

SONOMA COUNTY TOURISM BUREAU

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2018**

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INTRODUCTORY SECTION

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SONOMA COUNTY TOURISM BUREAU
Financial Statements
For the Year Ended June 30, 2018

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Sonoma County Tourism Bureau
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Sonoma County Tourism Bureau, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior year financial statements were audited by other auditors whose opinion dated February 28, 2018 was unmodified.

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 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 audits 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 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 financial position of the Sonoma County Tourism Bureau as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The Sonoma County Tourism Bureau's June 30, 2017 financial statements were audited by another auditor whose report dated February 28, 2018 was unmodified. In our opinion, summarized comparative information presented herein as of and for the 6-month period ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sonoma County Tourism Bureau's basic financial statements. The Supplemental Information listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Pleasant Hill, California
February 14, 2019

SONOMA COUNTY TOURISM BUREAU
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018
WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets:		
Cash and cash equivalents (Notes 2B and 3)	\$1,537,959	\$1,179,919
Short-term investments (Notes 2F and 3)	3,618,318	3,691,166
Accounts receivable	54,907	29,830
Inventory (Note 2H)	29,031	27,267
Prepaid expenses (Note 2I)	<u>81,254</u>	<u>207,926</u>
Total Current Assets	<u>5,321,469</u>	<u>5,136,108</u>
Non-Current Assets:		
Investments (Notes 2F and 3)	428,177	428,177
Property and equipment, net (Note 4)	150,413	238,801
Deposits	<u>26,122</u>	<u>26,122</u>
Total Non-Current Assets	<u>604,712</u>	<u>693,100</u>
Total Assets	<u><u>\$5,926,181</u></u>	<u><u>\$5,829,208</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable		\$204,182
Due to other organizations (Note 5)	\$250,000	
Accrued expenses	<u>368,159</u>	<u>309,742</u>
Total Liabilities	<u>618,159</u>	<u>513,924</u>
Net Assets (Note 2C):		
Unrestricted undesignated	677,407	1,188,009
Unrestricted board designated (Note 6)	<u>4,630,615</u>	<u>4,127,275</u>
Total Unrestricted Net Assets	<u>5,308,022</u>	<u>5,315,284</u>
Total Liabilities and Net Assets	<u><u>\$5,926,181</u></u>	<u><u>\$5,829,208</u></u>

See accompanying notes to financial statements.

SONOMA COUNTRY TOURISM BUREAU
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2017

	Unrestricted	Totals	
		2018	2017
REVENUE AND SUPPORT			
Contract Revenue:			
BIA Contract	\$5,300,032	\$5,300,032	\$2,044,637
TOT Contract	3,117,576	3,117,576	1,617,850
Rental income and reimbursements	174,879	174,879	89,473
Investment income (Note 3)	44,975	44,975	23,042
CTA fees	34,520	34,520	21,104
	<u>8,671,982</u>	<u>8,671,982</u>	<u>3,796,106</u>
Total Revenue and Support			
EXPENSES			
Program expense	7,055,495	7,055,495	2,885,002
Management and general	1,612,354	1,612,354	828,209
	<u>8,667,849</u>	<u>8,667,849</u>	<u>3,713,211</u>
Total Expenses			
Changes in Net Assets from Operations	4,133	4,133	82,895
OTHER GAINS AND LOSSES			
Loss on Sale of Asset	(11,395)	(11,395)	
	<u>(11,395)</u>	<u>(11,395)</u>	
Total Other Gains and Losses			
Changes in Net Assets	(7,262)	(7,262)	82,895
Net Assets, Beginning of Year	5,315,284	5,315,284	5,232,389
Net Assets, End of Year	<u><u>\$5,308,022</u></u>	<u><u>\$5,308,022</u></u>	<u><u>\$5,315,284</u></u>

See accompanying notes to financial statements.

**SONOMA COUNTY TOURISM BUREAU
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

EXPENSES	Program Expense	Management and General	Total
Advertising (Note 2L)	\$1,161,253		\$1,161,253
Marketing Materials & Distribution	976,711		976,711
Tradeshows & Sales Missions	641,467		641,467
Sales & Marketing Promotions	836,188	\$1,904	838,092
Destination Development	604,172	1,205	605,377
Research & Development	446,289	3,866	450,155
Public Relations	274,318		274,318
Sales & Marketing Tools	62,243		62,243
Labor	1,943,382	685,891	2,629,273
Administrative Expenses	109,472	919,488	1,028,960
Total Expenses	<u>\$7,055,495</u>	<u>\$1,612,354</u>	<u>\$8,667,849</u>

See accompanying notes to financial statements.

SONOMA COUNTY TOURISM BUREAU
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE AMOUNTS FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(\$7,262)	\$82,895
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation and amortization	77,073	50,526
Unrealized losses on investments	4,855	132
Loss on sale of asset	11,395	
(Increase) decrease in operating assets:		
Accounts receivable	(25,077)	1,160,024
Inventory	(1,764)	(22,173)
Prepaid expenses	126,672	(58,813)
Increase (decrease) in operating liabilities:		
Accounts payable	(181,006)	(141,837)
Due to other organizations	250,000	
Accrued expenses	35,241	(24,850)
Net Cash and Cash Equivalents Provided by Operating Activities	<u>290,127</u>	<u>1,045,904</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(35,259)	(8,658)
Disposal of property and equipment	35,179	
Purchase of investments	(1,872,007)	(155,000)
Sale of investments	1,940,000	
Net Cash and Cash Equivalents Provided (Used) by Investing Activities	<u>67,913</u>	<u>(163,658)</u>
Net increase in cash and cash equivalents	<u>358,040</u>	<u>882,246</u>
Cash and Cash Equivalents, Beginning of Year	<u>1,179,919</u>	<u>297,673</u>
Cash and Cash Equivalents, End of Year	<u><u>\$1,537,959</u></u>	<u><u>\$1,179,919</u></u>

See accompanying notes to financial statements.

**SONOMA COUNTY TOURISM BUREAU
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 1 – ORGANIZATION

The Sonoma County Tourism Bureau (the “Organization” or the “SCT”), formed on January 4, 2005, is a Nonprofit Mutual Benefit Corporation formed under the Corporation Laws of the State of California. The Organization’s mission is to promote Sonoma County (“County”) as a premier overnight destination with unique and diverse experiences. SCT has contracts with the County and receives funding from the Sonoma County Tourism Business Improvement Area (BIA) and the County of Sonoma Transient Occupancy Tax (TOT). Sonoma County Tourism Bureau facilitates the services, activities, and programs funded by BIA revenues, which covers all unincorporated areas of Sonoma County, as well as the cities of Cloverdale, Cotati, Petaluma, Rohnert Park, Santa Rosa, Sebastopol, and Windsor. The Organization’s revenues received from TOT must be spent to promote tourism throughout Sonoma County.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

B. *Cash and Cash Equivalents*

For purposes of the statement of cash flows, cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

C. *Classification of Net Assets*

Accounting principles generally accepted in the United States of America require that SCT 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. SCT had no temporarily or permanently restricted net assets as of June 30, 2018. The Organization maintains Board designated funds within unrestricted net assets for various purposes, which are further discussed in Note 6.

D. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions based on Management’s knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support and expenses. The use of management’s estimates primarily relates to the collectability of accounts receivable, valuation reserve on inventory, and depreciable lives of property and equipment. Actual results could differ from these estimates.

SONOMA COUNTY TOURISM BUREAU
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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E. Fair Value Measurement

Fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1: Valuation based on quoted market prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2: Valuations based on pricing inputs that are other than quoted prices in active markets which are either directly or indirectly observable.

Level 3: Valuations are derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques.

F. Investments

Investments are comprised of certificates of deposit, carried at fair value using Level 1 inputs. Interest income is included as an increase in unrestricted net assets since its use is unrestricted.

Investments are held at various banks with varying degrees of insurance. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on investments.

G. Accounts Receivable

Accounts receivable at June 30, 2018 consist of amounts due in the course of conducting business. Based on historical experience, management considered these receivables fully collectible and therefore, no allowance for doubtful accounts has been established. Receivables are written off when management considers them uncollectible.

H. Inventory

Inventory consists of promotional items used primarily at trade shows. Inventory is valued on the first-in, first-out method and is stated at the lower of cost or net realizable value.

I. Prepaid Expenses

Prepaid expenses consist primarily of insurance, rent and trade show fees paid currently for future events.

SONOMA COUNTY TOURISM BUREAU
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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J. Property and Equipment

Acquisitions of property and equipment are recorded at cost. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of the property and equipment are charged to expense as incurred. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of activities. Depreciation is provided over the estimate useful life of each class, ranging from 2 to 10 years or the life of the lease, when applicable, of depreciable assets and is computed using the straight-line method. SCT capitalizes all expenditures for property and equipment in excess of \$1,000.

K. Accrued Vacation

Paid time off is available to eligible employees of SCT and is recognized as a liability as it accrues. The liability is included in Accrued Expenses, and the balance as of June 30, 2018 was \$108,791.

L. Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expenses for the year ended June 30, 2018 totaled \$1,161,253.

M. Income Taxes

In letters to SCT, the Internal Revenue Service and California Franchise Tax Board stated that SCT is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code (IRC) and from California bank and corporation taxes under Section 23701(e) of the California Revenue and Taxation Code, respectively. However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption, commonly referred to as unrelated business income.

The Organization determines whether its tax positions are “more-likely-than-not” to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of June 30, 2018, the Organization has reviewed its tax positions and has concluded no reserve for uncertain tax positions is required. The Organization’s exempt organization information returns are subject to review through three years after the date of filing for federal and four years after the date of filing for California.

N. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services based on staff time incurred by employees for various activities. The remaining costs are charged directly to the appropriate functional category.

SONOMA COUNTY TOURISM BUREAU
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Concentration of Credit Risk

At various times during the year ended June 30, 2018, the Organization had deposit amounts with financial institutions in excess of the \$250,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit. SCT had approximately \$1.1 million on deposit in excess of the FDIC insured amount as of June 30, 2018.

NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

Investments stated at fair value as of June 30, 2018 consist of twenty certificates of deposit, with a cost of \$4,052,767 and fair market value of \$4,046,495.

Investment income consists of the following for the year ended June 30, 2018:

Interest income	\$49,830
Unrealized loss on investments	<u>(4,855)</u>
Total Investment Income	<u><u>\$44,975</u></u>

NOTE 4 – PROPERTY AND EQUIPMENT

Major classes of property and equipment are as follows at June 30:

	<u>2018</u>	<u>2017</u>
<i>Depreciable/Amortizable Assets:</i>		
Furniture and fixtures	\$163,450	\$164,168
IT hardware	166,518	164,650
Office Equipment	56,456	64,226
Vehicles		58,466
Software	17,216	17,216
Leasehold Improvements	<u>45,387</u>	<u>45,387</u>
Sub-Total	449,027	514,113
Less: accumulated depreciation	<u>(298,614)</u>	<u>(275,312)</u>
Total Property and Equipment, net	<u><u>\$150,413</u></u>	<u><u>\$238,801</u></u>

Depreciation expense for the year ended June 30, 2018 totaled \$77,073.

SONOMA COUNTY TOURISM BUREAU
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 5 – DUE TO OTHER ORGANIZATIONS
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The contract between SCT and the County included a provision for local tourism enhancement projects, whereby SCT will spend a minimum of \$250,000 in fiscal year 2017-18, and a minimum of \$100,000 in fiscal year 2018-19 to enhance safety, environmental cleanup, promote hospitality professionalization, and improve way-finding signage.

During fiscal year ended June 30, 2018, SCT earmarked \$250,000 to be paid to the following organizations, which is recorded on the Statement of Financial Position as Due to Other Organizations:

Organization	Amount
Healthcare Foundation - Wildfire Mental Health Collaborative	\$50,000
Sonoma Ecology Center	30,000
Friends of Lake Sonoma	25,000
Friends of the Petaluma River	25,000
Sonoma Land Trust	25,000
Russian River Keepers	25,000
Russian River Chamber of Commerce	20,000
California Coastal Trail	10,000
Jack London Park Partners	10,000
Petaluma Visitors Center	10,000
Forestville Chamber of Commerce	10,000
Redwood Coast Chamber & Visitors Center	5,000
Geyserville Chamber of Commerce	5,000
Total Due to Other Organizations	<u><u>\$250,000</u></u>

**SONOMA COUNTY TOURISM BUREAU
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

NOTE 6 – BOARD DESIGNATED UNRESTRICTED NET ASSETS

The Board Designated Funds consist of funds with no donor or legal restrictions, but through Board resolutions, have been set aside for specific purposes. Board Designated Funds consist of the following as of June 30, 2018:

Strategic	\$2,189,823
Catastrophic	1,463,344
Branding Launch	460,000
Airline Attraction	300,000
IT, Furniture & Equipment	108,646
Targeted Promotions	83,802
Research	25,000
	<u>\$4,630,615</u>

NOTE 7 – OPERATING LEASES

On March 23, 2015, the Organization entered into a lease agreement for a new office space commencing April 1, 2016 and terminating March 31, 2021, with a 5-year option to extend. Under the agreement, monthly rent was \$34,407. SCT is also responsible for utilities costs which are paid monthly based on estimates and adjusted to actual annually by the landlord. Upon lease termination, SCT is responsible for disposal costs of all leasehold improvements in the form of cabling, the costs of which are not estimable as of June 30, 2018.

The Organization had two sub-lease agreements with similar not-for-profit organizations, expiring March 31, 2021. Under these agreements, the sub-lessors each pay a monthly rent of \$6,623. Sublease income accounted for approximately 38% of total annual rent and utilities under these agreements.

One of the two sub-lease agreements was canceled effective July 31, 2018. The lease agreement with the landlord was amended to reduce the gross rent to \$27,783, leaving SCT with the same net rent cost as prior to the tenant's departure.

Future minimum rental payments and income are as follows for years ending June 30:

	Rental Payments	Sublease Income	Net Future Rent
2019	\$340,019	\$86,099	\$253,920
2020	333,396	79,476	253,920
2021	250,047	59,607	190,440
Total	<u>\$923,462</u>	<u>\$225,182</u>	<u>\$698,280</u>

SONOMA COUNTY TOURISM BUREAU
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE 8 – DEFINED CONTRIBUTION PLAN

SCT has a 401(k) defined contribution plan that covers all employees and includes safe harbor matching contributions and non-elective contributions. Safe harbor matching contribution eligibility starts after the third month of employment and equals 100% of the employee's salary deferral up to 3% of the employee's compensation, and 50% of the employee's salary deferral between 3-5% of the employee's compensation. The non-elective contribution eligibility starts after one year of employment, given the employee has reached 21 years in age. The Organization's management, at its sole discretion, determines the amount of non-elective contributions to the plan annually. In the event that a participant terminates his or her employment with the Organization prior to the completion of the vesting periods, the non-vested amount attributed to non-elective contributions accumulated in the participant's account is forfeited. Retirement plan expenses for the year ended June 30, 2018 was \$89,874.

NOTE 9 – CONCENTRATION OF INCOME

SCT is funded by an Ordinance dated November 2, 2004, which created the Business Improvement Area (BIA) of Sonoma County. These revenues are a self-assessment of lodging properties within the BIA area. If the Ordinance were discontinued the Organization would be significantly impacted. The risk of loss of support is low, as the Ordinance is supported by the lodging industry itself.

The Organization also receives funds from Transient Occupancy Tax (TOT) which is assessed and collected by the County. Each year, the County Board of Supervisor decides how much of the total TOT to allocate to SCT, to be used specifically to promote tourism within Sonoma County. Should the tax levy cease to exist, the Organization would be significantly impacted.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 14, 2019, the date that the financial statements were available to be issued and determined that there are no material subsequent events that required recognition or additional disclosure in these financial statements.

**SONOMA COUNTY TOURISM BUREAU
SCHEDULE OF ACTIVITIES BY SOURCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

WITH COMPARATIVE AMOUNTS FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2017

	Transient Occupancy Tax	Business Improvement Area and Other Sources	Totals	
			2018	2017
UNRESTRICTED REVENUES AND SUPPORT				
Contracts:				
BIA Contract		\$5,300,032	\$5,300,032	\$2,044,637
TOT Contract	\$3,117,576		3,117,576	1,617,850
Rental Income and Reimbursements		174,879	174,879	89,473
Investment Income, Net		44,975	44,975	23,042
CTA Fees		34,520	34,520	21,104
Total Revenues and Support	3,117,576	5,554,406	8,671,982	3,796,106
EXPENSES				
Advertising		1,161,253	1,161,253	300,420
Marketing Materials & Distribution	683,386	293,325	976,711	431,832
Tradeshows & Sales Missions		641,467	641,467	305,294
Sales & Marketing Promotions	191,473	646,619	838,092	210,508
Destination Development	605,257	120	605,377	248,841
Research & Development	450,155		450,155	34,245
Public Relations		274,318	274,318	22,205
Sales & Marketing Tools		62,243	62,243	49,290
Labor	779,812	1,849,461	2,629,273	1,393,311
Administrative Expenses	1,028,546	415	1,028,961	717,265
Total Expenses	3,738,629	4,929,221	8,667,850	3,713,211
Changes in Net Assets	(\$621,053)	\$625,185	\$4,132	\$82,895