

ATTACHMENT 2

**TRAVEL COSTA MESA
(A Non-Profit Organization)**

FINANCIAL STATEMENTS

For The Years Ended June 30, 2021 and 2020

with

INDEPENDENT AUDITORS' REPORT THEREON

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Travel Costa Mesa

We have audited the accompanying financial statements of Travel Costa Mesa (the "Organization"), which comprise the statements of assets, liabilities and net assets – cash basis as of June 30, 2021 and 2020, 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 Travel Costa Mesa as of June 30, 2021 and 2020, 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

Irvine, California
January 12, 2022

TRAVEL COSTA MESA
(A Non-Profit Organization)

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS

	June 30,	
	2021	2020
ASSETS		
Cash	\$ <u>2,219,851</u>	\$ <u>2,166,138</u>
LIABILITIES		
Current liabilities	\$ -	\$ -
Commitments and contingencies		
NET ASSETS		
Net assets without donor restrictions	<u>2,219,851</u>	<u>2,166,138</u>
Total liabilities and net assets	\$ <u>2,219,851</u>	\$ <u>2,166,138</u>

See accompanying notes to financial statements

TRAVEL COSTA MESA
(A Non-Profit Organization)

STATEMENTS OF REVENUE AND EXPENSES - CASH BASIS

	For The Years Ended June 30,	
	2021	2020
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and other income:		
Business improvement area assessment, net of handling fees	\$ 962,654	\$ 2,300,254
PPP grant income	88,050	-
Employee retention credit	42,000	-
California small nonprofit business grant	25,000	-
Interest income	<u>2,330</u>	<u>2,657</u>
Net revenues and other income	<u>1,120,034</u>	<u>2,302,911</u>
Expenses:		
Hotel marketing funds	1,999	222,851
Marketing	323,350	839,435
Salaries and benefits	568,544	552,981
ART shuttle bus	-	10,500
General and administrative	<u>172,428</u>	<u>178,738</u>
Total expenses	<u>1,066,321</u>	<u>1,804,505</u>
Increase in net assets without donor restrictions	53,713	498,406
Net assets without donor restrictions, beginning of year	<u>2,166,138</u>	<u>1,667,732</u>
Net assets without donor restrictions, end of year	<u>\$ 2,219,851</u>	<u>\$ 2,166,138</u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2021 and 2020

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

Nature of Activities

Travel Costa Mesa (the “Organization”) is a California non-profit corporation formed in 1995 to market the City of Costa Mesa (the “City”) as a leisure travel and group business 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, A Tribute Portfolio Hotel, Ayres Hotel, The Westin South Coast Plaza, Ramada Inn and Suites Costa Mesa, Best Western Plus Newport Mesa Inn, Crowne Plaza, and OC Hotel Costa Mesa.

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. Accordingly, net assets and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations. These assets are available to support the Organization’s general activities and operations at the discretion of the Board of Directors.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2021 and 2020

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

With donor restrictions - Net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

As of and for the years ended June 30, 2021 and 2020, the Organization had no net assets with donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

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, 2021 and 2020, 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, 2021 and 2020, 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 2017.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2021 and 2020

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

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.

Revenues and Other Income

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, 2021 and 2020, 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 net levy is 99.9% of the net revenues of the Organization for fiscal years ended June 30, 2021 and 2020, respectively.

Other income amounts received in the year ended June 30, 2021 consist of a Paycheck Protection Program (“PPP”) grant (see Note 7) totaling \$88,050, a California small nonprofit grant totaling \$25,000, and an employee retention credit amount received from the Internal Revenue Service totaling \$42,000. Such amounts are not conditional and have therefore been recorded as income.

Allocated Expenses

The costs of providing program activities and supporting services have been summarized on a functional basis in Note 6. The Organization incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, occupancy or estimates of time and effort incurred by personnel.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2021 and 2020

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 provides additional guidance to clarify the principles for recognizing revenue. The standard and subsequent amendments are intended to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide more useful information to users through improved disclosure requirements, and simplify the preparation of financial statements. The Organization adopted this standard on July 1, 2020 with no impact on the Organization’s financial statements or related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02, as amended, is effective for the Organization for fiscal year 2023. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY

At June 30, 2021, the Organization has \$2,219,851 of financial assets available within one year of the date of the statement of assets, liabilities and net assets – cash basis to meet cash needs for general expenditures, all of which consist of cash. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of assets, liabilities and net assets – cash basis. The Organization has a goal to maintain financial assets, which consist of cash, on hand to meet twelve months of normal operating expenses. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Funding for the Organization is dependent on the hotel room nights booked in the City each year and the subsequent portion of the levy that is allocated through the City to the Organization. Annual revenue fluctuates depending on annual visitors to the City. As a result, the Organization closely monitors the monthly projected and received revenue to determine if any change needs to be made to budgeted expenditures.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2021 and 2020

NOTE 2 – LIQUIDITY AND AVAILABILITY, continued

In December 2019, a novel strain of coronavirus disease (“COVID-19”) was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The extent of COVID-19’s effect on the Organization’s operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. The Organization is currently analyzing the potential impacts to all of its business segments. At this time, it is not possible to determine the magnitude of the overall impact of COVID-19 on the Organization. However, it could have a material adverse effect on the Organization’s financial condition, liquidity and results of operations. In the short term, one of the impacts of the pandemic is that the Organization’s revenues have declined, but the Organization cannot predict whether this decline is temporary or not.

During the years ended June 30, 2021 and 2020, the Organization took certain cost cutting measures including suspending marketing efforts, reducing other expenses, and reducing payroll through pay cuts. The Organization believes these measures, along with its existing cash, will be sufficient to cover its cash flow requirements for at least the next twelve months from the date of issuance of these financial statements (see Note 3). However, there can be no assurance that the Organization will not use its existing capital resources sooner than currently expected.

NOTE 3 – CASH

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

	<u>2021</u>	<u>2020</u>
Citizens Business Bank	\$ 639,346	\$ 951,262
Pacific Premier Bank	<u>1,580,505</u>	<u>1,214,876</u>
	<u>\$ 2,219,851</u>	<u>\$ 2,166,138</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 2021 and 2020, 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.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2021 and 2020

NOTE 4 – HOTEL MARKETING FUNDS EXPENSE

During portions of each of the fiscal years ended June 30, 2021 and 2020, the Organization allocated \$200 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 Travel Costa Mesa." During the last quarter of the year ended June 30, 2020 the Organization suspended all hotel marketing funds in a cost saving effort as a result of COVID-19; such funds were reinstated as of June 17, 2021. Hotel marketing funds expense totaled \$1,999 and \$222,851 for fiscal years ended June 30, 2021 and 2020, respectively. The fiscal 2021 hotel marketing funds were paid from the Organization's bank reserves, not from the operating bank account. If the hotels do not use all their allocated funds, the funds revert to the Organization.

NOTE 5 – 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, 2021 and 2020, marketing expenses totaled \$323,350 and \$839,435, respectively.

Marketing expenses include online marketing, video and photography production, community sponsorships, brochures, print advertising, various promotions, and tradeshow costs.

TRAVEL COSTA MESA
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2021 and 2020

NOTE 6 – STATEMENT OF FUNCTIONAL EXPENSES

The statements of functional expenses for the years ended June 30 are as follows:

	2021			2020
	<u>Program Activities</u>	<u>General and Administrative</u>	<u>Total</u>	<u>Total</u> (Summarized)
Salaries and benefits	\$ 477,114	\$ 91,430	\$ 568,544	\$ 552,981
Marketing	32,017	-	32,017	145,281
ART shuttle bus	-	-	-	10,500
Hotel marketing funds	1,999	-	1,999	222,851
Online marketing	291,333	-	291,333	694,154
Office lease	70,025	13,825	83,850	70,981
Travel, meetings, conferences and mileage	-	2,534	2,534	31,372
Accounting and fees	-	12,030	12,030	11,658
Insurance	-	20,314	20,314	15,027
Dues and subscriptions	-	33,202	33,202	24,300
Office supplies	-	942	942	5,997
Telephone and internet	13,873	5,154	19,027	14,902
Professional services	-	-	-	1,879
Recruiting services	-	-	-	1,580
Bank charges	-	70	70	79
Filing fee and state assessment	-	151	151	258
Parking fees	-	-	-	183
Postage	-	308	308	522
Total functional expenses	\$ <u>886,361</u>	\$ <u>179,960</u>	\$ <u>1,066,321</u>	\$ <u>1,804,505</u>

NOTE 7 – PPP GRANT

On February 22, 2021, the Company entered into a promissory note agreement for \$88,050 with Citizens Business Bank under the PPP, which is administered by the U.S. Small Business Administration (“SBA”) and established as part of the Coronavirus Aid, Relief, and Economic Security Act. This PPP note bore interest at 1.0% per annum and was scheduled to mature in February 2026 with the first six months of interest and principal payments deferred. The amount borrowed under the PPP note was eligible for forgiveness if the Company met certain criteria. At June 30, 2021, the Company believed it was probable that the PPP note would be forgiven, and accordingly, recorded the proceeds from the PPP as government grant revenue of \$88,050. In August 2021, the Company received full forgiveness of the PPP note.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2021 and 2020

NOTE 8 – 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 Leases

The Organization has a lease for office space through October 2024. The Organization also has a lease for a color copier through September 30, 2022. Total rent expense for fiscal years ended June 30, 2021 and 2020 totaled \$83,850 and \$70,981, respectively.

Future minimum lease obligations as of June 30, 2021 consist of the following:

<u>Years Ending</u> <u>June 30,</u>	
2022	\$ 26,600
2023	40,200
2024	41,400
2025	<u>14,200</u>
	<u>\$ 122,400</u>

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.

NOTES TO FINANCIAL STATEMENTS

For The Years Ended June 30, 2021 and 2020

NOTE 8 – COMMITMENTS AND CONTINGENCIES, continued

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.

NOTE 9 – 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 agreed to Safe Harbor contributions of 3% of the eligible employee's salary. During each of the fiscal years ended June 30, 2021 and 2020, Safe Harbor contributions totaled approximately \$12,000, which are recorded in salaries and benefits in the accompanying statements of revenue and expenses – cash basis.

NOTE 10 – RISKS AND UNCERTAINTIES

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

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated and determined that no other events have occurred through January 12, 2022, the date that the financial statements were issued, which would require inclusion or disclosure in its financial statements except as disclosed herein.