

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

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**Financial Statements**

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**June 30, 2016 and 2015**

(With Independent Auditor's Report Thereon)

**Catalina Island Chamber of Commerce**

**and Visitors Bureau, Inc.**

**June 30, 2016**

<u>Table of Contents</u>	<u>Page No.</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Independent Auditor's Report on Supplementary Information	11
Supplementary Information	
Statement of Functional Expenses	12

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, 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, 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.

**Report on Summarized Comparative Information**

We have previously audited the Catalina Island Chamber of Commerce and Visitors Bureau's 2015 financial statements, and our report dated August 28, 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, 2015, 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  
September 29, 2016

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

**Statement of Financial Position**

June 30, 2016

(with comparative figures for 2015)

**Assets**

	<u>6/30/2016</u>	<u>6/30/2015</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 422,800	\$ 138,100
Investments	64,700	104,700
Accounts receivable	31,700	165,200
Prepaid expenses	<u>90,900</u>	<u>90,200</u>
Total current assets	610,100	498,200
<b>Fixed Assets</b>		
Equipment & leasehold improvements (at cost)	133,000	64,500
Less: Accumulated depreciation	<u>(60,500)</u>	<u>(58,100)</u>
Total fixed assets	<u>72,500</u>	<u>6,400</u>
<b>Total Assets</b>	<u>\$ 682,600</u>	<u>\$ 504,600</u>

**Liabilities & Net Assets**

<b>Current Liabilities</b>		
Accounts payable	\$ 307,700	\$ 101,400
Accrued wages	28,800	17,600
Deposits - phone system	3,700	3,700
Deferred income	<u>40,500</u>	<u>43,900</u>
Total current liabilities	380,700	166,600
<b>Net Assets</b>		
Net assets - unrestricted	<u>301,900</u>	<u>338,000</u>
<b>Total Liabilities &amp; Net Assets</b>	<u>\$ 682,600</u>	<u>\$ 504,600</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 Year Ended June 30, 2016

(with comparative figures for 2015)

	<u>6/30/2016</u>	<u>6/30/2015</u>
<b>Support &amp; Revenue</b>		
Local government grants	\$ 1,130,100	\$ 1,086,800
Membership dues	94,800	98,200
Marketing income	290,300	233,800
Visitor service income	100	200
Programs & events	159,300	142,800
Investment income	400	(5,300)
Other income	<u>(800)</u>	<u>5,000</u>
 Total support & revenue	 \$ 1,674,200	 \$ 1,561,500
 <b>Expenses</b>		
Program services:		
Marketing	1,001,300	888,900
Visitor services	200,100	265,300
Programs & events	<u>190,400</u>	<u>115,500</u>
Total program services	1,391,800	1,269,700
 General & administrative	 <u>318,500</u>	 <u>298,800</u>
 Total expenses	 <u>\$ 1,710,300</u>	 <u>\$ 1,568,500</u>
 <b>Change in Net Assets</b>	 \$ (36,100)	 \$ (7,000)
 <b>Net Assets at Beginning of Year</b>	 <u>\$ 338,000</u>	 <u>\$ 345,000</u>
 <b>Net Assets at End of Year</b>	 <u><u>\$ 301,900</u></u>	 <u><u>\$ 338,000</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 Year Ended June 30, 2016

(with comparative figures for 2015)

	<u>6/30/2016</u>	<u>6/30/2015</u>
<b>Cash Flows from Operating Activities</b>		
Reconciliation of net income to net cash provided by operating activities:		
Net income (loss)	\$ (36,100)	\$ 15,000
Depreciation expense	2,400	1,700
Loss on asset disposal	-	5,900
Changes in assets and liabilities		
Accounts receivable	133,500	(62,600)
Prepaid expenses	(700)	(42,200)
Accounts payable	206,300	(57,600)
Accrued wages	11,200	(3,300)
Deposits phone system	-	-
Deferred income	<u>(3,400)</u>	<u>-</u>
Net cash provided by operations	313,200	(143,100)
<b>Cash Flows from Investing Activities</b>		
Sale of investments	40,000	-
Equipment additions	<u>(68,500)</u>	<u>(4,500)</u>
Net cash provided by investing	(28,500)	(4,500)
<b>Cash Flows from Financing Activities</b>	<u>-</u>	<u>-</u>
<b>Net Cash Increase (Decrease)</b>	284,700	(147,600)
<b>Cash at Beginning of Year</b>	<u>\$ 138,100</u>	<u>\$ 285,700</u>
<b>Cash at End of Year</b>	<u>\$ 422,800</u>	<u>\$ 138,100</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for:		
Interest (net of amount capitalized)	\$ 442	\$ 922

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, 2016

(with comparative figures for 2015)

### **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, 2016 and 2015 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, 2016

(with comparative figures for 2015)

**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 \$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, 2016 or 2015. All net assets reported represent unrestricted resources over which the Organization Board has discretionary control.



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

**Notes to Financial Statements**

June 30, 2016

(with comparative figures for 2015)

**Note A – Summary of Significant Accounting Policies (continued)**

**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 payable of \$47,020 for TOT revenues to be repaid for the fiscal year 2015-2016. This estimated refund payment is calculated by the City of Avalon based on estimated TOT revenues for the fiscal year 2015-2016.

**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.

**Reclassifications**

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

**Note B – Cash and Cash Equivalents**

As of June 30, 2016 and 2015, cash and cash equivalents consisted of the following:

	<u>2016</u>	<u>2015</u>
Demand deposits	\$ 115,207	\$ (109,416)
Money market	307,330	247,495
Petty cash	252	52
Total	<u>\$ 422,789</u>	<u>\$ 138,131</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;

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

**Notes to Financial Statements**

June 30, 2016

(with comparative figures for 2015)

**Note C – Investments and Fair Value Measurement (continued)**

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, 2016 and 2015, investments consist of the following, which are considered Level 1 in the fair value hierarchy:

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>

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>

Interest income for the year ended June 30, 2016 was \$1,172 and June 30, 2015 was \$600.

**Note D – Property and Equipment**

Property and equipment consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Telephone system	\$ -	\$ -
Furniture and equipment	10,036	6,199
Leasehold improvements	67,961	3,258
Computer hardware	7,799	7,799
Computer software	830	830
Website development	46,385	46,385
	<u>\$ 133,011</u>	<u>\$ 64,471</u>
Less: accumulated depreciation	(60,459)	(58,051)
	<u>\$ 72,552</u>	<u>\$ 6,420</u>

Depreciation expense for the year ended June 30, 2016 was \$2,408 and June 30, 2015 was \$1,702.

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

**Notes to Financial Statements**

June 30, 2016

(with comparative figures for 2015)

**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, 2016, TOT revenue totaled \$1,107,638 with payables of \$47,020. During the fiscal year 2015/2016, 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 \$47,020. For the year ended June 30, 2015, TOT revenue totaled \$1,074,777 with receivables of \$127,677. The payables and 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, 2016 and 2015, TOT grant revenue represents 66% and 74%, respectively of operating revenues and 21% of accounts payable and 72% of accounts receivables, 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, 2016, monthly rent was \$2,292. In September of 2016, the rent will increase to \$2,417 per month.

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.

The minimum future lease payments are as follows:

Year Ending June 30,	Office	Equipment	Total
2017	\$ 51,218	\$ 7,620	\$ 58,838
2018	27,298	7,620	34,918
2019	22,464	7,620	30,084
2020	22,464	3,175	25,639
2021	22,464	-	22,464
	<u>\$ 145,908</u>	<u>\$ 26,035</u>	<u>\$ 171,943</u>

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

## **Notes to Financial Statements**

June 30, 2016

(with comparative figures for 2015)

### **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, 2016, account balances exceeded FDIC insurance limits by \$57,330. At June 30, 2015, account balances exceeded FDIC insurance limits by \$0.

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 \$10,703 and \$10,274 for the years ended June 30, 2016 and 2015.

### **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, 2016 and 2015, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

### **Note K – Subsequent Event**

The Organization has evaluated subsequent events September 29, 2016 the date which the financial statements were available for issue. Based on the evaluation no adjustments were required in the accompanying 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, 2016 and 2015, and have issued our report thereon dated September 29, 2016, 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  
September 29, 2016

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

**Statement of Functional Expenses**

For the Year Ended June 30, 2016

(with comparative figures for 2015)

	Marketing & Public Relations	Visitor Services	Programs & Events	Management & General	6/30/2016 Total Expenses	6/30/2015 Total Expenses
Advertising	\$ 379,705	\$ -	\$ 1,586	\$ 6,073	\$ 387,364	\$ 356,224
Bad debts	5,590	-	-	-	5,590	(60)
Bank charges	-	19	-	84	103	2,131
Credit card fees	2	20	81	11,405	11,508	10,160
Depreciation	-	-	-	2,408	2,408	1,702
Dues & subscriptions	3,052	270	-	14,167	17,489	2,679
Equipment maintenance	293	3,973	-	2,278	6,543	8,193
Equipment rental	6,250	5,416	-	3,266	14,932	162
Event supplies	2,344	50	985	108	3,487	-
Government relations	-	-	-	1,000	1,000	-
Insurance	20,835	20,764	-	14,522	56,121	60,558
Interest	-	-	-	442	442	922
Licenses & permits	682	-	553	547	1,782	-
Marketing	47,925	-	-	125	48,050	64,005
Meals & entertainment	3,101	-	314	1,686	5,100	-
Meetings & events	3,502	324	8,021	2,915	14,762	10,557
Miscellaneous	53	-	-	(145)	(92)	5,123
Office supplies	1,069	4,002	107	2,803	7,981	8,730
Payroll costs	204,274	129,638	-	144,281	478,194	470,811
Postage & freight	61,857	1,195	289	6,287	69,628	32,879
Printing & reproduction	99,623	318	496	833	101,271	129,557
Professional development	-	-	-	879	879	41,565
Professional services	4,200	-	-	70,478	74,678	46,960
Rent	13,625	24,493	-	13,625	51,743	43,785
Repairs & maintenance	-	528	-	3,705	4,233	-
Special event	10,505	-	173,642	595	184,742	215,937
Storage	6,097	-	-	-	6,097	7,835
Telephone	3,120	3,659	-	2,438	9,217	3,433
Travel	26,427	161	4,295	9,827	40,709	7,748
Utilities	531	1,569	-	1,676	3,776	4,471
Website	96,650	3,675	-	238	100,562	32,374
<b>Total Expenses</b>	<b>\$ 1,001,311</b>	<b>\$ 200,074</b>	<b>\$ 190,369</b>	<b>\$ 318,546</b>	<b>\$ 1,710,300</b>	<b>\$ 1,568,441</b>

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