Lexington Convention and Visitors Bureau

Financial Statements

Year Ended June 30, 2014

Lexington Convention and Visitors Bureau

Table of Contents
June 30, 2014

Financial Section

Basic Financial Statements

Required Supplementary Information

MCM
CPAs & ADVISORS

Independent Auditor's Report

To the Commission Members
Lexington Convention and Visitors Bureau

Report on Financial Statements
We have audited the accompanying financial statements of the Lexington Convention and Visitors Bureau, (Bureau), a component unit of Lexington-Fayette Urban County Government, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Bureau's basic financial statements as listed in the table of contents.

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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 respective financial position of the Bureau as of June 30, 2014 and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Kentucky
Indiana
Ohio

Mountjoy Chilton Medley LLP
P 859.514.7800 | F 859.514.7805
1000 Vine Center | 333 West Vine Street | Lexington, KY 40507
www.mcmcpa.com | 888.587.1719
An Independent Member of Baker Tilly International

Independent Auditor's Report (continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bureau's basic financial statements. The Budgetary Comparison Schedule on page 17 is presented for purposes of additional analysis and is a required part of the basic financial statements.

The Budgetary Comparison Schedule 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 basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2014 on our consideration of the Bureau's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Bureau's internal control over financial reporting and compliance.

Mountjoy Chilton Medley LLP

Lexington, Kentucky
September 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion about the financial performance of the Lexington Convention and Visitors Bureau (Bureau) provides a narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014. Readers are encouraged to consider this narrative with the financial statements that follow.

The Bureau is a component unit of the Lexington-Fayette Urban County Government and all activities are intended to recover costs through the generation of occupancy tax revenue. As such, the Bureau's financial reports are prepared following generally accepted accounting principles of a governmental unit engaged in business-type activity.

HIGHLIGHTS

Net Position The assets of the Bureau exceeded liabilities at fiscal year-end by $4,660,445.85 (presented as Total Net Position). Of this amount, $4,424,497.14 was reported as "unrestricted net position." This compares to the previous year when net position exceeded liabilities by $3,573,441.51 and unrestricted net position was $3,296,293.61. Unrestricted net position represents the amount available to meet ongoing obligations.

Change in Net Position Total net position increased by $1,087,004.34 during fiscal year 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This overview and analysis is intended to serve as an introduction to the Bureau's basic financial statements, which include two components: (1) the financial statements and (2) notes to the financial statements. This report also contains other supplementary information, which is a budgetary comparison schedule. These components are described below.

FINANCIAL STATEMENTS

Because the Bureau reports as a business-type activity, it presents the statements required for that type of entity. The statements provide both short-term and long-term information about the Bureau's financial position. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting that is used in the private sector. These financial statements take into account all revenues and expenses related to the fiscal year regardless of whether the cash involved has been received or disbursed. The financial statements include three statements:

1. The Statement of Net Position (page 8) presents the Bureau's assets and liabilities, with the difference between the two is reported as "Total Net Position." Over time, increases or decreases in the Bureau's net position serves as an indicator of whether the financial position of the Bureau is improving or deteriorating.

2. The Statement of Revenues, Expenses and Changes in Net Position (page 9) presents information regarding how the net position changed during the fiscal year. All changes in net position are reported when the underlying event occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported in this statement for items that will not result in cash transactions until future fiscal periods (such as uncollected revenues and earned, but not used, personal leave).

3. The Statement of Cash Flows (page 10) presents the cash receipts and cash payments occurring during the fiscal year. In this statement, changes in net position are reported when the cash transaction occurs, regardless of the timing of the underlying events. This report provides users with the information needed to assess the Bureau's ability to generate future cash flow and meet obligations as they come due and to identify operating versus investing activity.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements may be found immediately following the financial statements and preceding the supplementary information, pages 11 through 16.

SUPPLEMENTARY INFORMATION

Following the basic financial statements is supplementary information that is used to further explain and support the information in the financial statements. The supplementary information is the Budgetary Comparison Schedule, which can be found on page 17.

FINANCIAL ANALYSIS OF THE BUREAU

The condensed information below was derived from the Bureau's Statement of Net Position at June 30, 2014 and June 30, 2013. The net position at June 30, 2014 is $4,660,445.85, an increase of $1,087,004.34 over fiscal year 2013's net position of $3,573,441.51.

	Net Position as of June 30, 2014	Net Position as of June 30, 2013	Amount Change	% Change
Current Assets	$ 3,065,475.26	$ 1,902,553.31	$ 1,162,921.95	61%
Capital Assets	235,948.71	277,147.90	(41,199.19)	-15%
Other Assets	1,626,693.30	1,628,205.46	(1,512.16)	0%
Total Assets	$ 4,928,117.27	$ 3,807,906.67	$ 1,120,210.60	29%
Current Liabilities	267,671.42	234,465.16	33,206.26	14%
Noncurrent Liabilities				0%
Total Liabilities	$ 267,671.42	$ 234,465.16	$ 33,206.26	14%
Invested in Capital Assets	235,948.71	277,147.90	(41,199.19)	-15%
Unrestricted Net Position	4,424,497.14	3,296,293.61	1,128,203.53	34%
Total Net Position	$ 4,660,445.85	$ 3,573,441.51	$ 1,087,004.34	30%

Current Assets accounts for cash, investments, deposits, accounts receivable, inventory and prepaid expenses. Current assets at June 30, 2014 increased by $1,162,921.95 or 61% when compared to 2013. This increase was primarily in cash and cash equivalents. It is attributed to the additional revenue received for occupancy tax receipts and a decrease in expenses.

Capital Assets accounts for the Bureau's investment in capital assets including furniture and fixtures, leasehold improvements, office furniture, equipment, software applications and trademarks. During 2014, the Bureau invested in furniture and fixtures, leasehold improvements, office equipment and trademarks. The total cost of these items was $27,367.88. After applying depreciation, total capital assets decreased by $41,199.19.

Other Assets accounts for the employee cafeteria plan and the Commission designated investments. At June 20, 2014, the balance of the employee cafeteria plan was $1,693.30, a decrease of $1,512.16 from 2013. Commission designated investments did not change during the year and were $1,625,000.00 at June 30, 2014. During 2014 the Bureau elected not to purchase additional investments due to current market conditions and interest rates. Amounts available to purchase investments are being retained in a fully collateralized account.

Total Liabilities, which includes accounts payable, accrued wages and benefits, the employee cafeteria plan payable and compensated absences, increased by 14% or $33,206.26 for the year. This increase was the result of a liability for accrued wages and benefits that did not exist in 2013, which was offset by a decrease in compensated absences that resulted from a change in the vacation accrual policy.

The larger component of the Bureau's net position (95%) is the Unrestricted Net Position, which are the resources that may be used at the Bureau's discretion to meet ongoing obligations. Unrestricted Net Position was $1,128,203.53 more at June 30, 2014, than they were at June 30, 2013.

The remaining net position balance represents the Bureau's investment in capital assets such as furniture and fixtures, leasehold improvements, office equipment, software and trademarks. The Bureau uses these assets to provide services to visitors and clients to promote the Lexington brand; these assets are not available for future spending. After netting capital asset acquisitions with the related depreciation, Net Position Invested in Capital Assets decreased by $41,199.19 or 15%.

The following condensed financial information was derived from the Bureau's Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2014, and June 30, 2013. Line items from the statement have been re-categorized into the major functions to summarize the Bureau's operations for the two fiscal years and show the changes in the Bureau's Total Net Position.

	Statement of Changes in Net Assets for Fiscal Year Ending June 30, 2014	2013	Amount Change	% Change
REVENUES				
Occupancy Tax	$ 5,926,314.41	$ 5,632,123.71	$ 294,190.70	5%
Management Contracts	-	55,940.91	(55,940.91)	-100%
Matching Funds	497,395.25	478,692.34	18,702.91	4%
Miscellaneous	20,710.39	18,369.59	2,340.80	13%
Interest and Investment Income	3,712.49	4,268.53	(556.04)	-13%
Total Revenues	6,448,132.54	6,189,395.08	258,737.46	4%
EXPENSES				
Personnel	1,585,050.40	1,709,837.23	(124,786.83)	-7%
Professional Services	351,687.89	426,391.08	(74,703.19)	-18%
Office Expense	421,948.46	440,669.25	(18,720.79)	-4%
Printing & Publishing	169,619.90	171,896.81	(2,276.91)	-1%
Promotion	714,628.10	557,128.33	157,499.77	28%
Marketplace Travel	29,190.87	31,677.30	(2,486.43)	-8%
Advertising	1,200,954.70	1,159,944.95	41,009.75	4%
Research	12,000.00	35,725.00	(23,725.00)	-66%
Staff Education	29,849.25	34,488.05	(4,638.80)	-13%
Lexington Center Contribution	748,000.00	848,000.00	(100,000.00)	-12%
LFUCG Collection Fee	29,631.56	28,161.20	1,470.36	5%
Depreciation	68,567.07	60,916.20	7,650.87	13%
Total Expenses	5,361,128.20	5,504,835.40	(143,707.20)	-3%
Increase/(Decrease) in Net Assets	1,087,004.34	684,559.68	402,444.66	59%
Net Position - Beginning	3,573,441.51	2,888,881.83	684,559.68	24%
Net Position - Ending	$ 4,660,445.85	$ 3,573,441.51	$ 1,087,004.34	30%

Occupancy tax is the 4% transient room tax levied on occupancy of hotels and motels located in Fayette County. Occupancy tax revenue increased during the year with total receipts at $5,926,314.41, a 5% increase from the previous fiscal year.

Management contract revenue decreased 100% during fiscal year 2013. The agreement with the Bluegrass Sports Commission was terminated on September 30, 2012. As such, the Bureau no longer provides or is being reimbursed for payroll related costs for the Bluegrass Sports Commission and there was no contract revenue in 2014.

Matching funds revenue increased by 4% or $18,702.91 for fiscal year 2014. This increase was primarily due to the release of the 2013 funds that were allocated but unrequested by other organizations in Fayette County. During 2014 the amount allocated to the Bureau was $483,246.00.

Interest income decreased $556.04 or 13% during 2014. This decrease is the result of continued declining market conditions and low interest rates.

Personnel expense decreased 7% or $124,786.83. This decrease is the direct result of vacant positions.

Professional services expense decreased by 18% or $74,703.19 during fiscal year 2014. This decrease was due to expenses associated with the design of the new Visitors Center in the previous year.

Promotion increased 46% or $254,060.77 for the year. This increase is the result of an increase in convention development fund payments, FAM tours and tradeshows.

Research decreased 66% or $23,725.00 for 2014 as the Bureau did not conduct any marketing related research projects during the year.

Lexington Center Contributions decreased 12% or $100,000.00. Beginning in fiscal year 2013, contributions decrease $100,000.00 per year until the amount is extinguished.

Several other line items had variances for fiscal year 2014. These variances were the result of management decisions to reallocate resources to accommodate changes in priorities and needs during the year.

BUDGETARY HIGHLIGHTS

The Bureau's Board of Commissioners approves the annual budget prior to the beginning of the fiscal year. The Bureau closely monitored expenses and occupancy tax collections for the first six months of the year. A budget amendment, which included expense re-alignments, was approved on February 19, 2014.

Bureau management strives to reduce expenses and pursue cost saving techniques without sacrificing visitor and client services. During fiscal year 2014 we continued to explore opportunities to further reduce expenses. We have initiated and continued the following cost saving techniques which will continue in future fiscal years:

- Continued to improve the monitoring of occupancy tax collections for timely payment and collections, resulting in a slight increase in revenue and timely payments.
- Utilized document scanning to eliminate or reduce photocopying, physical storage and supplies expense.
- Eliminated leases by purchasing equipment, resulting in significant reductions in office expense.
- Utilized electronic distribution tools for marketing materials, resulting in reduced production and distribution costs.
- Utilized social media technologies to expand low cost marketing opportunities.
- Expanded relationships with the media to increase the advertising equivalency which reduces overall advertising costs.
- Continued advertising opportunities in the Visitors Guide to reduce the overall cost.
- Printed select materials in-house, resulting in reduced printing costs.

ECONOMIC CONDITION AND OUTLOOK

The Bureau experienced a very positive financial year during 2014. Revenue projections were significantly more than budget while initiatives continued to reduce expenses to the extent possible, where appropriate.

For fiscal year 2015, the Bureau prepared a conservative operating budget with a 1.5% increase in occupancy tax collections.

Preliminary reports from the industry are positive as both occupancy and rate continue to improve. All indications are that the pattern will continue for the remainder of the calendar year and into 2015.

Definite bookings, group leads and meeting planner interest increased after the construction plans for the Lexington Convention Center were suspended. This will continue over the coming months.

As a result of targeted advertising campaigns, leisure travel has been steadily improving and will continue to do so as major events are announced. During fiscal year 2016 Lexington will host the Breeders Cup. As such, revenue will increase for a period around the event as demand increases, creating compression and increasing occupancy and rate.

Revenues will be closely monitored and the 2015 budget will be amended as appropriate.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the finances of the Lexington Convention and Visitors Bureau to interested individuals. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Lexington Convention and Visitors Bureau, Attention: Vice President, Finance and Operations, 250 West Main Street, Suite 2100, Lexington, KY 40507, (859) 233-1221.

Lexington Convention Visitors Bureau
Statement of Net Position
June 30, 2014

Assets		
Current Assets:		
Cash and Cash Equivalents	$	1,711,231.95
Accounts Receivable		1,305,981.44
Inventory		27,983.59
Prepaid Expenses		20,278.28
Total Current Assets		3,065,475.26
Noncurrent Assets:		
Restricted Cash		1,693.30
Commission Designated Investments		1,625,000.00
Capital Assets, Net of Accumulated Depreciation		235,948.71
Total Noncurrent Assets		1,862,642.01
Total Assets	$	4,928,117.27
Liabilities		
Current Liabilities:		
Accounts Payable	$	166,699.76
Accrued Wages and Benefits		87,623.26
Compensated Absences Payable		11,655.10
Employee Cafeteria Plan Payable		1,693.30
Total Current Liabilities		267,671.42
Total Liabilities		267,671.42
Net Position		
Invested in Capital Assets		235,948.71
Unrestricted		4,424,497.14
Total Net Position		4,660,445.85
Total Liabilities and Net Position	$	4,928,117.27

See accompanying notes.

Lexington Convention and Visitors Bureau
Statement of Revenues, Expenses and Changes in Net Position
For the Period Ended June 30, 2014

Revenues	
Occupancy Tax Receipts	$ 5,926,314.41
Matching Funds Revenue	497,395.25
Other Income	20,710.39
Total Operating Revenues	6,444,420.05
Operating Expenses	
Personnel Expense	$ 1,585,050.40
Contributions to Lexington Center Corporation	748,000.00
Professional Services	351,687.89
Rent and Utilities	156,943.87
Leases and License Fees	10,565.74
Office Supplies	29,183.58
Postage	79,162.53
Industry Associations and Subscriptions	82,145.87
Printing and Publishing	169,619.90
Insurance	11,073.48
Communications Expense	51,028.98
Website	96,561.00
Equipment Repair and Maintenance	1,844.41
FAM Tours/Site Visits/Travel Writers	50,938.65
Marketplace Travel	29,190.87
Conventions and Meetings	217,497.22
Promotional Items	44,586.66
Advertising	1,104,393.70
Research	12,000.00
Staff Education and Industry Relations	29,849.25
Commerce Lexington	100,000.00
Programs and Promotions	278,670.75
Media	22,934.82
LFUCG Collection Fee	29,631.56
Depreciation Expense	68,567.07
Total Operating Expenses	5,361,128.20
Operating Income	$ 1,083,291.85
Nonoperating Revenues (Expenses)	
Interest and Investment Income	3,712.49
Total Nonoperating Revenues	3,712.49
Change in Net Position	1,087,004.34
Total Net Position - Beginning	3,573,441.51
Total Net Position - Ending	$ 4,660,445.85

See accompanying notes.

Lexington Convention and Visitors Bureau
Statement of Cash Flows
For the Year Ended June 30, 2014

	Unrestricted Cash	Restricted Cash	Total Cash
Cash Flows from Operating Activities			
Receipts from Taxpayers	$ 5,841,580.73		$ 5,841,580.73
Receipts from State Matching Funds	385,567.80		385,567.80
Receipts from Cafeteria Plan Participants		14,500.32	14,500.32
Receipts from Others	20,240.41		20,240.41
Payments to Vendors	(3,673,087.55)		(3,673,087.55)
Payments to Employees	(1,555,683.74)		(1,555,683.74)
Payments to Cafeteria Plan Participants		(16,012.48)	(16,012.48)
Net Cash Provided by Operating Activities	1,018,617.65	(1,512.16)	1,017,105.49
Cash Flows from Capital and Related Financing Activities			
Purchases of Capital Assets	(27,367.88)		(27,367.88)
Proceeds from the Sale of Capital Assets	-		-
Net Cash Used by Capital and Related Financing Activities	(27,367.88)	-	(27,367.88)
Cash Flows from Investing Activities			
Proceeds from the Sale and Maturity of Investments	510,615.63		510,615.63
Purchase of Investments and Securities	(510,615.63)		(510,615.63)
Interest and Dividends	3,712.49		3,712.49
Net Cash Provided by Investing Activities	3,712.49	-	3,712.49
Net Increase in Cash and Cash Equivalents	994,962.26	(1,512.16)	993,450.10
Balances - Beginning of the Year	$ 2,341,269.69	$ 3,205.46	$ 2,344,475.15
Balances - End of the Year	$ 3,336,231.95	$ 1,693.30	$ 3,337,925.25

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income	$ 1,083,291.85
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	68,567.07
Change in Assets and Liabilities:	
Increase in Accounts Receivable	(197,031.11)
Decrease in Inventory	1,440.10
Decrease in Prepaid Expense	27,631.32
Increase in Accounts Payable	5,351.76
Increase in Accrued Wages and Benefits	87,623.26
Decrease in Compensated Absences	(58,256.60)
Net Cash Provided by Operating Activities	$ 1,018,617.65

See accompanying notes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Lexington Convention and Visitors Bureau (Bureau) has prepared required supplementary information titled *Management's Discussion and Analysis*, which precedes the financial statements and other supplementary information, which includes the *Budgetary Comparison Schedule*, which follow these footnotes.

The accompanying financial statements present the financial position of the Bureau as of and for the year ended June 30, 2014.

a. Reporting Entity

The Bureau was established by the Lexington-Fayette Urban County Government (LFUCG), under the authority of KRS 91A.350, for the purpose of promoting recreational, convention and tourist activity in Fayette County.

Because the Bureau is a component unit of the LFUCG, its financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by GASB.

b. Measurement Focus, Basis of Accounting and Basis of Presentation

The Bureau is considered a special purpose government and reports as a business-type activity, using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses result from providing services in connection with ongoing operations. Items not meeting the criteria of operating transactions are recorded as nonoperating.

c. Budgetary Data

The annual budget for fiscal year 2014 was prepared using the accrual basis of accounting. The Bureau's Commission approves the budget and any subsequent revisions.

d. Capital Assets

Capital assets, which include leasehold improvements, office equipment, furniture, and software, are reported on the Statement of Net Assets. The Bureau defines capital assets as assets that have a cost of $1,000.00 or more at the date of acquisition and have an expected useful life of more than one year.

Capital assets are depreciated using the straight-line method over the assets' estimated useful lives.

e. Business-Type Activity Accounting and Financial Reporting

The Bureau's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

f. **Basis for Cash Restriction**

The Bureau classifies cash into two categories, restricted and unrestricted. Restricted cash balances are cash amounts administered by the Bureau, but the principal balance neither belongs to nor is controlled by the Bureau. Restricted cash balances reported in the financial statements includes the balance of the employee cafeteria plan. All other cash held by the Bureau is considered unrestricted for reporting purposes.

NOTE 2 CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND INVESTMENTS

Cash and Cash Equivalents are assets with a maturity of 3 months or less and can be readily converted into cash.

As of June 30, 2014 the Bureau had the following investments and securities:

Deposit Type	Fair Value
Cash	
Demand	$ 2,908,927.36
Investments	
Certificates of Deposit	510,615.63
Total	$ 3,419,542.99
Net Withdrawals and Deposits in Transit	(81,617.74)
Total Cash and Investments in Bank	$ 3,337,925.25

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Bureau's deposits may not be returned to it. The Bureau's policy requires banking institutions to provide collateralization in excess of the FDIC limit. As of June 30, 2014 none of the Bureau's bank deposits were exposed to custodial credit risk.

Interest Rate Risk*.* Interest rate risk is a means of limiting its exposure to fair value losses arising from interest rates. The Bureau's investment policy limits investments with maturities of more than 36 months. As of June 30, 2014 the Bureau had no investments with a maturity greater than one year.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable have been aggregated and presented in the financial statements. Detailed information is presented below:

Occupancy Tax	$ 1,092,901.63
KY Department of Travel	212,064.23
Other	1,015.58
Accounts Receivable, June 30, 2014	$ 1,305,981.44

NOTE 4 INVENTORY

The Bureau's investment in inventory as of June 30, 2014 amounts to $27,983.59. This investment in inventory includes apparel and merchandise for retail. Inventory activity for the year ended June 30, 2014 is summarized below:

	Beginning Balance	Increases	Decreases	Ending Balance
Apparel	$ 8,114.99	$ 5,544.00	$ (11,111.99)	$ 2,547.00
Home Goods	21,308.70	19,301.67	(15,173.78)	25,436.59
Inventory, June 30, 2014	$ 29,423.69	$ 24,845.67	$ (26,285.77)	$ 27,983.59

NOTE 5 CAPITAL ASSETS

The Bureau's investment in capital assets as of June 30, 2014 amount to $235,948.71 (net of accumulated depreciation). This investment in capital assets includes the leasehold improvements, furniture, office equipment and software. Capital asset activity for the year ended June 30, 2014 is summarized below:

	Beginning Balance	Increases	Decreases & Reclasses	Ending Balance
Capital Assets				
Furniture and Fixtures	$ 110,505.51	$ 14,475.81	$ -	$ 124,981.32
Leasehold Improvements	195,318.85	6,354.00	-	201,672.85
Office Equipment	61,889.89	5,313.07	(3,337.54)	63,865.42
Software	49,605.65	-	-	49,605.65
Trademarks	18,502.00	1,225.00	-	19,727.00
Total Capital Assets	435,821.90	27,367.88	(3,337.54)	459,852.24
Less Accumulated Depreciation				
Furniture and Fixtures	$ 45,704.26	$ 13,084.61	$ -	$ 58,788.87
Leasehold Improvements	42,055.69	41,929.72	-	83,985.41
Office Equipment	22,669.54	12,829.99	(3,337.54)	32,161.99
Software	48,244.51	722.75	-	48,967.26
Total Accumulated Depreciation	158,674.00	68,567.07	(3,337.54)	223,903.53
Capital Assets, June 30, 2014	$ 277,147.90	$ (41,199.19)	$ -	$ 235,948.71

NOTE 6 ACCOUNTS PAYABLE

Accounts payable have been aggregated and presented in the financial statements. Detailed information is presented below:

Taxes	$ 605.08
Vendors	166,094.68
Accounts Payable, June 30, 2014	$ 166,699.76

NOTE 7 ACCRUED WAGES AND BENEFITS

Accrued wages and benefits have been aggregated and presented in the financial statements. Detailed information is presented below:

Wages	$ 42,216.19
Benefits	21,461.25
Taxes	23,945.82
Accrued Wages and Beneits , June 30, 2014	$ 87,623.26

NOTE 8 OPERATING LEASES

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2014:

Year Ending June 30	Copier	Office Space	Total
2015	$ 5,280.00	$ 140,545.20	$ 145,825.20
2016	5,280.00	140,545.20	145,825.20
2017	5,280.00	140,545.20	145,825.20
2018		21,735.10	21,735.10
Future Minimum Payments	$ 15,840.00	$ 443,370.70	$ 459,210.70

The following schedule shows the composition of total rental expenditures for all operating leases:

Minimum Rentals:	
Copier	$ 5,280.00
Office Space	140,545.20
Total, June 30, 2014	$ 145,825.20

NOTE 9 OCCUPANCY TAX RECEIPTS

Pursuant to KRS 153.450 and local Ordinance, a transient room tax of 4% is levied on room occupancy for hotels, motels and like businesses located in Fayette County, Kentucky. This tax is collected by the Lexington-Fayette Urban County Government (LFUCG). The LFUCG retains 1/2% for collection expenses. The remainder is forwarded to the Bureau on a monthly basis.

The Bureau recognizes occupancy tax revenue when it becomes measurable and available. Occasionally, taxpayers may become delinquent on remitting the tax to the LFUCG. The Bureau does not recognize these revenues until they are received unless the LFUCG Department of Law has a fully executed promissory note for the collection of the tax revenue, interest and penalty.

NOTE 10 CONTRIBUTIONS TO LEXINGTON CENTER CORPORATION

The Bureau has pledged a portion of its occupancy tax receipts to the Lexington Center Corporation (LCC) to support the growth and expansion of the arena and convention facilities. The Bureau pledged $748,000.00 to the LCC for fiscal year 2014 and has agreed to provide financial assistance through fiscal year 2021. As of June 30, 2014 no amount was due to the LCC.

The Bureau's remaining obligations as of June 30, 2014 are as follows:

Fiscal Year	
2015	$ 648,000.00
2016	548,000.00
2017	448,000.00
2018	348,000.00
2019 and Beyond	444,000.00
Total Remaining Obligations	$ 2,436,000.00

NOTE 11 RETIREMENT PLAN

Generally, all employees are eligible to participate in the County Employees Retirement System (CERS), a multi-employer public employee retirement system, established and administered by the Commonwealth of Kentucky. CERS is a defined benefit plan that covers substantially all regular full-time employees of each county, school board and additional local government agencies electing to participate in the system. Eligible members of the County Employees Retirement System are entitled to an annual retirement benefit, payable monthly for life, provided they meet certain age and service requirements. The Bureau assumes no liability other than its contributions. The plan administrator's annual report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601.

Participant eligibility and contributory requirements are established by CERS. Employees contribute five percent of gross wages if participation began before September 1, 2008 or six percent of gross wages if participation began on or after September 1, 2008. Employer contribution rates are determined by the Board of Trustees of the Kentucky Retirement Systems each biennium. The contribution requirement for the year ended June 30, 2014 was $242,162.95. The contributions for 2014 were $189,962.62 from the Bureau and $52,200.33 from the employees.

In addition to the above, employees may make voluntary contributions to a 457 or a Roth IRA plan sponsored by the Bureau. Under the 457 plan, employees may contribute up to $17,500.00 pre-tax. Employee contributions to the plan for 2014 were $39,645.17. Employees may contribute up to $5,000.00 after-tax to the Roth IRA plan. Employee contributions to the plan for the year were $1,305.08.

NOTE 12 GASB 68 DISCLOSURE

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* GASB Statement No. 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through trusts that have defined characteristics. This statement establishes standards for measuring and recognizing liabilities, deferred outflows/inflows of resources and expenses/expenditures. For defined benefit pensions this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities to a defined pension plan. The Bureau is currently evaluating this guidance and, while a negative impact on financial position is expected, has not yet determined the dollar amount of the effect of implementation.

The provisions of this statement are effective for fiscal years beginning after June 15, 2014.

NOTE 13 RISK MANAGEMENT AND INSURANCE COVERAGE

Bureau employee benefits for health, dental, long-term disability and life insurance coverage are fully insured through commercial carriers. A commercial insurance carrier provides coverage for property exposure. There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2014. The Bureau does not participate in any risk pools.

NOTE 14 COMMISSION DESIGNATED FUNDS

Effective June 30, 1996, the Lexington Convention and Visitors Bureau Commission (the Commission) designated $500,000.00 to be reserved for catastrophic events and capital purchases. On June 30, 2002, the Commission designated an additional $150,000.00 to be reserved for the aforementioned purposes.

On June 30, 2005, the Commission designated $350,000.00 to be used to enhance the Bureau's competitiveness when attracting specific conventions, meeting and special events.

On November 17, 2009, the Finance Committee approved that the $350,000.00 reserved for conventions be used to issue payments for the convention development fund retroactive to July 1, 2009.

On May 21, 2013, the Commission approved the 2014 budget which included convention development budgets for 2014 – 2017. As of June 30, 2014 the balance of the fund is $625,000.00 to cover the future cost of budgeted amounts. That amount includes $75,000.00 transferred from the 2013 budget to fiscal years 2016 – 2018 as well as an increase of $50,000.00 for 2017.

On June 19, 2013, the Commission designated $500,000.00 to be reserved for a capital building fund to be used for a potential future property purchase to permanently house the administrative office and/or the visitors center.

NOTE 15 RELATED PARTY TRANSACTIONS

Lease Agreements

The Bureau entered into lease agreements with the Lexington Financial Center (managed by the Webb Companies) and the Victorian Square during fiscal year 2012. Appointed commission members serve as representatives of both corporations. Those members recused themselves of all matters related to the lease agreements and did not receive any benefit, financial or otherwise, from the agreements.

Supplementary Information

Lexington Convention and Visitors Bureau
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Original	Final	Actual
Revenues			
Occupancy Tax Receipts	$ 5,211,000.00	$ 5,361,000.00	$ 5,926,314.41
Matching Fund Revenue	460,000.00	460,000.00	497,395.25
Other Income	24,000.00	24,000.00	20,710.39
Total Operating Revenues	5,695,000.00	5,845,000.00	6,444,420.05
Operating Expenses			
Personnel Expense	$ 1,840,250.00	$ 1,720,250.00	$ 1,585,050.40
Contributions to Lexington Center Corporation	748,000.00	748,000.00	748,000.00
Professional Services	388,000.00	470,500.00	351,687.89
Rent and Utilities	151,700.00	151,700.00	156,943.87
Leases and License Fees	6,500.00	6,500.00	10,565.74
Office Supplies	38,100.00	41,100.00	29,183.58
Postage	61,300.00	76,300.00	79,162.53
Industry Associations and Subscriptions	70,325.00	69,575.00	82,145.87
Printing and Publishing	150,700.00	158,200.00	169,619.90
Insurance	11,000.00	11,000.00	11,073.48
Communications Expense	57,200.00	57,200.00	51,028.98
Website	94,000.00	94,000.00	96,561.00
Equipment Repair and Maintenance	2,000.00	2,000.00	1,844.41
FAM Tours/Site Visits/Travel Writers	42,600.00	60,900.00	50,938.65
Marketplace Travel	24,875.00	37,075.00	29,190.87
Conventions and Meetings	341,750.00	359,750.00	217,497.22
Promotional Items	29,200.00	39,200.00	44,586.66
Advertising	958,000.00	1,071,250.00	1,104,393.70
Research	42,000.00	22,000.00	12,000.00
Staff Education and Industry Relations	36,000.00	48,000.00	29,849.25
Commerce Lexington	100,000.00	100,000.00	100,000.00
Sponsorships and Promotions	325,000.00	325,000.00	278,670.75
Media	33,500.00	32,500.00	22,934.82
LFUCG Collection Fee	26,000.00	26,000.00	29,631.56
Depreciation Expense & Capital Purchases	120,000.00	120,000.00	68,567.07
Total Operating Expenses	5,698,000.00	5,848,000.00	5,361,128.20
Operating Income (Loss)	$ (3,000.00)	$ (3,000.00)	$ 1,083,291.85
Nonoperating Revenues (Expenses)			
Interest and Investment Income	3,000.00	3,000.00	3,712.49
Total Nonoperating Revenues (Expenses)	3,000.00	3,000.00	3,712.49
Change in Net Position	-	-	1,087,004.34
Total Net Position - Beginning	3,573,441.51	3,573,441.51	3,573,441.51
Total Net Position - Ending	$ 3,573,441.51	$ 3,573,441.51	$ 4,660,445.85

See accompanying independent auditor's report.

MCM
CPAs & ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Commission Members
Lexington Convention and Visitors Bureau

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Lexington Convention and Visitors Bureau (Bureau) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Bureau's basic financial statements, and have issued our report thereon dated September 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Bureau's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bureau's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bureau's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mountjoy Chilton Medley LLP

Lexington, Kentucky
September 24, 2014

Mountjoy Chilton Medley LLP
P 859.514.7800 | F 859.514.7805
1000 Vine Center | 333 West Vine Street | Lexington, KY 40507
www.mcmcpa.com | 888.587.1719
An Independent Member of Baker Tilly International

Kentucky
Indiana
Ohio