

**CHAMBER OF COMMERCE
OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY**

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

**For the Year Ended
June 30, 2013**

**CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY**
INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

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Independent Auditors' Report

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To the Board of Directors
Chamber of Commerce of San Luis Obispo, Inc.
and Subsidiary
San Luis Obispo, California

We have audited the accompanying consolidated financial statements of the Chamber of Commerce of San Luis Obispo, Inc. and Subsidiary (a non-profit organization), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, change in net assets, and cash flows for the year 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.

Auditors' 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 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 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 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 the Chamber of Commerce of San Luis Obispo, Inc. and Subsidiary as of June 30, 2013, 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.

CINDRICH & COMPANY
An Accountancy Corporation

San Luis Obispo, California
March 5, 2014

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF
FINANCIAL POSITION
June 30, 2013

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 488,067	\$ -	\$ 488,067
Accounts receivable, less allowance for doubtful accounts of \$5,231	105,407		105,407
Pledges receivable		53,600	53,600
Merchandise inventory	6,866		6,866
Prepaid expenses	9,964		9,964
	<hr/>		
Total current assets	610,304	53,600	663,904
Fixed assets:			
Fixed assets - at cost, less accumulated depreciation of \$45,283 (Notes 2 and 3)	413,652		413,652
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Other assets:			
Deposit	7,500		7,500
<hr/>			
Total assets	<u>\$ 1,031,456</u>	<u>\$ 53,600</u>	<u>\$ 1,085,056</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 49,080	\$ -	\$ 49,080
Payroll liabilities	16,344		16,344
Credit cards payable	2,310		2,310
Accrued commissions	11,222		11,222
Accrued payroll	43,628		43,628
Accrued vacation	11,942		11,942
Deferred revenue	38,576		38,576
Current portion long-term liabilities	11,465		11,465
	<hr/>		
Total current liabilities	184,567	-	184,567
Long-term liabilities:			
Notes payable (Note 9)	199,007		199,007
Less current portion	(11,465)		(11,465)
	<hr/>		
Net long-term liabilities	187,542		187,542
<hr/>			
Net assets:	659,347	53,600	712,947
<hr/>			
Total liabilities and net assets	<u>\$ 1,031,456</u>	<u>\$ 53,600</u>	<u>\$ 1,085,056</u>

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

**CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Membership dues	\$ 473,930	\$ -	\$ 473,930
Advertising	245,654		245,654
Capital campaign (Note 10)		231,450	231,450
Programs and special projects	225,979		225,979
Local government revenue (Note 4)	186,916		186,916
Management contracts (Note 5)	60,000		60,000
Sales - net of \$4,912 cost of goods sold	15,763		15,763
Donations	5,825		5,825
Interest income	1,278		1,278
Loss on disposition of fixed assets	(22,675)		(22,675)
Net assets released from restriction	177,850	(177,850)	-
	1,370,520	53,600	1,424,120
Expenses:			
Salaries	586,318		586,318
Programs and special projects	123,646		123,646
Contracted services	74,360		74,360
Publication projects	73,405		73,405
Rent	68,625		68,625
Payroll taxes	52,944		52,944
Profit sharing plan contribution (Note 6)	44,112		44,112
Insurance	41,519		41,519
Staff expenses	30,866		30,866
Office supplies and postage	16,945		16,945
Utilities and telephone	16,490		16,490
Computer supplies and service	14,913		14,913
Moving expenses	13,343		13,343
Copy supplies and services	10,152		10,152
Depreciation (Notes 2 and 3)	9,965		9,965
Credit card merchant fees	9,614		9,614
Professional fees	7,600		7,600
Internet website	7,019		7,019
Graphics and photo	6,688		6,688
Dues and subscriptions	6,418		6,418
Janitorial	5,511		5,511
Payroll service fee	4,032		4,032
Board and committee expenses	3,328		3,328
Interest expense	3,283		3,283
Miscellaneous	2,949		2,949
Retirement plan administration fee	1,990		1,990
Repairs and maintenance	1,147		1,147
Taxes - franchise tax (Note 2)	800		800
Taxes - personal property and other	683		683
	1,238,665	-	1,238,665
Total expenses			
	\$ 131,855	\$ 53,600	\$ 185,455

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

**CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
For The Year Ended June 30, 2013**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
NET ASSETS - June 30, 2012	\$ 527,492	\$ -	\$ 527,492
Change in net assets	<u>131,855</u>	<u>53,600</u>	<u>185,455</u>
NET ASSETS - June 30, 2013	<u>\$ 659,347</u>	<u>\$ 53,600</u>	<u>\$ 712,947</u>

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

**CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2013**

<i>Cash flows from operating activities:</i>	
Change in net assets	<u>\$ 185,455</u>
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	9,965
Loss on disposal of fixed assets	22,675
Increase in accounts receivable	(31,284)
Increase in pledges receivable	(53,600)
Decrease in merchandise inventory	754
Decrease in prepaid expenses	4,129
Increase in deposits	(6,686)
Increase in accounts payable	34,810
Increase in payroll liabilities	16,344
Decrease in credit cards payable	(2,993)
Increase in accrued commissions	11,222
Increase in accrued payroll payable	1,036
Decrease in accrued vacation	(5,065)
Decrease in employee health payable	(5,371)
Increase in deferred revenue	<u>2,980</u>
Total adjustments	<u>(1,084)</u>
Net cash provided by operating activities	<u>184,371</u>
<i>Cash flows from investing activities:</i>	
Purchase of fixed assets	<u>(404,783)</u>
Net cash used by investing activities	<u>(404,783)</u>
<i>Cash flows from financing activities:</i>	
Borrowing on notes payable	201,500
Repayments on notes payable	<u>(2,493)</u>
Net cash provided by financing activities	<u>199,007</u>
<i>Net change in cash</i>	<u>(21,405)</u>
<i>Cash at beginning of year</i>	<u>509,472</u>
<i>Cash at end of year</i>	<u><u>\$ 488,067</u></u>

Supplemental information:

Cash paid for income taxes for the year ended June 30, 2013 was \$800.

Cash paid for interest for the year ended June 30, 2013 was \$3,283.

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

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.

AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: HISTORY AND ORGANIZATION

The Chamber of Commerce of San Luis Obispo, Inc. ("Chamber") is a California nonprofit public benefit corporation organized to promote the economic, social, civic, and cultural welfare of the San Luis Obispo area. The Chamber is a membership organization, whose two main functions are the promotion of economic development and legislative representation of its members. Its services include promoting tourism, operating a visitor's center, providing relocation information and advice, and employment of a fulltime lobbyist. The Chamber is exempt from federal and state income taxes under Internal Revenue Code Section 501 (c)(6).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements include the accounts of the Chamber of Commerce of San Luis Obispo, Inc. and its wholly owned subsidiary, San Luis Obispo Chamber of Commerce Services, Inc., ("Services") a for profit California Corporation. All material inter-company transactions have been eliminated. Due to the nature of revenue and support received, all of the Chamber's net assets are unrestricted.

The Chamber uses the accrual method of accounting, which recognizes revenue when earned and recognizes expenses when they are incurred.

The *unrestricted operating fund* is utilized to record contributions, fund raising, fees and other forms of unrestricted revenue and expenditures related to the general operations and fund raising efforts of the Chamber.

The *temporarily restricted fund* is utilized to record resources received by the Chamber that are temporarily restricted as to use by the donor or grantor. When the restriction expires, the net assets of this fund are reclassified to unrestricted net assets.

Cash and Cash Equivalents

For financial statement purposes, cash and cash equivalents include cash in checking, savings, and highly liquid investments due to mature within ninety days, held in accounts with financial institutions.

Revenue

The Chamber receives the majority of its revenues from membership dues, advertising fees, management contracts with other agencies, programs and special projects, and service contracts with the City of San Luis Obispo for promotional services.

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
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NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable

Accounts receivable are stated net of an allowance for doubtful accounts. The allowance is estimated at 20% of membership dues receivable, based on the historical relationship between actual bad debts and membership dues receivable. The allowance for doubtful accounts was \$5,231 for the year ended June 30, 2013.

Prepaid expenses

Prepaid expenses result from the payment for goods or services that will be received in the following year.

Inventory

Inventory is recorded at cost based on a physical count of merchandise on hand.

Fixed Assets

The Chamber follows the practice of capitalizing all expenditures in excess of \$500 for fixed assets at cost; the fair value of donated fixed assets is similarly capitalized. Repairs and maintenance are charged to expense when incurred. Depreciation expense is calculated on the straight-line method over the useful life of the related asset.

Deferred revenue

Deferred revenue results from the collection of revenue earned in the following year. Revenue is recognized during the period in which the related expenses are incurred.

Income Taxes

The Chamber is a not-for-profit organization and is exempt from federal income taxes under Section 501 (c)(6) of the Internal Revenue Code. San Luis Obispo Chamber of Commerce Services is a for profit organization subject to corporate income tax rates and a minimum California franchise tax of \$800 annually.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Chamber and recognize a tax liability (or asset) if the Chamber has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken, and has concluded that as of June 30, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Chamber is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2009.

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
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NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Estimates

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

Subsequent Events

Management has evaluated subsequent events through March 5, 2014 which is the date the financial statements were available to be issued.

NOTE 3: FIXED ASSETS

A summary of fixed assets by major classifications at June 30, 2013, is as follows:

Leasehold improvements	\$ 362,730
Furniture and fixtures	45,253
Computer and software	32,077
Office equipment	<u>18,875</u>
Total fixed assets	458,935
Less: accumulated depreciation	<u>45,283</u>
Net fixed assets	\$ <u>413,652</u>

Depreciation for the year ended June 30, 2013 was \$9,965.

NOTE 4: LOCAL GOVERNMENT REVENUE

The City of San Luis Obispo contracted with the Chamber to perform certain visitor and tourism information activities for individuals and organizations interested in the San Luis Obispo area. In exchange for these services the Chamber earned \$186,916 for the year ending June 30, 2013.

NOTE 5: MANAGEMENT CONTRACT

The San Luis Obispo Community Leadership Foundation, a 501 (c)(3) organization, contracts with the Chamber to perform management services. In exchange for these services the Chamber was contracted to receive \$60,000 per year by the Leadership Foundation.

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
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NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 6: PROFIT SHARING PLAN

The Chamber sponsors a 401k profit sharing plan. The plan covers all employees who have been employed for one year or more and who have worked a minimum of one thousand hours. The Board of Directors determines the amount to be contributed to the plan at the first meeting of the new fiscal year. Historically, the Chamber has contributed ten percent of the annual compensation for all eligible employees. Employees are fully vested after six years of service. During the year ending June 30, 2013, the Chamber contributed \$44,112 and administration fees amounted to \$1,990 for a total of \$46,102.

NOTE 7: LONG-TERM LEASES

A long-term lease was entered into on July 3, 2012. This lease is for a period of twelve years, commencing February 15, 2013. Initial base rent is \$6,300 per month, with fixed increase adjustments beginning March 1st of each year for the first five years. Common area expenses average an additional \$638 per month.

In addition to the base rent, a storage area is rented at a flat rate of \$.50 per square foot, totaling \$677 per month.

During the year ended June 30, 2013, total office rental expense was \$68,625. Future minimum obligations over the primary terms of the leases as of June 30, 2013 are as follows:

For the year ended:

June 30, 2014	\$ 87,045
June 30, 2015	96,330
June 30, 2016	103,625
June 30, 2017	108,930
June 30, 2018	111,583
Thereafter	<u>743,888</u>
Total	<u>\$ 1,251,401</u>

NOTE 8: CONCENTRATIONS

Approximately 13% of the Chamber's revenue was from the City of San Luis Obispo.

The Chamber's bank accounts may from time to time exceed the Federal Deposit Insurance Corporation limit of \$250,000.

**CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY**

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9: NOTES PAYABLE

<u>Payee</u>	<u>Security</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Howard E. Carroll Family Trust (monthly payments of \$1,269, including interest at 6.0% per annum, due 2/1/25)	Tenant Improvements	\$ 7,785	\$ 119,722
Mission Community Bank (\$150,000 maximum line of credit, \$33,000 drawn as of 6/30/13, converts to a term loan on 1/10/14 initially, monthly interest only payments until 1/10/14, then principal and interest payments of \$1,032 for thirty six months on outstanding balance at 4.25% per annum, due 12/10/16)	Unsecured	3,680	29,320
San Luis Obispo Leadership Foundation (interest only payments at 4.25% per annum, due 7/1/17)	Unsecured	-	38,500
Totals		\$ 11,465	\$ 187,542

Approximate maturity of this note payable for the next five years is as follows:

For the year ended:	
June 30, 2014	\$ 11,465
June 30, 2015	19,621
June 30, 2016	20,623
June 30, 2017	53,931
June 30, 2018	9,890
Thereafter	83,477
Total	\$ 199,007

Interest paid and expensed was \$3,283 for the year ended June 30, 2013.

**CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY**

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 10: CAPITAL CAMPAIGN

During the year ended June 30, 2013 the Chamber undertook a capital campaign to support planned investments in a new facility for Chamber operations. The capital campaign raised \$231,450 from Chamber members and the temporarily restricted funds raised were used to pay \$177,850 in facility investments. As of June 30, 2013, approximately \$53,600 in pledges receivable was outstanding, with planned collection by February 2014.