

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

Financial Statements

June 30, 2017 and 2016

(With Independent Auditor's Report Thereon)

**Catalina Island Chamber of Commerce
and Visitors Bureau, Inc.
June 30, 2017**

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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 nonprofit organization), which comprise the statement of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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 31, 2017

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Statement of Financial Position

June 30, 2017 and 2016

Assets

	<u>6/30/2017</u>	<u>6/30/2016</u>
Current Assets		
Cash and cash equivalents	\$ 229,700	\$ 422,800
Investments	64,800	64,700
Accounts receivable	3,600	31,700
Prepaid expenses	<u>67,200</u>	<u>90,900</u>
Total current assets	365,300	610,100
Fixed Assets		
Equipment & leasehold improvements	169,200	133,000
Less: accumulated depreciation	<u>(65,100)</u>	<u>(60,500)</u>
Total fixed assets	<u>104,100</u>	<u>72,500</u>
Total Assets	<u><u>\$ 469,400</u></u>	<u><u>\$ 682,600</u></u>

Liabilities & Net Assets

Current Liabilities		
Accounts payable	\$ 244,700	\$ 307,700
Accrued wages	41,800	28,800
Deposits - phone system	-	3,700
Deferred income	<u>300</u>	<u>40,500</u>
Total current liabilities	286,800	380,700
Net Assets		
Unrestricted	<u>182,600</u>	<u>301,900</u>
Total Liabilities & Net Assets	<u><u>\$ 469,400</u></u>	<u><u>\$ 682,600</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, 2017 and 2016

	<u>6/30/2017</u>	<u>6/30/2016</u>
Support & Revenue		
Public source revenue - Transient Occupancy Tax	\$ 1,167,800	\$ 1,107,600
Public source revenue - Rent Waiver	22,500	22,500
Membership dues	95,100	94,800
Advertising and marketing income	285,500	290,300
Programs & special events	127,200	159,300
Other income	<u>-</u>	<u>100</u>
Total Support & Revenue	1,698,100	1,674,200
Expenses		
Payroll:		
Salaries	432,800	426,600
Payroll taxes	39,500	37,500
Employee benefits	<u>60,100</u>	<u>62,300</u>
Total Payroll	532,400	526,400
Other Operating		
Advertising and marketing	521,800	440,500
Accounting and legal fees	21,900	24,900
Bad debts	-	5,600
Bank and credit card processing fees	11,700	11,600
Depreciation	4,700	2,400
Dues and subscriptions	20,700	19,300
Fulfillment (includes postage and distribution services)	73,900	69,600
Insurance	8,200	8,700
Miscellaneous	3,500	400
Office expense	14,400	12,800
Outside services	98,700	49,800
Rent	59,600	57,800
Repairs and maintenance	17,700	25,700
Printing & reproduction	130,400	101,300
Special events	167,900	188,200
Telecommunication	7,400	9,200
Trade shows	19,800	29,400
Travel and auto	26,900	26,100
Website expenses	<u>76,400</u>	<u>100,600</u>
Total Other Operating	1,285,600	1,183,900
Total Expenses	<u>1,818,000</u>	<u>1,710,300</u>
Operating Income	(119,900)	(36,100)
Non-operating Revenues (Expenses)		
Interest income	600	400
Interest expense	<u>-</u>	<u>(400)</u>
Total Non-operating Revenues (Expenses)	600	-
Change in Net Assets	(119,300)	(36,100)
Net Assets at Beginning of Year	<u>301,900</u>	<u>338,000</u>
Net Assets at End of Year	<u><u>\$ 182,600</u></u>	<u><u>\$ 301,900</u></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, 2017 and 2016

	<u>6/30/2017</u>	<u>6/30/2016</u>
Cash Flows from Operating Activities		
Reconciliation of net income to net cash provided by operating activities:		
Net income (loss)	\$ (119,300)	\$ (36,100)
Depreciation expense	4,700	2,400
Changes in assets and liabilities		
Accounts receivable	28,100	133,500
Prepaid expenses	23,700	(700)
Accounts payable	(63,000)	206,300
Accrued wages	13,000	11,200
Deposits phone system	(3,700)	-
Deferred income	<u>(40,200)</u>	<u>(3,400)</u>
Net cash provided by operations	(156,700)	313,200
Cash Flows from Investing Activities		
Sale of investments	-	40,000
Equipment additions	<u>(36,300)</u>	<u>(68,500)</u>
Net cash provided by investing	(36,300)	(28,500)
Cash Flows from Financing Activities	<u>-</u>	<u>-</u>
Net Cash Increase (Decrease)	(193,000)	284,700
Cash at Beginning of Year	<u>\$ 422,800</u>	<u>\$ 138,100</u>
Cash at End of Year	<u><u>\$ 229,800</u></u>	<u><u>\$ 422,800</u></u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest (net of amount capitalized)	\$ -	\$ 442

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, 2017 and 2016

Note A – Summary of Significant Accounting Policies

Nature of Operations

The Catalina Island Chamber of Commerce and Visitors Bureau, Inc. (the Organization) is 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.

The mission of the Organization is to attract visitors and to advocate for commerce 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.

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.

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 accompanying financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-210-50. Under this guidance, 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. In addition, the Organization is required to present a statement of cash flows. The Organization does not use fund accounting as no assets are restricted. Revenues are recognized when earned, and expenses are recognized when incurred in accordance with the accrual basis of accounting.

Cash and Cash Equivalents

The Organization's cash and cash equivalents 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, 2017 and 2016 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.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

Note A – Summary of Significant Accounting Policies (continued)

Property and Equipment

The Organization 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. The Organization 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.

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 \$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.

Compensated Absences

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

Net Assets

The Organization is required to report 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 or permanently restricted net assets in the years ended June 30, 2017 or 2016. All net assets reported represent unrestricted resources over which the Organization Board has discretionary control.

Use of Estimates

Preparation of financial statements in accordance with U.S. generally accepted accounting principles necessitates the use of estimates of certain amounts. The Organization 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.

The Organization carries an estimated net payable of \$33,020 for TOT revenues to be repaid for the fiscal year 2016-2017. This estimated refund payment is calculated by the City of Avalon based on estimated TOT revenues for the fiscal years 2015-2016 and 2016-2017.

Reclassifications

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

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

Note B – Cash and Cash Equivalents

As of June 30, 2017 and 2016, cash and cash equivalents consisted of the following:

	<u>2017</u>	<u>2016</u>
Demand deposits	\$ 72,962	\$ 115,207
Money market	155,558	307,330
Petty cash	1,227	252
Total	<u>\$ 229,748</u>	<u>\$ 422,789</u>

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 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, 2017 and 2016, investments consist of the following, which are considered Level 1 in the fair value hierarchy:

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>

Fair Value Measurements at June 30, 2016

	<u>Fair Value</u>	<u>Quoted Market Prices (Level 1)</u>
Investments, at fair value:		
Money market fund	\$ 91	\$ 91
Fixed income - mutual funds	64,640	64,640
	<u>\$ 64,731</u>	<u>\$ 64,731</u>

Interest income for the year ended June 30, 2017 was \$1,128 and June 30, 2016 was \$1,172.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

Note D – Property and Equipment

Property and equipment consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	11,081	10,036
Leasehold improvements	103,138	67,961
Computer hardware	7,799	7,799
Computer software	830	830
Website development	46,385	46,385
	<u>\$ 169,233</u>	<u>\$ 133,011</u>
Less: accumulated depreciation	<u>(65,119)</u>	<u>(60,459)</u>
	<u><u>\$ 104,114</u></u>	<u><u>\$ 72,552</u></u>

Depreciation expense for the year ended June 30, 2017 was \$4,661 and June 30, 2016 was \$2,408.

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 per City of Avalon Municipal Code.

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 the Organization had been overpaid by \$33,020. For the year ended June 30, 2016, TOT revenue totaled \$1,107,637 with payables of \$47,020. The payables are based on the City's estimates of TOT revenues to be collected for the respective fiscal year.

For the years ended June 30, 2017 and 2016, TOT grant revenue represents 69% and 66%, respectively of operating revenues and 20% and 21% of accounts payable, respectively.

Note F – Lease Commitments

The Organization'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.

The Organization leases management and marketing offices under a lease agreement expiring on August 31, 2017. For the year ending June 30, 2017, monthly rent was \$2,417. In August 2017, the lease was renewed for an additional five-year term expiring on August 31, 2022.

The Organization 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 rate.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

Note F – Lease Commitments (continued)

The minimum future lease payments are as follows:

Year Ending June 30,	Office	Equipment	Total
2018	\$ 51,464	\$ 7,620	\$ 59,084
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
	<u>\$ 277,070</u>	<u>\$ 26,035</u>	<u>\$ 303,105</u>

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, 2017, account balances did not exceed FDIC insurance limits. At June 30, 2016, account balances exceeded FDIC insurance limits by \$57,330.

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 \$8,744 and \$10,703 for the years ended June 30, 2017 and 2016.

Note I – Prior Period Adjustment

During the June 30, 2016 year, an error was discovered that resulted in adjustments to the June 30, 2015 year end. Revenues were overstated by \$24,139 and prepaid membership dues were understated by \$40,747. The net effect of the two adjustments was an overstatement to retained earnings of \$16,608. Accordingly, the amounts were adjusted to restate the balances for the June 30, 2015 year.

Note J – Uncertain Tax Positions

The Organization follows FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The guidance prescribes a recognition and measurement of a tax position taken or is expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As of June 30, 2017 and 2016, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Note K – Subsequent Events

The Organization has evaluated the results of operations for the period of time from its year ended June 30, 2017 through October 31, 2017, the date these financial statements were available to be issued, and has determined that no adjustments are necessary to any amount reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.