

**Catalina Island Chamber of Commerce
and Visitors Bureau, Inc.**

Financial Statements

June 30, 2018 and 2017

(With Independent Auditor's Report Thereon)

**Catalina Island Chamber of Commerce
and Visitors Bureau, Inc.**

June 30, 2018

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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 non-profit organization), which comprise the statement of financial position as of June 30, 2018 and 2017, 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 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 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 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 presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catalina Island Chamber of Commerce and Visitors Bureau as of June 30, 2018 and 2017, 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.

McGinty Knudtson & Associates, LLP

McGinty, Knudtson & Associates, LLP
Huntington Beach, California
October 29, 2018

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Statement of Financial Position
June 30, 2018 and 2017

Assets

	<u>6/30/2018</u>	<u>6/30/2017</u>
Current Assets		
Cash and cash equivalents	\$ 268,600	\$ 229,700
Investments	72,800	64,800
Accounts receivable	38,100	3,600
Prepaid expenses	<u>50,400</u>	<u>67,200</u>
Total current assets	429,900	365,300
Fixed Assets		
Property and equipment	171,800	169,200
Less: accumulated depreciation	<u>(70,000)</u>	<u>(65,100)</u>
Total fixed assets	<u>101,800</u>	<u>104,100</u>
Total Assets	<u><u>\$ 531,700</u></u>	<u><u>\$ 469,400</u></u>

Liabilities & Net Assets

Current Liabilities		
Accounts payable	\$ 170,500	\$ 244,700
Accrued wages	44,600	41,800
Deferred income	<u>13,500</u>	<u>300</u>
Total current liabilities	228,600	286,800
Net Assets		
Unrestricted net assets	<u>303,100</u>	<u>182,600</u>
Total Liabilities & Net Assets	<u><u>\$ 531,700</u></u>	<u><u>\$ 469,400</u></u>

The accompanying notes are an integral part of these financial statements.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Statement of Activities

For the Years Ended June 30, 2018 and 2017

	<u>6/30/2018</u>	<u>6/30/2017</u>
Support and Revenue		
Public source revenue - Transient Occupancy Tax	\$ 1,178,600	\$ 1,167,800
Public source revenue - Rent Waiver	22,500	22,500
Membership dues	93,800	95,100
Advertising and marketing income	280,800	285,500
Programs and special events	<u>161,600</u>	<u>127,200</u>
Total Support and Revenue	1,737,300	1,698,100
Expenses		
Payroll:		
Salaries	416,700	432,800
Payroll taxes	36,900	39,500
Employee benefits	<u>59,100</u>	<u>60,100</u>
Total Payroll	512,700	532,400
Other Operating		
Advertising and marketing	376,700	521,800
Accounting and legal fees	18,100	21,900
Bank and credit card processing fees	10,600	11,700
Depreciation	4,800	4,700
Dues and subscriptions	18,300	20,700
Fulfillment (includes postage and distribution services)	75,300	73,900
Insurance	6,300	8,200
Miscellaneous	(1,100)	3,500
Office expense	11,800	14,400
Outside services	73,900	98,700
Rent	61,300	59,600
Repairs and maintenance	21,000	17,700
Printing and reproduction	127,700	130,400
Special events	156,900	167,900
Telecommunication	8,200	7,400
Trade shows	21,200	19,800
Travel and auto	28,500	26,900
Website expenses	<u>85,200</u>	<u>76,400</u>
Total Other Operating	1,104,700	1,285,600
Total Expenses	<u>1,617,400</u>	<u>1,818,000</u>
Operating Income	119,900	(119,900)
Non-operating Revenues (Expenses)		
Interest income	700	600
Interest expense	<u>(100)</u>	<u>-</u>
Total Non-operating Revenues (Expenses)	600	600
Change in Net Assets	120,500	(119,300)
Net Assets at Beginning of Year	<u>182,600</u>	<u>301,900</u>
Net Assets at End of Year	<u>\$ 303,100</u>	<u>\$ 182,600</u>

The accompanying notes are an integral part of these financial statements.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Statement of Cash Flows

For the Years Ended June 30, 2018 and 2017

	<u>6/30/2018</u>	<u>6/30/2017</u>
Cash Flows from Operating Activities		
Reconciliation of net income to net cash provided by operating activities:		
Net income (loss)	\$ 120,500	\$ (119,300)
Depreciation expense	4,800	4,700
Changes in assets and liabilities		
Accounts receivable	(34,500)	28,100
Prepaid expenses	16,800	23,700
Accounts payable	(74,200)	(63,000)
Accrued wages	2,800	13,000
Deposits phone system	-	(3,700)
Deferred income	<u>13,200</u>	<u>(40,200)</u>
Net cash provided by operations	49,400	(156,700)
Cash Flows from Investing Activities		
Purchase of investments	(7,900)	-
Equipment additions	<u>(2,600)</u>	<u>(36,300)</u>
Net cash provided by investing	(10,500)	(36,300)
Cash Flows from Financing Activities	<u>-</u>	<u>-</u>
Net Cash Increase (Decrease)	38,900	(193,000)
Cash at Beginning of Year	<u>\$ 229,700</u>	<u>\$ 422,700</u>
Cash at End of Year	<u><u>\$ 268,600</u></u>	<u><u>\$ 229,700</u></u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest (net of amount capitalized)	\$ 100	\$ -

The accompanying notes are an integral part of these financial statements.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Note A – Nature of Organization

The Catalina Island Chamber of Commerce and Visitors Bureau, Inc. (CICCVB), a non-profit 501(c)(6) entity incorporated under the laws of the State of California. CICCVB was organized for the purpose of advancing the general welfare and prosperity of the Santa Catalina Island Area so that its citizens and all areas of its business community shall prosper. All necessary means of promotion shall be provided and particular attention and emphasis shall be given to the economic, civic, commercial, cultural, industrial and educational interest of the area. CICCVB is supported primarily by the Transient Occupancy Tax paid by over-night visitors to the island.

The mission of CICCVB is to attract visitors and to advocate for commerce on Catalina Island. The five core functions of CICCVB 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.

Note B – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of CICCVB are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Financial Statement Presentation

CICCVB is required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, CICCVB considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

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, 2018 and 2017 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 D.

Donated Services and Facilities

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

CICCVB'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 \$22,464. 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.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Note B – Summary of Significant Accounting Policies (continued)

Property and Equipment

CICCVB capitalizes expenditures for furniture, fixtures, and equipment. These assets are recorded at original cost. Donated assets are recorded at the estimated fair market value on the date received. CICCVB has set the capitalization threshold for reporting property and equipment at \$1,000. 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.

Compensated Absences

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

Use of Estimates

Preparation of financial statements in accordance with U.S. generally accepted accounting principles necessitates the use of estimates of certain amounts. CICCVB uses estimates to determine the useful lives of fixed assets. Estimates are also used to ascertain that all accounts receivable are collectible. It is reasonably possible these estimates may change in the near term.

CICCVB carries an estimated net receivable of \$33,494 for TOT revenues to be received for the fiscal year 2017/2018. This estimated “true-up” payment is calculated by the City of Avalon based on estimated TOT revenues for the fiscal year 2017/2018.

Net Assets

CICCVB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. CICCVB did not have temporarily or permanently restricted net assets in the years ended June 30, 2018 or 2017. All net assets reported represent unrestricted resources over which the CICCVB Board has discretionary control.

Federal and State Income Taxes

CICCVB 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, CICCVB 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 CICCVB’s activities not related to their stated exempt purposes.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified in order to be comparable with the current year presentation.

Date of Management’s Review

CICCVB has evaluated subsequent events through October 29, 2018, which is the date the financial statements were available to be issued.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Note C – Cash and Cash Equivalents

As of June 30, 2018 and 2017, cash and cash equivalents consisted of the following:

	<u>2018</u>	<u>2017</u>
Checking	\$ 120,866	\$ 72,962
Money market	146,459	155,558
Petty cash	1,277	1,227
Total	<u>\$ 268,603</u>	<u>\$ 229,748</u>

Note D – Investments and Fair Value Measurement

CICCVB follows ASC 958-205, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Defined as observable inputs such as quoted prices for identical instruments in active markets;

Level 2: Defined as inputs other than quoted prices in active markets that are directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

Level 3: Defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant value drivers are observable.

As of June 30, 2018 and 2017, investments consist of the following, which are considered Level 1 in the fair value hierarchy:

Fair Value Measurements at June 30, 2018

	<u>Fair Value</u>	<u>Quoted Market Prices (Level 1)</u>
Investments, at fair value:		
Demand deposit account	\$ 1,159	\$ 1,159
Bond funds	14,238	14,238
Exchange traded funds	57,364	57,364
	<u>\$ 72,761</u>	<u>\$ 72,761</u>

Fair Value Measurements at June 30, 2017

	<u>Fair Value</u>	<u>Quoted Market Prices (Level 1)</u>
Investments, at fair value:		
Demand deposit account	\$ 5,152	\$ 5,152
Bond funds	11,977	11,977
Exchange traded funds	47,681	47,681
	<u>\$ 64,810</u>	<u>\$ 64,810</u>

Interest income for the year ended June 30, 2018 was \$1,660 and June 30, 2017 was \$1,128.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Note E – Property and Equipment

Property and equipment consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	12,928	11,081
Leasehold improvements	103,138	103,138
Computer hardware	8,518	7,799
Computer software	830	830
Website development	46,385	46,385
	<u>\$ 171,799</u>	<u>\$ 169,233</u>
Less: accumulated depreciation	<u>(69,964)</u>	<u>(65,119)</u>
	<u><u>\$ 101,835</u></u>	<u><u>\$ 104,114</u></u>

Depreciation expense for the year ended June 30, 2018 was \$4,844 and June 30, 2017 was \$4,661.

Note F – Grants

Effective March 15, 1994, CICCVC 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 per City of Avalon Municipal Code.

For the year ended June 30, 2018, TOT revenue totaled \$1,178,594 with receivables of \$33,494. During the fiscal year 2017/2018, the City estimated TOT revenues for the fiscal year and issued 12 equal installments. Once accounts were reconciled for the year, the City determined CICCVC was due an additional \$33,494. For the year ended June 30, 2017, TOT revenue totaled \$1,167,784 with payables of \$33,020. During the fiscal year 2016/2017, the City estimated TOT revenues for the entire year and issued payments in 12 equal installments. Once accounts were reconciled for the year, the City determined CICCVC had been overpaid by \$33,020.

For the years ended June 30, 2018 and 2017, TOT grant revenue represents 68% and 69%, respectively of operating revenues and 86% of receivables and 20% of accounts payable, respectively.

Note G – Lease Commitments

CICCVC's Visitor Center occupies space at the Avalon Green Pier rent-free on a 10-year lease agreement with the City of Avalon commencing on January 1, 2015. The landlord has estimated the approximate fair value of the annual rent to be \$22,464. 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.

CICCVC leases management and marketing offices under a lease agreement expiring on August 31, 2022. For the year ending June 30, 2018, monthly rent was \$2,417.

CICCVC leases a copier and printers under an operating lease agreement expiring in November 2020. The lease requires fixed monthly payments of \$635 plus sales tax at the applicable state, county, and city sales tax rates.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Notes to Financial Statements
 June 30, 2018 and 2017

Note G – Lease Commitments (continued)

The minimum future lease payments are as follows:

Year Ending June 30,	<u>Office</u>	<u>Equipment</u>	<u>Total</u>
2019	\$ 53,964	\$ 7,620	\$ 61,584
2020	55,714	7,620	63,334
2021	57,214	3,175	60,389
2022	58,714	-	58,714
2023	28,547	-	28,547
	<u>\$ 254,154</u>	<u>\$ 18,415</u>	<u>\$ 272,569</u>

Note H – Risk and Uncertainties

CICCVB 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, CICCVB may have amounts on deposit in excess of the FDIC limits. Management believes CICCVB is not exposed to any significant credit risk on cash and cash equivalents. As of June 30, 2018 and 2017, account balances did not exceed FDIC insurance limits.

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

Note I – Employee Pension Plan

CICCVB has a SIMPLE employee retirement plan covering qualified employees. Under the program, CICCVB contributes 3% of employee compensation. Total employer contributions to the plan were \$10,695 and \$8,744 for the years ended June 30, 2018 and 2017, respectively.