

Financial Report



Business Improvement Association, Inc.

June 30, 2021

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
Hillcrest Business Improvement Association, Inc.
San Diego, California

We have audited the accompanying financial statements of Hillcrest Business Improvement Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, 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 the 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillcrest Business Improvement Association, Inc. as of June 30, 2021, 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.

Board of Directors
Hillcrest Business Improvement Association, Inc.
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Report on Summarized Comparative Information

We have previously audited Hillcrest Business Improvement Association, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 10, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

WEST RHODE & ROBERTS

San Diego, California

January XX, 2022

DRAFT - FOR DISCUSSION PURPOSES ONLY

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2021

(With Summarized Financial Information for June 30, 2020)

	2021	2020 (Note 9)
ASSETS		
Cash and cash equivalents	\$ 92,174	\$ 63,844
Accounts receivable	48,540	35,263
Prepaid expenses	27,864	5,483
Total assets	<u>\$ 168,578</u>	<u>\$ 104,590</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 19,481	\$ 7,154
Deferred revenue	7,163	2,647
Refundable advance	36,285	-
Total liabilities	<u>62,929</u>	<u>9,801</u>
Commitments (Note 7)		
Net assets:		
Without donor restrictions	<u>105,649</u>	<u>94,789</u>
Total net assets	<u>105,649</u>	<u>94,789</u>
Total liabilities and net assets	<u>\$ 168,578</u>	<u>\$ 104,590</u>

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HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

(With Summarized Financial Information for the Year Ended June 30, 2020)

	2021	2020 (Note 9)
<u>Operating Activities</u>		
SUPPORT AND REVENUE		
Farmers Market income	\$ 163,697	\$ 234,060
BID reimbursement income	115,456	94,258
Other income	136,498	146,562
Hillcrest Maintenance Assessment District	108,801	91,947
City Fest income	-	122,751
Pride of Hillcrest/Block Party	-	80,864
Total operating support and revenue	<u>524,452</u>	<u>770,442</u>
OPERATING EXPENSES		
Program services:		
Neighborhood outreach and community events	223,033	391,704
Hillcrest Maintenance Assessment District	94,801	91,947
Total program services	317,834	483,651
Supporting services:		
Management and general	172,329	158,692
Total program and supporting services	490,163	642,343
Cost of direct benefits to donors	23,429	198,575
Total operating expenses	<u>513,592</u>	<u>840,918</u>
Change in net assets without donor restrictions	10,860	(70,476)
NET ASSETS AT BEGINNING OF YEAR	94,789	165,265
NET ASSETS AT END OF YEAR	<u>\$ 105,649</u>	<u>\$ 94,789</u>

DRAFT - FOR DISCUSSION PURPOSES ONLY

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021

(With Summarized Financial Information for the Year Ended June 30, 2020)

	Program Services			Supporting Services	Total	2020 (Note 9)
	Neighborhood Outreach and Community Events	Hillcrest Maintenance Assessment District	Total Program Services	Management and General		
EXPENSES						
Salaries	\$ 70,823	\$ -	\$ 70,823	\$ 34,374	\$ 105,197	\$ 151,262
Payroll taxes & employee benefits	11,545	-	11,545	9,776	21,321	31,304
	<u>82,368</u>	<u>-</u>	<u>82,368</u>	<u>44,150</u>	<u>126,518</u>	<u>182,566</u>
Community physical improvements	72,756	91,951	164,707	76,531	241,238	247,423
Professional services	17,826	2,850	20,676	15,927	36,603	51,110
Neighborhood outreach & promotion	20,762	-	20,762	6,630	27,392	83,782
Office expense	10,050	-	10,050	9,822	19,872	22,912
Occupancy	8,950	-	8,950	8,950	17,900	18,610
Insurance	8,536	-	8,536	8,536	17,072	20,484
Miscellaneous	1,785	-	1,785	1,783	3,568	15,456
Total expenses	<u>\$ 223,033</u>	<u>\$ 94,801</u>	<u>\$ 317,834</u>	<u>\$ 172,329</u>	<u>\$ 490,163</u>	<u>\$ 642,343</u>

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HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2021

(With Summarized Financial Information for the Year Ended June 30, 2020)

	2021	2020 (Note 9)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,860	\$ (70,476)
Change in operating assets and liabilities:		
Accounts receivable	(13,277)	36,757
Prepaid expenses	(22,381)	458
Accounts payable and accrued expenses	12,327	(31,258)
Deferred revenue	4,516	(11,859)
Refundable advance	36,285	-
Net cash provided by (used in) operating activities	<u>28,330</u>	<u>(76,378)</u>
Change in cash and cash equivalents	28,330	(76,378)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>63,844</u>	<u>140,222</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 92,174</u>	<u>\$ 63,844</u>

Note 1. Organization and Significant Accounting Policies

Organization and Activities

Hillcrest Business Improvement Association, Inc. (the Organization) was incorporated in the State of California on March 29, 1984, for the purpose of promoting, improving and fostering business conditions in the City of San Diego in the area commonly known as Hillcrest pursuant to City Ordinance 16481. The Organization established and defined a parking and business improvement area as the Hillcrest Business Improvement District under the provisions of the Parking and Business Improvement Area of Law of 1979 of the State of California and enabling ordinances of the City of San Diego.

Significant Accounting Policies

Method of Accounting – The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of Presentation – The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The Organization did not have any net assets with donor restrictions as of June 30, 2021.

Measure of Operations – The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing programs and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Revenue Recognition – Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

The Organization reports contributions as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as endowment funds. The income earned from such assets is generally restricted to the purpose designated by the donor.

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets are transferred.

Cash and Cash Equivalents – The Organization considers all highly liquid debt instruments purchased, with a maturity of three months or less, to be cash equivalents.

Accounts Receivable – Accounts receivable consists mainly of amounts due from city contracts. All accounts receivables are reviewed for collectability and reserves for uncollectible amounts are recorded based on previous experience and history with the contract. Accounts are written off against the allowance for doubtful accounts when deemed uncollectible. Management has determined that no allowance is needed for the year ended June 30, 2021.

Property and Equipment – Property and equipment is recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets if cost is greater than \$2,000. The Organization expenses all property and equipment purchases under \$2,000. Property and equipment is depreciated on a straight-line basis as follows:

Furniture and equipment	5 years
Computers and printers	3 years

As of June 30, 2021, the Organization’s property and equipment was fully depreciated and there was no depreciation for the year ended June 30, 2021.

Deferred Revenue – Deferred revenue consists of Block Party and City Fest income received in this fiscal year that was not earned until the events occurred in July and August of 2021, after the fiscal year end.

Refundable Advance – In February 2021, the Organization received a loan in the amount of \$36,285 under the Paycheck Protection Program (PPP). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan is forgivable if it is used for qualifying expenses as described in the CARES Act. The Organization believes the PPP loan qualifies for forgiveness and has elected to account for the PPP loan under FASB ASC 958-605. Under this model, the Organization has recorded a refundable advance and will record revenue when the PPP loan is forgiven.

Functional Allocation of Expenses – The statement of functional expenses presents expense by function and natural classification. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. A portion of costs that benefit multiple functional areas (indirect costs) have been allocated across programs and supporting services based on the full-time employee equivalents of a programs or supporting service.

Income Tax Status – The Organization is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Accounting for Uncertainties in Income Tax*, sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The Organization has reviewed its position for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

Some of the operations of the Organization are subject to unrelated business income tax (UBIT).

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 that affect the 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 could differ from those estimates.

Recently Adopted Accounting Standards - In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers: Topic 606. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There was no impact to net assets.

Subsequent Events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The Organization’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The Organization has evaluated subsequent events through **January XX, 2022**, which is the date the financial statements are available for issuance and concluded that the below event needed to be disclosed.

In August 2021, the Organization received forgiveness of Paycheck Protection Program loan for \$36,285.

Note 2. Liquidity and Availability of Resources

The Organization’s financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Financial assets	
Cash and cash equivalents	\$ 92,174
Accounts receivable	<u>48,540</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 140,714</u>

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 3. Fair Value Measurements

Due to the short-term nature of cash equivalents, accounts receivable, prepaid expenses, accounts payable and deferred revenue, fair value approximates carrying value. In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), fair value is defined as the price that the Organization would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset.

FASB ASC 820 establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The standard describes three-tier hierarchy of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Organization’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Organization's statement of financial position includes cash and cash equivalents which have been considered Level 1 assets and are reported at fair value based on quoted prices. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices.

The management of the Organization is responsible for making the fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility, the management of the Organization has established an accounting and financial reporting process for determining the fair value measurements and disclosures, which identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurement is in accordance with U.S. GAAP.

Note 4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2021:

Maintenance Assessments	\$ 23,438
Other Receivables	14,404
Farmers Market	10,698
	<u>\$ 48,540</u>

Note 5. Property and Equipment

Property and equipment consists of the following:

Office furniture and equipment	\$ 21,365
Less accumulated depreciation	<u>(21,365)</u>
	<u>\$ -</u>

Note 6. Revenues

The Organization is funded in part by the City of San Diego. The City of San Diego receives funds as a special assessment collected together with business licensing fees from businesses located within the district. In addition, the Organization holds the City Fest annual event and other special events to promote the business and living environment in the area.

Note 7. Commitments

The Organization leases office space under an operating lease. For the year ended June 30, 2021, rent expense totaled \$10,440. At June 30, 2021, the Organization was renting the space on a month to month basis.

Note 8. Risks and Uncertainties

Concentration of Credit Risks- The Organization, at times, maintains cash balances at a bank in excess of the Federal Deposit Insurance Corporation limit. At June 30, 2021, there were no cash balances in excess of the insured amount.

COVID-19 Risks - In 2020 the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The ultimate disruption which may be caused by the pandemic is uncertain; however, it may result in a material adverse impact on the Organization's financial position, operations, and cash flows. Possible effects may include but are not limited to disruptions or restrictions on our employee's ability to work, decline in value of assets held, including property and equipment and changes to the current regulatory environment. We are actively working to mitigate the impact of these and other unforeseen potential disruptions to our operations.

Note 9. June 30, 2020 Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such prior year information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Certain reclassifications have been made to the summarized 2020 financial information to conform to the classifications adopted for the 2021 financial statements. This reclassification had no effect on the change in net assets.