2016	9,396
2017	3,588
2018	<u>2,392</u>
	15,376

NOTE 7 - RETIREMENT PLAN

The Organization has a 401(k) retirement plan covering substantially all of its employees. The Organization matches employee contributions up to 4% of annual compensation. The Organization may, but is not obligated to, make discretionary additional contributions to the plan at a percentage rate determined by the Organization.

Employees entering the plan on or after April 1, 2012 vest at 20% per year of service and are fully vested after five years. All prior participants were subject to 100% immediate vesting.

The employer's share of contributions to the retirement account under the provisions of the plan for the years ended December 31, 2015 and 2014, was \$38,094 and \$33,744, respectively.

NOTE 8 - COMMITMENTS

The Organization established a Health Reimbursement Account (HRA) self-insured medical reimbursement plan covering participating employees. Under the plan, employees are responsible to pay a deductible of \$1,000 for single coverage and \$2,000 for family coverage for the plan year. Once the employee deductible limits are met, the Organization is required to make contributions to the HRA to cover eligible medical expenses up to a maximum amount of \$4,000 for single coverage and \$8,000 for family coverage. The employee is responsible for medical expenses in excess of these limits. During the years ended December 31, 2015 and 2014, the Organization made HRA contributions of \$20,400 and \$20,375, respectively, under the plan. The Organization may have outstanding claims that have occurred, but have not been reported and therefore not recorded. The amount of such pending claims has not been determined.

NOTE 9 - RECLASSIFICATION

Certain items on the financial statements as of and for the year ended December 31, 2014, have been reclassified to conform to the classification and presentation adopted for the financial statements as of and for the year ended December 31, 2015. This reclassification has no effect on the change in net assets.

Pennsylvania Dutch Tourist Bureau

T/A Discover Lancaster

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 10 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 9, 2016, which represents the date the financial statements were available to be issued.