Catalina Island Chamber of Commerce

and Visitors Bureau, Inc.

Audited Financial Statements

For Years Ended June 30, 2014
and June 30, 2013

Prepared by:

McGinty, Knudtson & Associates, LLP
Certified Public Accountants
20422 Beach Boulevard, Suite 450
Huntington Beach, CA 92648

Catalina Island Chamber of Commerce

and Visitors Bureau, Inc.

June 30, 2014

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McGINTY, KNUDTSON & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Catalina Island Chamber of Commerce and Visitors Bureau

We have audited the accompanying financial statements of Catalina Island Chamber of Commerce and Visitors Bureau (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014 and the related statement 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 State 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. Those standards require that we plan and perform the audit 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 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 financial statement presentation.

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 Catalina Island Chamber of Commerce and Visitors Bureau as of June 30, 2014, and the changes in its net assets and its cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Catalina Island Chamber of Commerce and Visitors Bureau's 2012 financial statements, and our report dated May 12, 2014, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGinty Knudtson + Associates, LLP

McGinty, Knudtson & Associates, LLP
Huntington Beach, California
January 9, 2015

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Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Statement of Financial Position
June 30, 2014
(with comparative figures for 2013)

Assets

	6/30/2014	6/30/2013
Current Assets		
Cash and cash equivalents	$ 285,700	$ 257,400
Investments	104,700	103,400
Accounts receivable	102,600	127,800
Prepaid expenses	48,000	59,200
Employee advances	-	800
Total current assets	541,000	548,600
Fixed Assets		
Equipment & leasehold improvements (at cost)	124,800	123,100
Less: Accumulated depreciation	(115,300)	(112,800)
Total fixed assets	9,500	10,300
Total Assets	$ 550,500	$ 558,900

Liabilities & Net Assets

	6/30/2014	6/30/2013
Current Liabilities		
Accounts payable	$ 159,000	$ 168,800
Accrued wages	20,900	21,300
Deposits - phone system	3,700	4,900
Deferred income	3,200	3,200
Total current liabilities	186,800	198,200
Net Assets		
Net assets - unrestricted	363,700	360,700
Total Liabilities & Net Assets	$ 550,500	$ 558,900

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Statement of Activities
For the Year Ended June 30, 2014
(with comparative figures for 2013)

	6/30/2014	6/30/2013
Support & Revenue		
Local government grants	$ 994,000	$ 896,800
Membership dues	114,800	92,800
Phone system	15,600	30,000
Information booklets	229,600	203,900
New Years dance (net of costs)	(4,900)	5,900
Investment income	1,400	600
Other income	36,900	64,000
Total support & revenue	$ 1,387,400	$ 1,294,000
Expenses		
Program services:		
Marketing	669,400	630,100
Public relations	73,100	50,900
Phone system	191,200	162,000
Information booklets	212,900	212,700
Total program services	1,146,600	1,055,700
General & administrative	237,800	239,000
Total expenses	$ 1,384,400	$ 1,294,700
Change in Net Assets	$ 3,000	$ (700)
Net Assets at Beginning of Year	$ 360,700	$ 361,400
Net Assets at End of Year	$ 363,700	$ 360,700

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2014
(with comparative figures for 2013)

	6/30/2014	6/30/2013
Cash Flows from Operating Activities		
Reconciliation of net income to net cash provided by operating activities:		
Net income (loss)	$ 3,000	$ (700)
Depreciation expense	2,500	2,700
Changes in assets and liabilities		
Accounts receivable	25,200	81,500
Prepaid expenses	11,200	(27,400)
Employee advances	800	-
Accounts payable	(9,800)	76,600
Accrued wages	(400)	(2,800)
Deposits phone system	(1,200)	-
Deferred income	-	1,800
Net cash provided by operations	31,300	131,700
Cash Flows from Investing Activities		
Investment purchases	(1,300)	(400)
Equipment additions	(1,700)	(2,300)
Net cash provided by investing	(3,000)	(2,700)
Cash Flows from Financing Activities	-	-
Net Cash Increase (Decrease)	28,300	129,000
Cash at Beginning of Year	$ 257,400	$ 128,400
Cash at End of Year	$ 285,700	$ 257,400

Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest (net of amount capitalized)	$ 13,213	$ 12,708

Note A – Summary of Significant Accounting Policies

Nature of Operations

The Catalina Island Chamber of Commerce and Visitors Bureau, Inc. (the Organization) was organized for the purpose of contributing to the economic development of Avalon and all of Catalina Island by selling, marketing and promoting Avalon and Catalina Island as a year-round destination, and to advocate the interests of business members on Catalina Island.

The five core functions of the Organization are to promote the community, build a strong local economy, represent the interests of business at various levels of government, provide networking opportunities, and engage in political action in the interests of business.

Financial Statement Presentation

The financial statements of the Organization are presented in accordance with the accounting standards generally accepted in the United States of America for not-for-profit entities, as issued by the Financial Accounting Standards Board.

Basis of Accounting

The transactions of the Organization are accounted for using the accrual method of accounting, whereby expenses are recorded when incurred, and revenues are recorded when earned. The Organization presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205-45 (formerly Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-for-Profit Organizations*). Accordingly, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Organization did not have temporarily restricted or permanently restricted net assets at June 30, 2014 or 2013.

Tax Exempt Status

The Organization is a California corporation granted exemption from federal income taxes under Section 501(C)(6) of the Internal Revenue Code, and from California franchise taxes under the General Nonprofit Corporation Law of the State of California. As such, the Organization is not taxed on income derived from its exempt functions. However, it is subject to federal and California income taxes on unrelated trade or business income taxes, which is generated from the Organization's activities not related to their stated exempt purposes. The Organization follows FASB ASC 740-10-55 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) and has determined there is no impact on the financial statements for the years ended June 30, 2014 and 2013. Therefore, no provision for income taxes has been made in the accompanying financial statements.

The Organization has evaluated its tax positions for all open tax years. Currently, the tax years open and subject to examination by the Internal Revenue Service are the 2013, 2012 and 2011 tax years, and 2013, 2012, 2011, and 2010 for California's Franchise Tax Board. In 2013, the Organization was contacted by the Internal Revenue Service to examine the tax returns for the year ending June 30, 2011.

Note A – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Organization's cash and cash equivalents are stated at cost and consist of demand deposits, money market accounts, and petty cash.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, investments, accounts receivable, prepaid expenses, accounts payable and accrued wages at June 30, 2014 and 2013 approximate fair value due to the short-term nature of these financial instruments.

Investments

Investments are stated at fair value (the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date). Investments are measured in accordance with FASB ASC 820-10, *Fair Value Measurements*, as disclosed in Note B.

Property and Equipment

The Organization follows the practice of capitalizing major expenditures for land, building, and equipment. These assets are recorded at cost. Depreciation is computed on the straight-line basis over the following estimated useful lives:

Website development	3 years
Computer equipment	5 years
Office furniture and equipment	5-10 years
Building improvements	5-10 years

When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is shown on the financial statements as other gains or losses.

Donated Services and Facilities

Unpaid volunteers have made contributions of their time in conjunction with the Organization's programs and services. The value of these contributions is not included in these financial statements, since they are not susceptible to objective measurement.

The Organization's Visitor Center occupies space at the Avalon Green Pier rent-free on a month-to-month agreement with the City of Avalon. The landlord has estimated the approximate fair value of the annual rent to be $12,000. The revenue and expense is reported in local government grant revenue in the statement of activities and rent expense in the statement of functional expenses, respectively. The City of Avalon will be reassessing the value of the rent waiver in the near future.

Note A – Summary of Significant Accounting Policies (continued)

Compensated Absences

The Organization records compensated absences for accrued vacation for all full-time employees. The expense is recorded when earned.

Functional Allocation of Expense

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B – Cash and Cash Equivalents

As of June 30, 2014 and 2013, cash and cash equivalents consisted of the following:

	2014	2013
Demand deposits	11,326	(13,059)
Money market	274,359	270,294
Petty cash	52	52
Total	285,737	257,288

Note C – Investments and Fair Value Measurement

The Organization measures fair value in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, which applies to all financial instruments that are being measured and reported at fair value.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 measurements consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 measurements consist of observable inputs other than quoted prices for identical assets, and Level 3 measurements are unobservable and significant to the fair value measurement. Level 1 measurements are given the highest priority and Level 3 inputs are the lowest priority.

Note C – Investments and Fair Value Measurement (continued)

As of June 30, 2014 and 2013, investments consist of the following, which are considered Level 1 in the fair value hierarchy as they are traded in an active market for which daily closing prices are available:

Fair Value Measurements at June 30, 2014

Investments, at fair value:	Fair Value	Quoted Market Prices (Level 1)
Money market fund	$ 40,120	$ 40,120
Fixed income - mutual funds	64,555	64,555
	$ 104,675	$ 104,675

Fair Value Measurements at June 30, 2013

Investments, at fair value:	Fair Value	Quoted Market Prices (Level 1)
Money market fund	$ 40,115	$ 40,115
Fixed income - mutual funds	63,330	63,330
	$ 103,445	$ 103,445

Interest income for the year ended June 30, 2014 was $1,398 and June 30, 2013 was $571.

Note D – Property and Equipment

Property and equipment consist of the following as of June 30, 2014 and 2013:

	2014	2013
Telephone system	$ 9,085	$ 9,085
Furniture and equipment	13,139	13,139
Leasehold improvements	3,258	3,258
Computer hardware	52,884	51,237
Website development	46,385	46,385
	$ 124,751	$ 123,104
Less: accumulated depreciation	(115,278)	(112,842)
	$ 9,473	$ 10,262

Depreciation expense for the year ended June 30, 2014 was $2,436 and June 30, 2013 was $2,711.

Note E – Grants

Effective March 15, 1994, the Organization entered into an agreement with the City of Avalon to receive an amount equal to 22% of the Transient Occupancy Tax (TOT) collected by the city. Per the agreement, the funds are to be used to carry out promotional activities, on behalf of the city, as the council may require.

For the years ended June 30, 2014 and 2013, TOT grant revenue represents 72% and 69%, respectively of operating revenues and 77% and 69%, respectively of accounts receivable.

Note F – Lease Commitments

The Organization leases management and marketing offices on a month-to-month basis. For the year ending June 30, 2014, monthly rent was $2,042. In August of 2014, the rent was increased to $2,167 per month.

The Organization leases a copier under an operating lease agreement that expired in June 2014. The lease will continue on a month-to-month basis until a new lease is signed. The lease requires fixed monthly payments of $524 plus sales tax at the applicable state, county, and city sales tax rate.

The minimum future lease payments are as follows:

Year Ending June 30,	Office	Equipment	Total
2014	25,879	-	25,879
2015	26,004	-	26,004
2016	26,004	-	26,004
	77,887	-	77,887

Note G –Risk and Uncertainties

The Organization may be subject to credit risk to its cash and cash equivalent investments, which are placed with high credit-quality financial institutions. From time to time, the Organization may have amounts on deposit in excess of the FDIC limits. Management believes the Organization is not exposed to any significant credit risk on cash and cash equivalents. As of June 30, 2014, account balances exceeded FDIC insurance limits by $23,552. At June 30, 2013, account balances exceeded FDIC insurance limits by $19,487.

The Organization's operations are solely on Catalina Island, California and are subject to fluctuations in the local economy.

Note H – Employee Pension Plan

The Organization has a SIMPLE employee retirement plan covering qualified employees. Under the program, the Organization contributes 3% of employee compensation. Total employer contributions to the plan were $10,474 and $8,620 for the years ended June 30, 2014 and 2013.

Note I – Prior Period Adjustment

During the June 30, 2014 year, two errors were discovered that resulted in adjustments to the June 30, 2013 year end. Distribution expenses were overstated and prepaid expenses were understated by $22,363, and advertising expenses and accounts payable were understated by $32,790. The net effect of the two adjustments was an overstatement to retained earnings of $10,427. Accordingly, the amounts were adjusted to restate the balances for the June 30, 2013 year.

Note J – Subsequent Event

The Organization has evaluated all subsequent events from June 30, 2014 through the date of this report, January 9, 2015.

In February 2014, the President and CEO announced he would retire as of November 30, 2014. The Organization hired a search firm, interviewed several candidates, and a new President and CEO was brought on board in November 2014.

In June of 2013, the Organization was contacted by the Internal Revenue Service to examine tax returns for the year ending June 30, 2011. In November 2014, the examination was concluded and an audit letter was issued. The examination resulted in a change to the way the entity calculates its unrelated business income, but did not result in any tax owing.

The Organization noted no other events that would have a significant impact on the financial statements.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Catalina Island Chamber of Commerce and Visitors Bureau

We have audited the financial statements of Catalina Island Chamber of Commerce and Visitors Bureau as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon dated January 9, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses 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, that information is fairly stated in all material respects in relation to the financial statements as a whole.

McGinty Knudtson + Associates, LLP

McGinty, Knudtson & Associates, LLP
Huntington Beach, California
January 9, 2015

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Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2014
(with comparative figures for 2013)

	Program Services			
	Marketing	Public Relations	Visitor Services	Information Booklets
Salaries	$ 164,858	$ -	$ 108,688	$ -
Payroll tax	14,798	-	9,612	-
Employee benefits	24,787	-	26,312	-
Bad debts	-	-	-	-
Board expense	-	-	-	-
Building maintenance	-	-	-	-
Depreciation	-	-	-	-
Distribution	-	-	-	36,459
Dues & subscriptions	-	-	-	-
Equipment maintenance	-	-	-	-
Equipment rental	-	-	20,031	-
Fax expenses	2,109	-	-	-
Fulfillment	-	-	-	2,960
Insurance	2,261	-	2,210	-
Interest & bank charges	-	-	-	-
Membership development	-	-	-	-
Miscellaneous	5,432	-	74	1,400
Mixer	-	-	-	-
Office supplies	3,492	-	3,381	-
Postage & freight	-	-	556	35,547
Production	-	-	-	131,566
Professional development	-	-	-	-
Professional services	37,834	-	-	-
Promotion	359,023	73,041	-	-
Rent	10,051	-	12,000	-
Research	-	32	-	-
Special event	7,274	-	-	-
Storage	-	-	-	3,991
Tax - property	-	-	-	-
Telephone	5,132	-	8,117	-
Trade shows	25,987	-	-	946
Travel & seminars	6,350	-	-	-
Uniforms	-	-	184	-
Utilities	-	-	-	-
Total Expenses	$ 669,388	$ 73,073	$ 191,165	$ 212,869

See Accompanying Notes and Independent Auditor's Report

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2014
(with comparative figures for 2013)

	Total Program Expenses	Management & General	6/30/2014 Total Expenses	6/30/2013 Total Expenses
Salaries	$ 273,546	$ 97,315	$ 370,861	$ 347,753
Payroll tax	24,410	8,265	32,675	31,148
Employee benefits	51,099	35,120	86,219	75,978
Bad debts	-	2,320	2,320	-
Board expense	-	425	425	397
Building maintenance	-	2,888	2,888	5,359
Depreciation	-	2,436	2,436	2,711
Distribution	36,459	-	36,459	31,496
Dues & subscriptions	-	6,235	6,235	4,950
Equipment maintenance	-	2,208	2,208	2,479
Equipment rental	20,031	-	20,031	5,621
Fax expenses	2,109	76	2,185	1,284
Fulfillment	2,960	-	2,960	6,496
Insurance	4,471	7,641	12,112	7,395
Interest & bank charges	-	13,213	13,213	12,708
Membership development	-	318	318	216
Miscellaneous	6,906	2,545	9,451	8,615
Mixer	-	2,901	2,901	4,459
Office supplies	6,873	2,204	9,077	13,209
Postage & freight	36,103	1,197	37,300	53,266
Production	131,566	-	131,566	120,282
Professional development	-	16,367	16,367	8,551
Professional services	37,834	13,886	51,720	49,765
Promotion	432,064	-	432,064	399,785
Rent	22,051	10,054	32,105	34,156
Research	32	-	32	532
Special event	7,274	-	7,274	6,929
Storage	3,991	-	3,991	5,095
Tax - property	-	1,902	1,902	2,066
Telephone	13,249	2,563	15,812	16,455
Trade shows	26,933	-	26,933	22,425
Travel & seminars	6,350	768	7,118	8,740
Uniforms	184	-	184	375
Utilities	-	4,975	4,975	4,120
Total Expenses	$ 1,146,495	$ 237,822	$ 1,384,317	$ 1,294,816