

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

Financial Statements

June 30, 2015 and 2014

(With Independent Auditor's Report Thereon)

**Catalina Island Chamber of Commerce
and Visitors Bureau, Inc.
June 30, 2015**

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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, 2015 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, 2015, 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 2014 financial statements, and our report dated January 9, 2015, 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, 2014, 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
August 28, 2015

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.
Statement of Financial Position
June 30, 2015
(with comparative figures for 2014)

Assets

	<u>6/30/2015</u>	<u>6/30/2014</u>
Current Assets		
Cash and cash equivalents	\$ 138,100	\$ 285,700
Investments	104,700	104,700
Accounts receivable	165,200	102,600
Prepaid expenses	90,200	48,000
Employee advances	<u> -</u>	<u> -</u>
Total current assets	498,200	541,000
 Fixed Assets		
Equipment & leasehold improvements (at cost)	64,500	124,800
Less: Accumulated depreciation	<u>(58,100)</u>	<u>(115,300)</u>
Total fixed assets	<u> 6,400</u>	<u> 9,500</u>
 Total Assets	 <u><u>\$ 504,600</u></u>	 <u><u>\$ 550,500</u></u>

Liabilities & Net Assets

Current Liabilities		
Accounts payable	\$ 101,400	\$ 159,000
Accrued wages	17,600	20,900
Deposits - phone system	3,700	3,700
Deferred income	<u> 3,200</u>	<u> 3,200</u>
Total current liabilities	125,900	186,800
 Net Assets		
Net assets - unrestricted	<u> 378,700</u>	<u> 363,700</u>
 Total Liabilities & Net Assets	 <u><u>\$ 504,600</u></u>	 <u><u>\$ 550,500</u></u>

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Statement of Activities

For the Year Ended June 30, 2015
(with comparative figures for 2014)

	<u>6/30/2015</u>	<u>6/30/2014</u>
Support & Revenue		
Local government grants	\$ 1,074,800	\$ 994,000
Membership dues	120,200	114,800
Phone system	7,200	15,600
Information booklets	226,800	229,600
New Years dance (net of costs)	1,400	(4,900)
Investment income	(5,300)	1,400
Other income	<u>30,900</u>	<u>36,900</u>
Total support & revenue	\$ 1,456,000	\$ 1,387,400
Expenses		
Program services:		
Marketing	683,000	669,400
Public relations	86,600	73,100
Phone system	166,700	191,200
Information booklets	<u>205,900</u>	<u>212,900</u>
Total program services	1,142,200	1,146,600
General & administrative	<u>298,800</u>	<u>237,800</u>
Total expenses	<u>\$ 1,441,000</u>	<u>\$ 1,384,400</u>
Change in Net Assets	\$ 15,000	\$ 3,000
Net Assets at Beginning of Year	<u>\$ 363,700</u>	<u>\$ 360,700</u>
Net Assets at End of Year	<u><u>\$ 378,700</u></u>	<u><u>\$ 363,700</u></u>

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Statement of Cash Flows

For the Year Ended June 30, 2015

(with comparative figures for 2014)

	<u>6/30/2015</u>	<u>6/30/2014</u>
Cash Flows from Operating Activities		
Reconciliation of net income to net cash provided by operating activities:		
Net income (loss)	\$ 15,000	\$ 3,000
Depreciation expense	1,700	2,500
Loss on asset disposal	5,900	-
Changes in assets and liabilities		
Accounts receivable	(62,600)	25,200
Prepaid expenses	(42,200)	11,200
Employee advances	-	800
Accounts payable	(57,600)	(9,800)
Accrued wages	(3,300)	(400)
Deposits phone system	-	(1,200)
Deferred income	-	-
	<hr/>	<hr/>
Net cash provided by operations	(143,100)	31,300
Cash Flows from Investing Activities		
Investment purchases	-	(1,300)
Equipment additions	(4,500)	(1,700)
	<hr/>	<hr/>
Net cash provided by investing	(4,500)	(3,000)
Cash Flows from Financing Activities	<hr/>	<hr/>
	-	-
Net Cash Increase (Decrease)	(147,600)	28,300
Cash at Beginning of Year	<u>\$ 285,700</u>	<u>\$ 257,400</u>
Cash at End of Year	<u><u>\$ 138,100</u></u>	<u><u>\$ 285,700</u></u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest (net of amount capitalized)	\$ 13,232	\$ 13,213

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Notes to Financial Statements

June 30, 2015

(with comparative figures for 2014)

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 contribute to the economic development of 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.

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, 2015 and 2014 approximate fair value due to the short-term nature of these financial instruments.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Notes to Financial Statements

June 30, 2015

(with comparative figures for 2014)

Note A – Summary of Significant Accounting Policies (continued)

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 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 \$500. 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.

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, 2015 or 2014. 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.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Notes to Financial Statements

June 30, 2015

(with comparative figures for 2014)

Note A – Summary of Significant Accounting Policies (continued)

The Organization carries an estimated receivable of \$127,677 for TOT revenues to be collected for the fiscal year 2014-2015. This estimated catch-up payment is calculated by the City of Avalon based on estimated TOT revenues for the fiscal year 2014-2015.

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.

Note B – Cash and Cash Equivalents

As of June 30, 2015 and 2014, cash and cash equivalents consisted of the following:

	<u>2015</u>	<u>2014</u>
Demand deposits	\$ (109,416)	\$ 11,326
Money market	247,495	274,359
Petty cash	52	52
Total	<u>\$ 138,131</u>	<u>\$ 285,737</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.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Notes to Financial Statements

June 30, 2015

(with comparative figures for 2014)

Note C – Investments and Fair Value Measurement (continued)

As of June 30, 2015 and 2014, investments consist of the following, which are considered Level 1 in the fair value hierarchy:

Fair Value Measurements at June 30, 2015

	<u>Fair Value</u>	<u>Quoted Market Prices (Level 1)</u>
Investments, at fair value:		
Money market fund	\$ 40,024	\$ 40,024
Fixed income - mutual funds	64,673	64,673
	<u>\$ 104,697</u>	<u>\$ 104,697</u>

Fair Value Measurements at June 30, 2014

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

Interest income for the year ended June 30, 2015 was \$600 and June 30, 2014 was \$1,398.

Note D – Property and Equipment

Property and equipment consist of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Telephone system	\$ -	\$ 9,085
Furniture and equipment	6,199	13,139
Leasehold improvements	3,258	3,258
Computer hardware	7,799	52,884
Computer software	830	-
Website development	46,385	46,385
	<u>\$ 64,471</u>	<u>\$ 124,751</u>
Less: accumulated depreciation	<u>(58,051)</u>	<u>(115,278)</u>
	<u>\$ 6,420</u>	<u>\$ 9,473</u>

Depreciation expense for the year ended June 30, 2015 was \$1,702 and June 30, 2014 was \$2,436.

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Notes to Financial Statements

June 30, 2015

(with comparative figures for 2014)

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 year ended June 30, 2015, TOT revenue totaled \$1,074,777 with receivables of \$127,677. For the year ended June 30, 2014, TOT revenue totaled \$982,009 with receivables of \$80,259. The receivables are based on the City's estimates of TOT revenues to be collected for the respective fiscal year.

For the years ended June 30, 2015 and 2014, TOT grant revenue represents 74% and 77%, respectively of operating revenues and 72% and 69%, respectively of accounts receivable.

Note F – Lease Commitments

The Organization leases management and marketing offices under a lease agreement expiring on August 31, 2017. For the year ending June 30, 2015, monthly rent was \$2,167. In September of 2015, the rent will increase to \$2,292 per month.

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

The minimum future lease payments are as follows:

Year Ending June 30,	Office	Equipment	Total
2016	\$ 27,250	\$ -	\$ 27,250
2017	28,750	-	28,750
2018	4,833	-	4,833
	<u>\$ 60,833</u>	<u>\$ -</u>	<u>\$ 60,833</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, 2015, account balances exceeded FDIC insurance limits by \$0. At June 30, 2014, account balances exceeded FDIC insurance limits by \$23,552.

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

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Notes to Financial Statements

June 30, 2015

(with comparative figures for 2014)

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 \$10,274 and \$10,474 for the years ended June 30, 2015 and 2014.

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 – 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, 2015 and 2014, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Generally, the tax years before 2011 are no longer subject to examination by federal or state taxing authorities.

In 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.

Note K – Subsequent Event

The Organization has evaluated all subsequent events from June 30, 2015 through the date of this report, August 28, 2015.

In August 2015, the Organization's board voted to change its capitalization policy to increase the capitalization threshold to \$1,000 from \$500.

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, 2015 and 2014, and have issued our report thereon dated August 28, 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
August 28, 2015

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2015

(with comparative figures for 2014)

Program Services

	<u>Marketing</u>	<u>Public Relations</u>	<u>Visitor Services</u>	<u>Information Booklets</u>
Salaries	\$ 175,444	\$ -	\$ 119,332	\$ -
Payroll tax	15,717	-	11,071	-
Employee benefits	24,368	-	23,268	-
Bad debts	-	-	-	-
Board expense	-	-	-	-
Building maintenance	-	-	-	-
Depreciation	-	-	-	-
Distribution	-	-	-	34,323
Dues & subscriptions	-	-	-	-
Equipment maintenance	-	-	5,443	-
Equipment rental	162	-	-	-
Fax expenses	1,961	-	-	-
Fulfillment	-	-	-	4,631
Insurance	869	-	205	-
Interest & bank charges	-	-	-	-
Membership development	-	-	-	-
Miscellaneous	-	-	-	-
Mixer	-	-	-	-
Office supplies	57,756	-	1,999	-
Postage & freight	-	-	2,772	28,511
Production	-	-	-	129,557
Professional development	-	-	-	-
Professional services	46,774	-	-	-
Promotion	313,586	85,170	-	-
Rent	14,917	-	-	-
Research	-	112	-	-
Special event	10,881	-	-	-
Storage	-	-	-	7,835
Tax - property	-	-	-	-
Telephone	780	-	2,653	-
Trade shows	15,414	-	-	1,000
Travel & seminars	4,390	1,273	-	-
Uniforms	-	-	-	-
Utilities	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	<u>\$ 683,019</u>	<u>\$ 86,555</u>	<u>\$ 166,743</u>	<u>\$ 205,857</u>

Catalina Island Chamber of Commerce and Visitors Bureau, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2015

(with comparative figures for 2014)

	Total Program Expenses	Management & General	6/30/2015 Total Expenses	6/30/2014 Total Expenses
Salaries	\$ 294,776	\$ 107,823	\$ 402,599	\$ 370,861
Payroll tax	26,788	9,497	36,285	32,675
Employee benefits	47,636	42,212	89,848	86,219
Bad debts	-	(60)	(60)	2,320
Board expense	-	383	383	425
Building maintenance	-	-	-	2,888
Depreciation	-	1,702	1,702	2,436
Distribution	34,323	-	34,323	36,459
Dues & subscriptions	-	2,679	2,679	6,235
Equipment maintenance	5,443	2,750	8,193	2,208
Equipment rental	162	-	162	20,031
Fax expenses	1,961	-	1,961	2,185
Fulfillment	4,631	-	4,631	2,960
Insurance	1,074	1,563	2,637	12,112
Interest & bank charges	-	13,232	13,232	13,213
Membership development	-	1,216	1,216	318
Miscellaneous	-	4,609	4,609	9,451
Mixer	-	10,557	10,557	2,901
Office supplies	59,755	2,675	62,430	9,077
Postage & freight	31,283	1,596	32,879	37,300
Production	129,557	-	129,557	131,566
Professional development	-	40,349	40,349	16,367
Professional services	46,774	32,560	79,334	51,720
Promotion	398,756	-	398,756	432,064
Rent	14,917	14,917	29,834	32,105
Research	112	-	112	32
Special event	10,881	-	10,881	7,274
Storage	7,835	-	7,835	3,991
Tax - property	-	1,951	1,951	1,902
Telephone	3,433	-	3,433	15,812
Trade shows	16,414	-	16,414	26,933
Travel & seminars	5,663	2,085	7,748	7,118
Uniforms	-	-	-	184
Utilities	-	4,471	4,471	4,975
Total Expenses	\$ 1,142,174	\$ 298,767	\$ 1,440,941	\$ 1,384,317