TRAVEL COSTA MESA

(A Non-Profit Organization)

FINANCIAL STATEMENTS

For The Years Ended June 30, 2022 and 2021

with

INDEPENDENT AUDITORS' REPORT THEREON

TRAVEL COSTA MESA
(A Non-Profit Organization)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Travel Costa Mesa

Opinion

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, 2022 and 2021, and the related statements of revenue and expenses – cash basis for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets, liabilities, and net assets – cash basis of the Organization as of June 30, 2022 and 2021, and revenue and expenses – cash basis for the years then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter - 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.

Responsibilities of Management 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 and for 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.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

KMJ Corbin & Company LLP

KMJ Corbin & Company LLP

Irvine, California
February 9, 2023

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS

	June 30, 2022	June 30, 2021
ASSETS		
Cash	$ 2,599,536	$ 2,219,851
LIABILITIES		
Current liabilities	$ -	$ -
Commitments and contingencies		
NET ASSETS		
Net assets without donor restrictions	2,599,536	2,219,851
Total liabilities and net assets	$ 2,599,536	$ 2,219,851

STATEMENTS OF REVENUE AND EXPENSES - CASH BASIS

	For The Years Ended June 30,	
	2022	2021
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and other income:		
Business improvement area assessment, net of handling fees	$ 2,375,662	$ 962,654
PPP grant income	-	88,050
Employee retention credit	42,000	42,000
California small nonprofit business grant	-	25,000
Interest income	929	2,330
Net revenues and other income	2,418,591	1,120,034
Expenses:		
Hotel marketing funds	461,058	1,999
Marketing	569,591	323,350
Sales department (CRM, Meetings, Conferences, Tradeshows, Memberships/Dues, Travel, Site Visits, FAMs, Mileage and Parking)	129,581	-
Group incentive program	31,500	-
Salaries and benefits (6 employees)	718,245	568,544
General and administrative	128,931	172,428
Total expenses	2,038,906	1,066,321
Increase in net assets without donor restrictions	379,685	53,713
Net assets without donor restrictions, beginning of year	2,219,851	2,166,138
Net assets without donor restrictions, end of year	$ 2,599,536	$ 2,219,851

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.

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, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, 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 2018.

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, 2022 and 2021, 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% of the net revenues of the Organization for both of the fiscal years ended June 30, 2022 and 2021.

Other income amounts received in the year ended June 30, 2022 consist of an employee retention credit amount received from the Internal Revenue Service totaling $42,000. Such amount is not conditional and has therefore been recorded as income.

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.

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

Recent Accounting Pronouncements

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, 2022, the Organization has $2,599,536 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.

NOTE 3 – CASH

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

	2022	2021
Citizens Business Bank	$ 479,193	$ 639,346
Pacific Premier Bank	2,120,343	1,580,505
	$ 2,599,536	$ 2,219,851

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 2022 and 2021, 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 4 – HOTEL MARKETING FUNDS EXPENSE

During portions of each of the fiscal years ended June 30, 2022 and 2021, 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 fiscal 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 $461,058 and $1,999 for fiscal years ended June 30, 2022 and 2021, 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 – GROUP INCENTIVE PROGRAM

During the fiscal year ended June 30, 2022, the Organization implemented a group incentive program which is used for certain qualifying groups and was created to assist the Organization's partners and the City with group business. The group incentive program funds totaled $31,500 during the year ended June 30, 2022. The fiscal 2022 group incentive funds were paid from the Organization's bank reserves, not from the operating account.

NOTE 6 – 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, 2022 and 2021, marketing expenses totaled $569,591 and $323,350, respectively.

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

NOTE 7 – STATEMENT OF FUNCTIONAL EXPENSES

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

	2022			2021
	Program Activities	General and Administrative	Total	Total (Summarized)
Salaries and benefits	$ 604,148	$ 114,097	$ 718,245	$ 568,544
Marketing	11,798	-	11,798	32,017
Hotel marketing funds	461,058	-	461,058	1,999
Online marketing	557,793	-	557,793	291,333
Sales department (CRM, Meetings, Conferences, Tradeshows, Memberships/Dues, Travel, Site Visits, FAMs, Mileage & Parking)	129,581	-	129,581	-
Group incentive program	31,500	-	31,500	-
Office lease, copier lease & janitorial service	24,273	4,867	29,140	83,850
Travel, meetings, conferences and mileage	20,822	-	20,822	2,534
Accounting and fees	-	10,350	10,350	12,030
Insurance	-	20,642	20,642	20,314
Dues and subscriptions	-	10,065	10,065	33,202
Moving expenses	-	9,344	9,344	-
Office supplies	-	8,185	8,185	942
Telephone, internet and IT	12,539	5,211	17,750	19,027
Banking charges	-	325	325	70
Filing fee and state assessment	-	139	139	151
Postage	-	151	151	308
Parking	-	382	382	-
Recruiting services	-	1,296	1,296	-
Professional services	-	340	340	-
Total functional expenses	$ 1,853,512	$ 185,394	$ 2,038,906	$ 1,066,321

NOTE 8 – PPP GRANT

On February 22, 2021, the Organization 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 Organization met certain criteria. At June 30, 2021, the Organization 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 Organization received full forgiveness of the PPP note.

NOTE 9 – 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.

Employee Deferred Compensation

As a result of declining operations following the outbreak of the coronavirus disease ("COVID-19"), the Organization undertook certain cost cutting measures during the year ended June 30, 2021 which resulted in employee deferred compensation of approximately $95,000. The Organization has agreed to repay these wages back to the employees over a 6-month period, with the final installment paid in September 2022. As of June 30, 2022, the repayment amount due to employees totaled approximately $47,000. No liability has been recorded for this commitment in the accompanying statement of assets, liabilities, and net assets – cash basis as of June 30, 2022.

NOTE 9 – COMMITMENTS AND CONTINGENCIES, continued

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 the fiscal years ended June 30, 2022 and 2021 totaled $29,140 and $83,850, respectively.

Future minimum lease obligations as of June 30, 2022 consist of the following:

Years Ending June 30,	
2023	$ 40,685
2024	41,445
2025	14,160
	$ 96,290

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.

NOTE 10 – 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, 2022 and 2021, Safe Harbor contributions totaled approximately $15,000, which are recorded in salaries and benefits in the accompanying statements of revenue and expenses – cash basis.

NOTE 11 – 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 12 – SUBSEQUENT EVENTS

Management has evaluated and determined that no other events have occurred through February 9, 2023, the date that the financial statements were issued, which would require inclusion or disclosure in its financial statements, except as disclosed herein.