

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

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

**For the Year Ended
June 30, 2014**

**CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY**
INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

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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, 2014, 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, 2014, 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
December 16, 2014

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF
FINANCIAL POSITION
June 30, 2014

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 495,592	\$ 18,119	\$ 513,711
Accounts receivable, less allowance for doubtful accounts of \$5,231	120,389		120,389
Pledges receivable		5,500	5,500
Merchandise inventory	6,866		6,866
Prepaid expenses	32,973		32,973
Total current assets	655,820	23,619	679,439
Fixed assets:			
Fixed assets - at cost, less accumulated depreciation of \$63,488 (Notes 2 and 3)	429,871		429,871
Other assets:			
Deposit	7,500		7,500
Total assets	\$ 1,093,191	\$ 23,619	\$ 1,116,810
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 37,682	\$ -	\$ 37,682
Payroll liabilities	7,444		7,444
Profit sharing plan payable	23,727		23,727
Credit cards payable	6,139		6,139
Accrued commissions	6,095		6,095
Accrued payroll	40,063		40,063
Accrued vacation	9,175		9,175
Deferred revenue	67,836		67,836
Current portion long-term liabilities	8,265		8,265
Total current liabilities	206,426	-	206,426
Long-term liabilities:			
Notes payable (Note 9)	139,857		139,857
Less current portion	(8,265)		(8,265)
Net long-term liabilities	131,592		131,592
Net assets:			
Total liabilities and net assets	\$ 1,093,191	\$ 23,619	\$ 1,116,810

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, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Membership dues	\$ 495,388	\$ -	\$ 495,388
Programs and special projects	256,207		256,207
Advertising	237,029		237,029
Local government revenue (Note 4)	212,496		212,496
Management contracts (Note 5)	84,000		84,000
Sales - net of \$8,882 cost of goods sold	13,174		13,174
Donations	6,423		6,423
Capital campaign (Note 10)		4,000	4,000
Interest income	1,104		1,104
Net assets released from restriction	33,981	(33,981)	-
	1,339,802	(29,981)	1,309,821
Total revenue and support			
 Expenses:			
Salaries	534,544		534,544
Programs and special projects	116,725		116,725
Publication projects	105,235		105,235
Contracted services	93,579		93,579
Rent	88,124		88,124
Profit sharing plan contribution (Note 6)	44,798		44,798
Payroll taxes	44,508		44,508
Insurance	36,791		36,791
Staff expenses	24,371		24,371
Depreciation (Notes 2 and 3)	18,205		18,205
Utilities and telephone	16,635		16,635
Office supplies and postage	14,032		14,032
Graphics and photo	13,926		13,926
Computer supplies and service	12,687		12,687
Credit card merchant fees	12,666		12,666
Professional fees	11,712		11,712
Interest expense	10,122		10,122
Internet website	9,821		9,821
Copy supplies and services	8,190		8,190
Dues and subscriptions	6,856		6,856
Janitorial	5,428		5,428
Payroll service fee	4,266		4,266
Repairs and maintenance	3,968		3,968
Retirement plan administration fee	2,425		2,425
Miscellaneous	1,766		1,766
Board and committee expenses	1,267		1,267
Taxes - franchise tax (Note 2)	800		800
Taxes - personal property and other	529		529
	1,243,976	-	1,243,976
Total expenses			
 Change in net assets	\$ 95,826	\$ (29,981)	\$ 65,845

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, 2014**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
NET ASSETS - June 30, 2013	\$ 659,347	\$ 53,600	\$ 712,947
Change in net assets	<u>95,826</u>	<u>(29,981)</u>	<u>65,845</u>
NET ASSETS - June 30, 2014	<u>\$ 755,173</u>	<u>\$ 23,619</u>	<u>\$ 778,792</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, 2014**

<i>Cash flows from operating activities:</i>	
Change in net assets	<u>\$ 65,845</u>
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	18,205
Increase in accounts receivable	(14,982)
Decrease in pledges receivable	48,100
Increase in prepaid expenses	(23,009)
Decrease in accounts payable	(11,398)
Decrease in payroll liabilities	(8,900)
Increase in profit sharing plan payable	23,727
Increase in credit cards payable	3,829
Decrease in accrued commissions	(5,127)
Decrease in accrued payroll payable	(3,565)
Decrease in accrued vacation	(2,767)
Increase in deferred revenue	<u>29,260</u>
Total adjustments	<u>53,373</u>
Net cash provided by operating activities	<u>119,218</u>
<i>Cash flows from investing activities:</i>	
Purchase of fixed assets	<u>(34,424)</u>
Net cash used by investing activities	<u>(34,424)</u>
<i>Cash flows from financing activities:</i>	
Repayments on notes payable	<u>(59,150)</u>
Net cash used by financing activities	<u>(59,150)</u>
<i>Net change in cash</i>	25,644
<i>Cash at beginning of year</i>	<u>488,067</u>
<i>Cash at end of year</i>	<u><u>\$ 513,711</u></u>

Supplemental information:

Cash paid for income taxes for the year ended June 30, 2014 was \$1,600.

Cash paid for interest for the year ended June 30, 2014 was \$10,122.

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, 2014

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.

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.
AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 17% 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, 2014.

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, 2014, 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 2011.

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.

AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 December 16, 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, 2014, is as follows:

Leasehold improvements	\$	386,965
Computer and software		51,995
Furniture and fixtures		32,918
Office equipment		<u>21,481</u>
Total fixed assets		493,359
Less: accumulated depreciation		<u>63,488</u>
Net fixed assets	\$	<u>429,871</u>

Depreciation for the year ended June 30, 2014 was \$18,205.

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 \$212,496 for the year ending June 30, 2014.

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 \$84,000 per year by the Leadership Foundation.

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.

AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014, the Chamber contributed \$44,798 and administration fees amounted to \$2,425 for a total of \$47,223.

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 \$680 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, 2014, total office rental expense was \$88,124. Future minimum obligations over the primary terms of the leases as of June 30, 2014 are as follows:

For the year ended:

June 30, 2015	\$	96,330
June 30, 2016		103,625
June 30, 2017		108,930
June 30, 2018		111,583
June 30, 2019		111,583
Thereafter		<u>632,305</u>
Total	\$	<u>1,164,356</u>

NOTE 8: CONCENTRATIONS

Approximately 16% 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, 2014

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	\$ 8,265	\$ 111,458
San Luis Obispo Leadership Foundation (interest only payments at 4.25% per annum, due 7/1/17)	Unsecured	-	20,134
Totals		\$ <u>8,265</u>	\$ <u>131,592</u>

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

For the year ended:	
June 30, 2015	\$ 8,265
June 30, 2016	8,775
June 30, 2017	29,450
June 30, 2018	9,890
June 30, 2019	10,500
Thereafter	<u>72,977</u>
Total	\$ <u>139,857</u>

Interest paid and expensed was \$10,122 for the year ended June 30, 2014.

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. During the year ended June 30, 2014 the capital campaign raised \$4,000 from Chamber members and the temporarily restricted funds raised were used to pay for facility investments. As of June 30, 2014, approximately \$5,500 in pledges receivable was outstanding, with planned collection by February 2015.