

**COSTA MESA CONFERENCE & VISITOR BUREAU**

**FINANCIAL STATEMENTS**

**For The Years Ended June 30, 2015 and 2014**

*with*

**INDEPENDENT AUDITORS' REPORT THEREON**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Costa Mesa Conference & Visitor Bureau

We have audited the accompanying financial statements of Costa Mesa Conference & Visitor Bureau (the "Organization"), which comprise the statements of assets, liabilities and net assets – cash basis as of June 30, 2015 and 2014, and the related statements of revenue and expenses – cash basis for the years 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 the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

### *Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 Organization'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 Organization'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 assets, liabilities and net assets of Costa Mesa Conference & Visitor Bureau as of June 30, 2015 and 2014, and its revenue and expenses for the years then ended in accordance with the cash basis of accounting described in Note 1.

*Basis of Accounting*

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*KMJ Corbin & Company LLP*

KMJ Corbin & Company LLP

Costa Mesa, California  
November 3, 2015

**COSTA MESA CONFERENCE & VISITOR BUREAU**

**STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS**

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	<b>June 30,</b>	
	<u><b>2015</b></u>	<u><b>2014</b></u>
<b>ASSETS</b>		
Cash	\$ <u>1,385,046</u>	\$ <u>1,079,582</u>
Total assets	\$ <u>1,385,046</u>	\$ <u>1,079,582</u>
<b>LIABILITIES</b>		
Current liabilities	\$ _____ -	\$ _____ -
Total liabilities	-	-
<b>NET ASSETS</b>		
Unrestricted	<u>1,385,046</u>	<u>1,079,582</u>
Total liabilities and net assets	<u>\$ 1,385,046</u>	<u>\$ 1,079,582</u>

**COSTA MESA CONFERENCE & VISITOR BUREAU**

**STATEMENTS OF REVENUE AND EXPENSES - CASH BASIS**

**For The Years Ended June 30, 2015 and 2014**

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
Revenues:		
Business improvement area assessment, net of handling fees	\$ 2,424,202	\$ 2,316,282
Interest income	<u>2,695</u>	<u>2,660</u>
Net revenues	<u>2,426,897</u>	<u>2,318,942</u>
Expenses:		
Hotel marketing funds	336,347	356,293
Marketing	1,087,512	1,286,108
Salaries and benefits	346,850	372,452
General and administrative	<u>350,724</u>	<u>541,339</u>
Total expenses	<u>2,121,433</u>	<u>2,556,192</u>
Increase (decrease) in unrestricted net assets	305,464	(237,250)
Unrestricted net assets, beginning of year	<u>1,079,582</u>	<u>1,316,832</u>
Unrestricted net assets, end of year	<u>\$ 1,385,046</u>	<u>\$ 1,079,582</u>

*See accompanying notes to financial statements*

# COSTA MESA CONFERENCE & VISITOR BUREAU

## NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2015 and 2014

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### NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Activities

The Costa Mesa Conference & Visitor Bureau (the “Organization”) is a California non-profit corporation formed in 1995 to market the City of Costa Mesa (the “City”) as a leisure transient travel destination.

The vision of the Organization is to be a destination-marketing leader by supporting and selling the City’s distinct visitor brand experiences and advocating community tourism benefits. The Organization’s mission is to enhance and promote the City’s brand experience, thus increasing visitor spending for industry and community economic viability, sustainability and quality of life.

The Organization is funded by the eleven member hotels that comprise the Business Improvement Area (“BIA”) established by the City. The member hotels are Costa Mesa Marriott, Hilton Costa Mesa, Holiday Inn Express & Suites, Residence Inn by Marriott, Avenue of the Arts Wyndham Hotel, Ayres Hotel & Suites, The Westin South Coast Plaza, Ramada Inn and Suites Costa Mesa, Best Western Plus Newport Mesa Inn, Crowne Plaza, and BLVD Hotel.

California state law provides that BIA assessments are to be used for the purposes specified in the authorizing resolution that established the assessment. The City’s resolution that established the BIA stated that its purpose is to promote tourism to the City and to fund programs and activities that benefit the hotel and motel business within the City.

#### Basis of Presentation

The accompanying financial statements have been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Consequently, revenues are recognized when received rather than when earned, and expenses are recognized when disbursed rather than when the obligation is incurred.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. As of and for the years ended June 30, 2015 and 2014, the Organization had no temporarily or permanently restricted net assets.

The Organization incurred expenses related to program activities of approximately \$1,741,000, and \$1,976,000, respectively, for the years ended June 30, 2015 and 2014.

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**NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Tax Status

The Organization qualifies as a tax-exempt organization for Federal income taxes under Section 501(c)(6) of the United States Internal Revenue Code and for California state income taxes under Section 23701(d) of the California Revenue and Taxation Code; therefore, the Organization has no provision for federal or state income taxes. During the years ended June 30, 2015 and 2014, the Organization had no unrelated business income.

The Organization annually evaluates tax positions as part of the preparation of its exempt tax return. This process includes an analysis of whether tax positions the Organization takes with regard to a particular item of income or deduction would meet the definition of an uncertain tax position under current accounting guidance. The Organization believes its tax positions are appropriate based on current facts and circumstances. The Organization's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. At June 30, 2015 and 2014, the Organization did not have any unrecognized tax benefits. The Organization is no longer subject to U.S. Federal and state income tax examinations by tax authorities for tax years before 2011.

Use of Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates made by the Organization's management include, but are not limited to the allocation of expenses to program expenses. Actual results could differ from those estimates.

Revenue

The City levies a special assessment on the eleven member hotels in the BIA based on the sale of overnight guest room stays. For the fiscal years ended June 30, 2015 and 2014, the levy was three percent (3%). The levy is transmitted by the hotels to the City and is remitted to the Organization, net of a one percent (1%) handling fee. The levy is 99.9% of the net revenues of the Organization for fiscal years ended June 30, 2015 and 2014.

COSTA MESA CONFERENCE & VISITOR BUREAU

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2015 and 2014

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**NOTE 2 – CASH**

Cash consists of demand deposits at the following institutions as of June 30:

	<u>2015</u>	<u>2014</u>
American Securities Bank	\$ 328,039	\$ 361,996
Pacific Premier Bank	<u>1,057,007</u>	<u>717,586</u>
	<u>\$ 1,385,046</u>	<u>\$ 1,079,582</u>

The Organization maintains cash deposits at institutions which are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. At various times during 2015 and 2014, the Organization maintained balances in excess of FDIC limits. The Organization periodically reviews the quality of the financial institutions it has deposits with to minimize risk of loss.

**NOTE 3 – HOTEL MARKETING FUNDS EXPENSE**

During the fiscal years ended June 30, 2015 and 2014, the Organization allocated \$150 per room to each BIA member hotel for hotel-specific marketing purposes. The allocation subsidizes hotel-specific advertising and marketing efforts that also include the Organization’s logo. Vendor invoices are either paid by the hotel and reimbursed by the Organization or paid directly by the Organization.

Samples of advertising and marketing material must be submitted showing the Organization’s logo for reimbursement. For advertising or marketing material where the Organization’s logo cannot be used, the Organization requests that the hotel partners use the following verbiage, “*Hotel partner name* is a proud partner of Costa Mesa Conference and Visitor Bureau.” Hotel marketing funds expense totaled \$336,347 and \$356,293 for fiscal years ended June 30, 2015 and 2014, respectively. If the hotels do not use all their allocated funds, the funds revert back to the Organization.

**NOTE 4 – MARKETING EXPENSE**

The Organization incurs marketing expenses related to its mission of promoting the City as a tourist destination. For the fiscal years ended June 30, 2015 and 2014, marketing expenses totaled \$1,087,512 and \$1,286,108, respectively.

Marketing expenses include video and photography production, community sponsorships, brochures, print advertising, various promotions, and tradeshow costs. All of these endeavors promote tourism in the City.

## NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2015 and 2014

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**Guarantees and Indemnities

The Organization has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. The Organization indemnifies its directors, officers, employees and agents, as permitted under the laws of the State of California. In connection with its facility lease, the Organization has indemnified its lessor for certain claims arising from the use of the facilities. The duration of the guarantees and indemnities varies, and is generally tied to the life of the agreement. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Organization could be obligated to make. Historically, the Organization has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities and guarantees in the accompanying statements of assets, liabilities and net assets – cash basis.

Operating Lease

The Organization has a lease for office space through July 31, 2016. The Organization also has a lease for a color copier through October 31, 2020. Total rent expense for fiscal years ended June 30, 2015 and 2014 totaled \$37,800 and \$35,500, respectively.

Future minimum lease obligations as of June 30, 2015 consist of the following:

<u>Years Ending June 30,</u>	
2016	\$ 43,500
2017	5,300
2018	1,800
2019	1,800
2020	1,800
Thereafter	<u>300</u>
	<u>\$ 54,500</u>

**NOTE 5 – COMMITMENTS AND CONTINGENCIES, continued**

Litigation

In the ordinary course of business, the Organization may face various claims brought by third parties and they may, from time to time, make claims or take legal actions to assert their rights. Any of these claims could subject the Organization to costly litigation and, while the Organization generally believes that it has adequate insurance to cover many different types of potential liabilities, its insurance carriers may deny coverage or its policy limits may be inadequate to fully satisfy any damage awards or settlements.

If this were to happen, the payment of any such awards could have a material adverse effect on the Organization's operations and financial position. Additionally, any such claims, whether or not successful, could damage the Organization's reputation and business.

The Organization had previously initiated a lawsuit against a former vendor during the fiscal year ended June 30, 2013. The Organization believed the vendor had breached a contract with the Organization by not performing services as requested. On October 3, 2014, the lawsuit concluded, resulting in the Organization losing the lawsuit against the vendor. No settlement payments were required from the Organization other than to reimburse the vendor for trial fees of approximately \$29,000 which is included in general and administrative expenses in the accompanying statement of revenue and expenses – cash basis for the year ended June 30, 2014.

On July 22, 2014, the vendor that won the lawsuit filed a complaint against the Organization citing (1) malicious prosecution, (2) abuse of process, (3) defamation, (4) breach of the covenant of good faith and fair dealing, and (5) violation of Business and Professions Code 17200.

On November 25, 2014, pursuant to a ruling by the Superior Court of the State of California, County of Orange, the malicious prosecution claim is still being evaluated, but the remaining four claims were dismissed. On May 26, 2015, the Organization filed a motion to reconsider in regards to the ruling.

Management believes it might have to incur substantial legal expenses in its defense if the litigation process continues. However, litigation is inherently uncertain and, as such, the ultimate outcome of this matter is not presently determinable.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2015 and 2014

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**NOTE 6 – EMPLOYEE BENEFIT PLAN**

The Organization sponsors a defined contribution salary deferral plan (the “Plan”) covering all employees. Beginning in April 2012, the Board of Directors has agreed to match Plan contributions dollar for dollar up to 3% of the eligible employee’s salary. During the fiscal years ended June 30, 2015 and 2014, matching contributions amounted to \$7,193 and \$8,536, respectively, which are recorded in salaries and benefits in the accompanying statements of revenue and expenses – cash basis.

**NOTE 7 – RISKS AND UNCERTAINTIES**

Due to the nature of the Organization’s business, the Organization’s revenue is entirely dependent on the City, which established the BIA and collects the BIA levy from the eleven hotels in Costa Mesa (see Note 1). A cancellation of the BIA would adversely and severely impact the Organization’s financial position.

**NOTE 8 – SUBSEQUENT EVENTS**

Management has evaluated and determined that no events have occurred through November 3, 2015, the date that the financial statements were issued, which would require inclusion or disclosure in its financial statements.