

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

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

For the Years Ended

June 30, 2018 and June 30, 2017

DRAFT

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

**INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and June 30, 2017**

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Independent Auditors' Report

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

We have audited the accompanying comparative consolidated financial statements of the Chamber of Commerce of San Luis Obispo, Inc. (a non-profit organization) and Subsidiary, which comprise the comparative consolidated statement of financial position as of June 30, 2018 and June 30, 2017, and the related comparative consolidated statements of activities, changes 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.

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 audit 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 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.

**Board of Directors
Chamber of Commerce of San Luis Obispo, Inc. and Subsidiary
San Luis Obispo, California
Independent Auditors' Report (continued)**

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, 2018 and June 30, 2017, 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.

**BURKART & STEVENS
an Accountancy Corporation**

San Luis Obispo, California
December 12, 2018

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

COMPARATIVE CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2018 and June 30, 2017

ASSETS

Current assets

Cash and cash equivalents (Note 2) \$ 338,886
 Investments (Note 4) 282,612
 Accounts receivable, less allowance for doubtful accounts of \$ 8,542
 as of June 30, 2018 and \$ 5,140 as of June 30, 2017 154,367
 Merchandise inventory 30,241
 Prepaid expenses 17,591
 Prepaid income taxes -

Total current assets

Property and equipment (Note 3)

Property and equipment, net of accumulated depreciation of \$ 161,480
 as of June 30, 2018 and \$ 136,175 as of June 30, 2017

Other assets

Liquor license 21,010
 Deposits 7,500

Total assets

	2018	2017
	\$ 338,886	\$ 488,523
	282,612	271,711
	154,367	103,001
	30,241	20,675
	17,591	37,926
	-	800
	823,697	922,636
	368,545	387,229
	21,010	21,010
	7,500	7,500
	\$ 1,220,752	\$ 1,338,375

LIABILITIES AND MEMBERS' EQUITY

Current liabilities

Accounts payable \$ 9,232
 Payroll liabilities 5,817
 Profit sharing plan payable (Note 7) 38,380
 Credit cards payable 6,731
 Accrued commissions 8,360
 Accrued payroll 41,964
 Accrued vacation 21,525
 Deferred revenue 134,623
 Other accrued expenses 6,424
 Current portion of long-term debt (Note 3) 10,500

Total current liabilities

Long-term liabilities

Loans and long-term debt obligations (Note 3)

Total long-term liabilities

Total liabilities

Net assets:

Unrestricted

Total liabilities and net assets

	2018	2017
	\$ 9,232	\$ 60,218
	5,817	4,756
	38,380	37,082
	6,731	5,738
	8,360	7,996
	41,964	47,039
	21,525	21,672
	134,623	224,942
	6,424	2,410
	10,500	9,890
	283,556	421,743
	72,977	83,476
	72,977	83,476
	356,533	505,219
	864,219	833,156
	\$ 1,220,752	\$ 1,338,375

See independent auditors' report.
 The accompanying notes are an integral part of these financial statements.

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.

AND SUBSIDIARY

COMPARATIVE CONSOLIDATED STATEMENT OF ACTIVITIES

For the Years Ended June 30, 2018 and June 30, 2017

	Unrestricted	
	2018	2017
Revenue and Support		
Membership dues	\$ 546,871	\$ 505,995
Programs and special projects	551,188	376,577
Local government revenue (Note 5)	294,750	278,496
Advertising	241,177	265,049
Management contract (Note 6)	93,504	87,000
Merchandise sales, net of cost of goods sold of \$ 40,671 and \$ 34,794	44,657	30,544
Investment income	6,184	6,272
Interest Income	191	2,910
Unrealized gain/(loss) on investments	(5,268)	8,327
Realized loss on investments	10,579	-
Total revenues	1,783,833	1,561,170
Expenses		
Salaries and wages	782,061	724,884
Programs and special projects	248,260	178,565
Rent - office (Note 8)	113,469	110,411
Publication projects	109,490	131,214
Outside services	95,862	58,838
Payroll tax	63,841	61,144
Retirement plan (Note 5)	61,434	57,384
Insurance	51,132	42,550
Staff expenses	32,338	37,001
Depreciation (Note 3)	25,305	24,510
Credit card fees	23,630	19,839
Computer expenses	23,202	18,508
Website	9,767	5,291
Printing	9,678	8,738
Copy supplies and services	9,460	5,629
Office expense	9,419	8,863
Utilities	9,095	9,008
Legal and professional fees	8,455	8,350
Telephone	7,911	7,435
Dues and subscriptions	7,292	5,167
Payroll service fee	6,664	5,560
Janitorial	6,619	5,845
Interest	5,843	5,907
Recruitment	5,565	-
Postage	5,389	5,818
Bad debt expense	5,227	8,099
Property tax	4,602	4,605
Retirement plan administration fee	4,490	3,873
Repairs and maintenance	1,776	960
Miscellaneous	1,964	3,027
Public relations	1,125	517
Board and committee expenses	867	634
Taxes	830	863
Bank charges	408	1,019
Thanks and recognition expenses	300	2,193
Total expenses	1,752,770	1,572,249
Change in net assets	\$ 31,063	\$ (11,079)

See independent auditors' report.

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

**CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY**
COMPARATIVE CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
For the Years Ended June 30, 2018 and June 30, 2017

Net assets

Beginning - July 1, 2017

Change in net assets

Ending - June 30, 2018

Unrestricted	
2018	2017
\$ 833,156	\$ 844,235
31,063	(11,079)
\$ 864,219	\$ 833,156

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

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

COMPARATIVE CONSOLIDATED STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2018 and June 30, 2017

	2018	2017
Cash flows from operating activities:		
(Deficiency)/excess of revenues over expenses	\$ 31,063	\$ (11,079)
Reconciliation of excess of revenues over expenses to cash provided by operating activities:		
Depreciation	25,305	24,510
Unrealized (gain)/loss on investments	5,268	(8,327)
(Increase) decrease in accounts receivable	(51,366)	5,413
(Increase) decrease in merchandise inventory	(9,566)	(7,457)
(Increase) decrease in prepaid expenses	20,335	(6,465)
(Increase) decrease in prepaid income taxes	800	-
(Increase) decrease in liquor license	-	(21,010)
(Decrease) increase in accounts payable	(50,986)	31,952
(Decrease) increase in payroll liabilities	1,061	(10,494)
(Decrease) increase in profit sharing payable	1,298	23,247
(Decrease) increase in credit cards payable	993	(3,260)
(Decrease) increase in accrued commissions	364	(1,670)
(Decrease) increase in accrued payroll	(5,075)	8,278
(Decrease) increase in accrued vacation	(147)	12,810
(Decrease) increase in other accrued expenses	4,014	1,286
(Decrease) increase in deferred revenue	(90,319)	123,531
Net cash provided (used) by operating activities	(116,958)	161,265
Cash flows from investing activities:		
Purchase of fixed assets	(6,621)	(2,284)
Change in investments	(16,169)	(8,202)
Net cash used by investing activities	(22,790)	(10,486)
Cash flows from financing activities:		
Repayments on notes payable	(9,889)	(9,317)
Net cash used by financing activities	(9,889)	(9,317)
Net increase in cash	(149,637)	141,462
Cash at beginning of year	488,523	347,061
Cash at end of year	\$ 338,886	\$ 488,523

Supplemental disclosure (see Note 1 for additional income tax disclosure)

Income taxes paid for the year ended June 30, 2018:	<u>\$ 800</u>
Interest paid for the year ended June 30, 2018:	<u>\$ 5,843</u>

See independent auditors' report.
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, 2018

NOTE 1: ORGANIZATION AND PURPOSE

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 full-time 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 Presentation – The consolidated financial statements include the accounts of the Chamber and its wholly owned subsidiary, San Luis Obispo Chamber of Commerce Service, Inc., (Services) a for profit California Corporation. All material intercompany transactions have been eliminated. The financial statements are presented on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

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.

Investments – The Chamber carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

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.

Accounts Receivable – Accounts receivable are stated net of an allowance for doubtful accounts. The allowance is estimated at 16% of membership dues receivable at June 30, 2018 and 2017, based on the historical relationship between actual bad debts and membership dues receivable. The allowance for doubtful accounts was \$ 8,542 for the year ended June 30, 2018 and \$ 5,140 for the year ended June 30, 2017.

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

Fixed Assets – Property and equipment over \$500 are recorded at cost at the date of acquisition or at fair market value when contributed. Depreciation is computed by using the straight-line method over the estimated useful life of the assets. (Note 3)

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.

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

NOTE 3: PROPERTY AND EQUIPMENT

At June 30, 2018 and June 30, 2017 property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 45,252	\$ 45,252
Office equipment	33,460	31,695
Computer hardware/software	76,685	71,829
Leasehold improvements	<u>374,628</u>	<u>374,628</u>
	530,025	523,404
Less: Accumulated Depreciation	<u>(161,480)</u>	<u>(136,175)</u>
Net property and equipment	<u>\$ 368,545</u>	<u>\$ 387,229</u>

Depreciation expense for the year ended June 30, 2018 was \$ 25,305 and \$ 24,510 for the year ended June 30, 2017.

NOTE 4: INVESTMENTS

Investments are reported at fair market value, which is based on quoted market prices at June 30, 2018 and June 30, 2017 and are as follows:

	<u>2018</u>	<u>2017</u>
Mutual funds - Bonds	\$ 162,457	\$ 151,590
Mutual funds - Equities	<u>120,155</u>	<u>120,121</u>
Total Investments	<u>\$ 282,612</u>	<u>\$ 271,711</u>

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 for the San Luis Obispo area. In exchange for these services the Chamber received \$ 294,750 for the year ended June 30, 2018 and \$ 278,496 for the year ended June 30, 2017.

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 \$93,504 per year by the Leadership Foundation.

NOTE 7: PROFIT SHARING PLAN

The Chamber sponsors a 401(k) 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 five years of service. The Chamber contributed \$ 61,434 for the year ended June 30, 2018 and \$ 57,384 for the year ended June 30, 2017.

NOTE 8: COMMITMENTS

Office lease

On July 3, 2012 the Chamber entered into an agreement for a period of twelve years. The rental payments commenced February 15, 2013. The lease calls for an initial base rent of \$6,300 per month, with fixed increase adjustments beginning March 1 of each year for the first five years. Common area expenses average an additional \$680 per month. As of June 30, 2017 the base rent per month was \$8,622.

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

Total rental expense amounted to \$113,469 for the year ended June 30, 2018 and \$ 110,411 for the year ended June 30, 2017. Future minimum lease payments are as follows:

	Year	Amount
For the year ending June 30,	2019	\$ 111,583
	2020	111,583
	2021	111,583
	2022	111,583
	2023	111,583
	Thereafter	<u>111,583</u>
	Total	<u>\$ 669,498</u>

CHAMBER OF COMMERCE OF SAN LUIS OBISPO, INC.
AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9: LOAN AND LONG-TERM DEBT

	2018
Note payable with Howard E. Carroll Family Trust, with interest at 6.0% per annum, for a loan term of 144 monthly payments of \$1,269. The note is due on February 1, 2025.	\$ 83,477
Total loans and long-term debt	83,477
Less: current portion:	(10,500)
Total long-term debt	\$ 72,977

The following is a schedule of minimum loan payments and maturity of long-term debt:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 10,500
2020	11,148
2021	11,835
2022	12,565
2023	13,340
Thereafter	24,089
Total	\$ 83,477

Interest expense was \$ 5,333 for the year ended June 30, 2018.

NOTE 10: CONCENTRATIONS

Approximately 15% 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: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 12, 2018, the date which the financial statements were available to be issued, and there are no subsequent events to report.