VISIT HUNTINGTON BEACH

FINANCIAL STATEMENTS

SEPTEMBER 30, 2014 AND 2013

(With Independent Auditors' Report Thereon)

VISIT HUNTINGTON BEACH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Visit Huntington Beach
Huntington Beach, California

We have audited the accompanying financial statements of Visit Huntington Beach (VHB) (a nonprofit organization), which comprise the statements of financial position as of September 30, 2014 and 2013, and the related statements of activities and cash flows 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VHB as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Laguna Hills, California
August 30, 2015

VISIT HUNTINGTON BEACH

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2014 AND 2013

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 533,999	$ 668,170
Investments	50,313	100,254
Accounts receivable	552,737	497,432
Prepaid items	37,697	33,745
Total Current Assets	1,174,746	1,299,601
Property and equipment, net	44,396	57,258
Other assets:		
Intangible assets, net of accumulated amortization of $23,986 and $20,432, respectively	29,315	32,868
Deposits	8,235	1,815
Total Other Assets	37,550	34,683
Total Assets	$ 1,256,692	$ 1,391,542
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 39,910	$ 110,287
Accrued liabilities	117,422	198,349
Compensated absences payable	23,432	19,860
Current portion of capital lease	1,701	7,029
Total Current Liabilities	182,465	335,525
Long-term liabilities:		
Capital lease, net of current portion	(1,701)	-
Total Long-term Liabilities	(1,701)	-
Total Liabilities	180,764	335,525
NET ASSETS		
Unrestricted	1,075,928	1,056,017
Total Liabilities and Net Assets	$ 1,256,692	$ 1,391,542

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

VISIT HUNTINGTON BEACH

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Revenues:		
Public Source Revenue - Transient Occupancy Tax (TOT)	$ 843,104	$ 762,826
Business Improvement District (BID) assessments	1,686,221	1,518,812
Other revenues	813	450
Total Revenues	2,530,138	2,282,088
Expenses:		
Payroll:		
Salaries	850,712	789,451
Payroll taxes	67,966	52,647
Employee benefits	136,308	121,724
Total Payroll	1,054,986	963,822
Other operating:		
Advertising	837,943	1,059,424
Amortization	3,554	3,553
Travel and auto	39,549	36,271
Dues and subscriptions	16,625	38,654
Fulfillment (includes postage and brochure distribution services)	35,696	35,745
Accounting and legal fees	87,184	92,194
Insurance	17,198	20,025
Rent	144,841	41,922
Office expense	31,885	32,968
Depreciation	16,748	17,910
Research	15,675	-
Telecommunications	24,157	19,023
Trade shows	124,943	104,053
Outside services	21,439	21,858
Repairs and maintenance	19,165	15,528
Miscellaneous	21,037	33,200
Total Other Operating	1,457,639	1,572,328
Total Expenses	2,512,625	2,536,150
Operating income	17,513	(254,062)
Non-operating revenues (expenses)		
Interest income	698	979
Interest expense	1,701	(1,701)
Total Non-Operating Revenues (Expenses)	2,399	(722)
Changes in Net Assets	19,912	(254,784)
Net Assets, Beginning of Year	1,056,016	1,310,801
Net Assets, End of Year	$ 1,075,928	$ 1,056,017

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

VISIT HUNTINGTON BEACH

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers and grantors	$ 2,474,834	$ 2,187,040
Cash payment to suppliers for goods and services	(1,511,668)	(1,485,452)
Cash payment to employees for services	(1,132,341)	(819,292)
Net cash provided by (used for) operating activities	(169,175)	(117,704)
Cash flows from investing activities:		
Certificates of deposit maturities	100,254	101,979
Certificates of deposit purchases	(50,313)	(100,254)
Deposits paid	(6,420)	-
Interest income	698	979
Net cash provided by investing activities	44,219	2,704
Cash flows from capital and financing activities:		
Purchases of capital assets	(3,886)	(4,882)
Principal and interest on capital lease	(5,329)	(8,823)
Net cash used for capital and financing activities	(9,215)	(13,705)
Net increase (decrease) in cash and cash equivalents	(134,171)	(128,705)
Cash and cash equivalents, beginning of year	668,170	796,875
Cash and cash equivalents, end of year	$ 533,999	$ 668,170

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

VISIT HUNTINGTON BEACH

STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Net cash provided by (used for) operating activities:		
Operating income (loss)	$ 17,513	$ (254,062)
Adjustments to reconcile operating income to net cash provide by (used for) operating activities:		
Depreciation	16,748	17,910
Amortization	3,554	3,553
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(55,305)	267,722
(Increase) decrease in prepaid items	(3,952)	(48,856)
Increase (decrease) in accounts payable	(70,377)	(55,888)
Increase (decrease) in accrued liabilities	(80,927)	(13,620)
Increase (decrease) in compensated absences payable	3,572	(301)
Total adjustments	(186,687)	170,520
Net cash provided by (used for) operating activities	$ (169,174)	$ (83,542)

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

NOTE 1 – ORGANIZATION

The Huntington Beach Marketing and Visitors Bureau (the Bureau), a not-for-profit mutual benefit corporation, was formed on December 15, 1988. The Bureau was established to promote and attract visitors to the City of Huntington Beach (the City). The Bureau is supported primarily through an assessment on hotel/motel revenues levied by the City on behalf of the Huntington Beach Hotel/Motel Business Improvement District (BID), which consists of all of the City's hotels and motels and is administered by the Bureau. The BID assessment was equal to 2% during the fiscal year. On September 15, 2014, the City of Huntington Beach raised the Business Improvement District (BID) tax assessment from 2% to 3% on hotel bed-stays. This policy goes into effect on October 1, 2014. The Bureau also has a recurring annual contract with the City from which it receives an amount equivalent to 10% of the City's Transient Occupancy Tax (TOT) collections each month. The BID assessment revenue represents 66.6% and 66.5% of operating revenues, and TOT revenues from the City represent 33.3% and 33.4% of operating revenues, for the years ended September 30, 2014 and 2013, respectively.

On August 8, 2013, the Bureau amended the Articles of Incorporation of the Corporation to change the name of the Bureau to Visit Huntington Beach (VHB) to reflect the purpose of the Bureau. The Articles were recorded by the California Secretary of State on October 16, 2013.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Statement Presentation

The financial statements of VHB 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.

(b) 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, VHB 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, VHB is required to present a statement of cash flows. VHB does not use fund accounting. Revenues are recognized when earned, and expenses are recognized when incurred in accordance with the accrual basis of accounting.

(c) Tax Exempt Status

VHB is a California corporation which has been granted exemption from Federal income taxes under Section 50l(c)(6) of the Internal Revenue Code, and from California franchise taxes under the General Nonprofit Corporation Law of the State of California. However, VHB is responsible for Federal and California income taxes on unrelated business income, if any. VHB follows FASB ASC Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the effects from an uncertain tax position can be recognized in the financial statements on in, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. VHB has determined there is no impact on the financial statements for the years ended September 30, 2014 and 2013. Therefore, no provision for income taxes has been made in the accompanying financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Income tax returns for 2010 and forward may be audited by regulatory agencies; however, VHB is not aware of any such actions at this time.

(d) Cash and Cash Equivalents

VHB's cash and cash equivalents are stated at cost and consist of demand deposits, money market and high yield savings accounts, petty cash, and certificates of deposit with maturities of three months or less at the time of purchase.

As of September 30, 2014 and 2013, VHB's demand deposits and certificates of deposit balances were not in excess of federally insured limits. However, demand deposits and certificates of deposit balances were occasionally in excess of federally insured limits during the years ended September 30, 2014 and 2013.

(e) Fair Value of Investments

The carrying amounts of cash and cash equivalents, accounts receivable, prepaid items, accounts payable and accrued liabilities at September 30, 2014 and 2013, approximate fair value because of the short term maturity of these financial instruments.

(f) 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 4.

(g) Property and Equipment

All property and equipment are valued at cost. Donated assets are valued at the estimated fair market value on the date received. VHB has set the capitalization threshold for reporting property and equipment at $500.

Depreciation of property and equipment was provided using the straight-line method over the following estimated useful lives:

Furniture	7-10 years
Office Equipment	3-7 years
Leasehold Improvements	3 years

(h) Intangibles and Amortization

VHB purchased the website domain name visithuntingtonbeach.com, which was put into service in January 2008. This intangible asset is being amortized using the straight-line method over a useful life of 15 years. The carrying amount of the domain name is $53,300 with accumulated amortization of $23,986 and $20,432 for the fiscal years ended September 30, 2014, and 2013, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

(i) Compensated Absences Payable

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

(j) Accounts Receivable

VHB carries a receivable balance for City grant revenues and BID income earned for the months of August and September equal to the related receipts collected subsequent to year end, due to the nature and timing of these revenue sources. As a result, no allowance for doubtful accounts is reported in the financial statements.

(k) Net Assets

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

VHB did not have temporarily or permanently restricted net assets in the years ended September 30, 2014 or 2013. All net assets reported represent unrestricted resources over which the VHB. Board has discretionary control.

(l) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(m) Changes in Accounting Principles

In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows: Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* (ASU 2012-05). ASU 2012-05 eliminates the diversity in practice about the presentation of the cash receipts from the sale of donated financial assets in the statement of cash flows as either an investing activity or noninvesting (operating or financing) activity. ASU 2012-05 is effective for fiscal years beginning after June 15, 2013. The adoption of ASU 2012-05 had no effect on the financial statements.

In February 2012, the FASB issued ASU 2013-04, *Liabilities: Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* (ASU 2013-04). ASU 2013-04 amends Accounting Standards Codification (ASC) 405, *Liabilities*, to improve financial reporting for users of financial statements by increasing comparability among the financial statements of entities with obligations including debt agreements, other contractual obligations, and settled litigation and judicial rulings. In addition, the guidance reduces complexity and costs for preparers of financial statements by providing a specific recognition and measurement for those liabilities. ASU 2013-04 is effective for fiscal years ending after December 15, 2014. The Bureau is evaluating the effect this guidance will have on its financial statement disclosures.

NOTE 3 – CASH AND CASH EQUIVALENTS

As of September 30, 2014 and 2013, cash and cash equivalents consisted of the following:

	2014	2013
Demand deposits	$ 430,993	$ 515,215
High yield savings	102,552	100,254
Petty cash	454	454
Certificates of deposit, original maturities 3 months or less	-	50,180
Total	$ 533,999	$ 666,103

NOTE 4 – INVESTMENTS

VHB 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: Inputs to the valuation methodology represents unadjusted quoted prices for identical assets or liabilities in active markets that the bureau has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 4 – INVESTMENTS, (CONTINUED)

As of September 30, 2014 and 2013, investments consisted of the following, which are considered Level 1 in the fair value hierarchy:

	2014	2013
Certificates of deposit, original maturities greater than 3 months	$ 50,313	$ 102,321

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2014:

	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014
Furniture and equipment	$ 94,800	$ 3,886	$ (2,733)	$ 95,953
Leasehold improvements	24,285	-	(9,311)	14,974
Total Property and Equipment	119,085	3,886	(12,044)	110,927
Less: accumulated depreciation	(61,827)	(16,748)	12,044	(66,531)
Total Property and Equipment, Net	$ 57,258	$ (12,862)	$ -	$ 44,396

Property and equipment consisted of the following at September 30, 2013:

	Balance October 1, 2012	Additions	Deletions	Balance September 30, 2013
Furniture and equipment	$ 92,418	$ 2,382	$ -	$ 94,800
Leasehold improvements	21,785	2,500	-	24,285
Total Property and Equipment	114,203	4,882	-	119,085
Less: accumulated depreciation	(43,917)	(17,910)	-	(61,827)
Total Property and Equipment, Net	$ 70,286	$ (13,028)	$ -	$ 57,258

NOTE 6 – LEASE COMMITMENTS

Operating Leases

On August 30, 2013, the Bureau signed a lease agreement with JT Development Co., LLP, effective January 1, 2014, to relocate the administrative office to 301 N. Main Street, Suite 212, Huntington Beach, California 92648. The annual amount of the lease is $98,820, with monthly payments of $8,235 due on the 1st of every month. The lease amount is subject to an annual increase based on the comparison index with a minimum increase of 3% and a maximum increase of 6%. The initial lease term is for 5 years, expiring on December 31, 2018. The Bureau paid a deposit of $8,235 that is fully refundable provided the Bureau meets the conditions in the agreement. The monthly payments at September 30, 2014 and 2013 were $8,235, and $2,466, respectively.

In November 2010, the Bureau entered into an operating lease for a new copy machine. The new lease includes a provision, whereby the lessor paid off the remaining payments due on the previous lease for the old copy machine. The new lease includes 60 payments of $464 per month, including taxes, beginning in February 2011. The lease terminates February 2016.

Future minimum rental under the leases are as follows:

Year Ending September 30,	Office	Equipment	Total
2015	$ 121,055	$ 5,568	$ 126,623
2016	124,687	1,856	126,543
2017	128,428	-	128,428
2018	132,281	-	132,281
2019	27,807	-	27,807
	$ 534,258	$ 7,424	$ 541,682

Lease costs for the office space include utilities, maintenance, janitorial and parking expenses. The Bureau also leases a kiosk and storage space on a month-to-month basis. Total office, kiosk and storage lease expense was $144,841 and $41,922 in 2014 and 2013, respectively.

NOTE 7 – EMPLOYEE RETIREMENTS PLAN

Employees are eligible to enroll in the Bureau's 457(b) salary deferral plan upon the first day of employment and to make optional contributions to the plan up to the limit permitted by federal and state law. Employee contributions are 100% vested.

As of January 1, 2006, the Bureau implemented a 401(k) employee retirement plan covering all full-time employees. Under the program, the Bureau contributes 4% of all employee compensation, starting the first day of employment, without a waiting period. In addition, the Bureau matches 100% of elective employee contributions up to 4% of compensation, for a total potential compensation of 8% of salary. Employee contributions are 100% vested; Bureau contributions vest over a 4-year period, as follows:

1 year of service	25 % vested
2 years of service	50% vested
3 years of service	75% vested
4 years of service	100% vested

NOTE 8 – SUBSEQUENT EVENTS

VHB is completing an effort to raise the Business Improvement District (BID) tax revenue from 2% to 3% on hotel bed-stays. The measure was adopted by the City of Huntington Beach City Council on September 15, 2014, and went into effect on October 1, 2014. An estimate of the impact cannot be made at this time.

On August 10, 2014, the Bureau amended their by-laws to change the number of Board members from 20 to be no less than 20 and no more than 23 Directors. The by-laws were amended by a unanimous vote of the current Board members and will be effective on October 1, 2014.