

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

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

For the Year Ended
June 30, 2015

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

**INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

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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. (a non-profit organization) and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2015, 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, 2015, 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
January 14, 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2015

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 300,842		\$ 300,842
Investments (Note 4)	251,336		251,336
Accounts receivable, less allowance for doubtful accounts of \$6,574	117,940		117,940
Merchandise inventory	9,048		9,048
Prepaid expenses	66,569		66,569
Total current assets	745,735	-	745,735
Fixed assets:			
Fixed assets - at cost, less accumulated depreciation of \$86,598 (Notes 2 and 3)	425,292		425,292
Other assets:			
Deposit	7,500		7,500
Total assets	<u>\$ 1,178,527</u>	<u>\$ -</u>	<u>\$ 1,178,527</u>

LIABILITIES AND NET ASSETS

Current liabilities:			
Accounts payable	\$ 15,883	\$ -	\$ 15,883
Payroll liabilities	7,376		7,376
Profit sharing plan payable	25,268		25,268
Credit cards payable	7,138		7,138
Accrued commissions	20,068		20,068
Accrued payroll	54,953		54,953
Accrued vacation	11,219		11,219
Deferred revenue	123,396		123,396
Current portion long-term liabilities	8,775		8,775
Total current liabilities	274,076	-	274,076
Long-term liabilities:			
Notes payable (Note 9)	121,465		121,465
Less current portion	(8,775)		(8,775)
Net long-term liabilities	112,690		112,690
Net assets:	791,761	-	791,761
Total liabilities and net assets	<u>\$ 1,178,527</u>	<u>\$ -</u>	<u>\$ 1,178,527</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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Membership dues	\$ 508,112	\$ -	\$ 508,112
Programs and special projects	295,372		295,372
Advertising	245,940		245,940
Local government revenue (Note 5)	226,500		226,500
Management contracts (Note 6)	80,000		80,000
Sales - net of \$11,647 cost of goods sold	20,950		20,950
Donations	8,190		8,190
Other income	2,018		2,018
Unrealized loss on investments	(1,801)		(1,801)
Realized loss on investments	(20)		(20)
Investment income	3,157		3,157
Interest income	1,072		1,072
Net assets released from restriction	23,619	(23,619)	-
Total revenue and support	1,413,109	(23,619)	1,389,490
Expenses:			
Salaries, wages, and bonus	626,072		626,072
Programs and special projects	150,749		150,749
Publication projects	116,415		116,415
Rent	97,421		97,421
Payroll taxes	57,972		57,972
Contracted services	57,146		57,146
Profit sharing plan contribution (Note 7)	44,305		44,305
Insurance	40,283		40,283
Staff expenses	35,806		35,806
Depreciation (Notes 2 and 3)	23,110		23,110
Computer supplies and service	19,545		19,545
Utilities and telephone	16,939		16,939
Credit card merchant fees	15,133		15,133
Office supplies and postage	10,997		10,997
Professional fees	7,854		7,854
Copy supplies and services	7,848		7,848
Interest expense	7,831		7,831
Dues and subscriptions	5,646		5,646
Janitorial	5,602		5,602
Internet website	5,301		5,301
Payroll service fee	4,806		4,806
Taxes - personal property and other	4,207		4,207
Graphics and photo	3,816		3,816
Thanks and recognition expenses	2,831		2,831
Bad debt expense	2,622		2,622
Retirement plan administration fee	2,305		2,305
Repairs and maintenance	1,809		1,809
Taxes - franchise tax (Note 2)	800		800
Bank fees	640		640
Miscellaneous	402		402
Board and committee expenses	308		308
Total expenses	1,376,521	-	1,376,521
Change in net assets	\$ 36,588	\$ (23,619)	\$ 12,969

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, 2015**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
NET ASSETS - June 30, 2014	\$ 755,173	\$ 23,619	\$ 778,792
Change in net assets	<u>36,588</u>	<u>(23,619)</u>	<u>12,969</u>
NET ASSETS - June 30, 2015	<u>\$ 791,761</u>	<u>\$ -</u>	<u>\$ 791,761</u>

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

**CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
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CONSOLIDATED STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2015

<i>Cash flows from operating activities:</i>	
Change in net assets	<u>\$ 12,969</u>
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	23,110
Loss on investments	1,821
Decrease in accounts receivable	2,449
Decrease in pledges receivable	5,500
Increase in merchandise inventory	(2,182)
Increase in prepaid expenses	(33,596)
Decrease in accounts payable	(21,799)
Decrease in payroll liabilities	(68)
Increase in profit sharing plan payable	1,541
Increase in credit cards payable	999
Increase in accrued commissions	13,973
Increase in accrued payroll payable	14,890
Increase in accrued vacation	2,044
Increase in deferred revenue	<u>55,560</u>
Total adjustments	<u>64,242</u>
Net cash provided by operating activities	<u>77,211</u>
<i>Cash flows from investing activities:</i>	
Purchase of fixed assets	(18,531)
Proceeds from sale of investments	56,250
Purchase of investments	<u>(309,407)</u>
Net cash used by investing activities	<u>(271,688)</u>
<i>Cash flows from financing activities:</i>	
Repayments on notes payable	<u>(18,392)</u>
Net cash used by financing activities	<u>(18,392)</u>
<i>Net change in cash</i>	(212,869)
<i>Cash at beginning of year</i>	<u>513,711</u>
<i>Cash at end of year</i>	<u><u>\$ 300,842</u></u>

Supplemental information:

Cash paid for income taxes for the year ended June 30, 2015 was \$800.
Cash paid for interest for the year ended June 30, 2015 was \$7,831.

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

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 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.
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June 30, 2015

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 at June 30, 2015, based on the historical relationship between actual bad debts and membership dues receivable. The allowance for doubtful accounts was \$6,574 for the year ended June 30, 2015.

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.

Fair value measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets

Level 2 inputs – quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs – estimates using the best information available when there is little or no market

The Organization is required to measure three types of assets and the related revenues at fair value: pledged contributions, non-cash contributions, and certain investments. The techniques used to measure fair value are described in the notes below that relate to each asset/revenue.

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
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June 30, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2015, 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 2012.

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 January 14, 2016 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, 2015, is as follows:

Leasehold improvements	\$	386,965
Computer and software		62,997
Furniture and fixtures		32,918
Office equipment		<u>29,010</u>
Total fixed assets		511,890
Less: accumulated depreciation		<u>86,598</u>
Net fixed assets	\$	<u>425,292</u>

Depreciation for the year ended June 30, 2015 was \$23,110.

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
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NOTE 4: INVESTMENTS

Investments are presented in the aggregate at fair market value based on quoted prices in active markets (all Level 1 measurements), and are composed of the following:

Mutual Funds - Bonds	\$ 176,673
Mutual Funds - Equities	<u>74,663</u>
 Total investments	 \$ <u>251,336</u>

Return on investments (excluding interest earned on cash equivalents of \$1,072) for the year ending June 30, 2015 is composed of the following:

Dividends	\$ 2,964
Capital gain distributions	193
Realized loss on investments	(20)
Unrealized loss on investments	<u>(1,801)</u>
 Total return on investments	 \$ <u>1,336</u>

NOTE 5: 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 \$226,500 for the year ending June 30, 2015.

NOTE 6: 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 \$80,000 per year by the Leadership Foundation.

NOTE 7: 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, 2015, the Chamber contributed \$44,305 and administration fees amounted to \$2,305 for a total of \$46,610.

**CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
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NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 8: 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. As of June 30, 2015 base rent per month was \$7,793.

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, 2015, total office rental expense was \$97,421. Future minimum obligations over the primary terms of the leases as of June 30, 2015 are as follows:

For the year ended:

June 30, 2016	\$	103,625
June 30, 2017		108,930
June 30, 2018		111,583
June 30, 2019		111,583
June 30, 2020		111,583
Thereafter		<u>446,333</u>
Total	\$	<u>993,637</u>

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	\$ 8,775	\$ 102,683
San Luis Obispo Leadership Foundation (interest only payments at 4.25% per annum, due 7/1/17)	Unsecured	<u>-</u>	<u>10,007</u>
Totals		\$ <u>8,775</u>	\$ <u>112,690</u>

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
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June 30, 2015

NOTE 9: NOTES PAYABLE - CONTINUED

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

For the year ended:

June 30, 2016	\$	8,775
June 30, 2017		9,316
June 30, 2018		19,897
June 30, 2019		10,500
June 30, 2020		11,148
Thereafter		<u>61,829</u>
Total	\$	<u>121,465</u>

Interest paid and expensed was \$7,831 for the year ended June 30, 2015.

NOTE 10: 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.

NOTE 11: 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. As of June 30, 2015 all of these funds have been spent.