

BONK, CUSHMAN, EAGLE & GARCIA
CERTIFIED PUBLIC ACCOUNTANTS

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**HILLCREST BUSINESS
IMPROVEMENT ASSOCIATION, INC.**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Hillcrest Business Improvement Association, Inc.
San Diego, CA

Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hillcrest Business Improvement Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hillcrest Business Improvement Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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Auditor's Responsibilities for the Audit of the Financial Statements, continued

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hillcrest Business Improvement Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hillcrest Business Improvement Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from Hillcrest Business Improvement Association, Inc.'s June 30, 2021 financial statements, which were audited by other auditors in a report dated February 1, 2022, and expressed an unqualified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bonk, Cushman, Eagle & Garcia

March 31, 2023

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022

(With Summarized Financial Information at June 30, 2021)

	<u>2022</u>	<u>2021</u>
ASSETS:		
Cash and Cash Equivalents	\$ 60,124	\$ 92,174
Accounts Receivable	44,043	48,540
Prepaid Expenses	64,781	27,864
Total Current Assets	<u>168,948</u>	<u>168,578</u>
 Total Assets	 <u>\$ 168,948</u>	 <u>\$ 168,578</u>
LIABILITIES:		
Accounts Payable and Accrued Expenses	\$ 67,645	\$ 19,481
Deferred Revenue	34,935	7,163
SBA PPP Loan	-	36,285
Total Current Liabilities	<u>102,580</u>	<u>62,929</u>
 Total Liabilities	 <u>\$ 102,580</u>	 <u>\$ 62,929</u>
NET ASSETS:		
Without Donor Restrictions	\$ 66,368	\$ 105,649
Total Net Assets	<u>66,368</u>	<u>105,649</u>
 Total Liabilities & Net Assets	 <u>\$ 168,948</u>	 <u>\$ 168,578</u>

The Accompanying Notes are an Integral Part of the Financial Statements

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022
(With Summarized Financial Information for the Year Ended June 30, 2021)

	2022	2021
<u>Operating Activities</u>		
SUPPORT AND REVENUE:		
Farmers Market Income	\$ 298,658	\$ 163,697
BID Reimbursements	90,000	115,456
Other Income	189,514	90,651
Hillcrest Maintenance Assessment District	100,400	108,801
Pride of Hillcrest/Block Party	284,304	-
Other Events	141,958	45,847
Total Governmental Funding	1,104,834	524,452
 OPERATING EXPENSES:		
Program services:		
Neighborhood Outreach and Community Events	580,665	223,033
Hillcrest Maintenance Assessment District	100,400	94,801
Total Program Services	681,065	317,834
Supporting Services:		
Management and General	354,906	172,329
Total Program and Supporting Services	1,035,971	490,163
Cost of direct benefits to donors	108,144	23,429
Total Operating Expenses	1,144,115	513,592
 Change in Net Assets Without Donor Restrictions	(39,281)	10,860
 Net Assets, Beginning of Year	105,649	94,789
 Net Assets, End of Year	\$ 66,368	\$ 105,649

The Accompanying Notes are an Integral Part of the Financial Statements

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
(With Summarized Financial Information for the Year Ended June 30, 2021)

	Program Services			Supporting Services	Total	2021 Total
	Neighborhood Outreach and Community Events	Hillcrest Maintenance Assessment District	Total Program Services	Management and General		
Expenses						
Salaries & Wages	\$ 111,727	\$ -	\$ 111,727	\$ 71,263	\$ 182,990	\$ 105,197
Payroll Taxes & Employee Benefits	17,825	-	17,825	16,834	34,659	21,321
Total Payroll & Related Expenses	<u>129,552</u>	<u>-</u>	<u>129,552</u>	<u>88,097</u>	<u>217,649</u>	<u>126,518</u>
Community Physical Improvements	57,997	98,800	156,797	168,369	325,166	241,238
Professional Services	55,627	1,600	57,227	37,864	95,091	36,603
Neighborhood Outreach & Promotion	284,271	-	284,271	8,178	292,449	27,392
Office Expense	16,959	-	16,959	16,139	33,098	19,872
Occupancy	13,764	-	13,764	13,764	27,528	17,900
Insurance	19,040	-	19,040	19,040	38,080	17,072
Miscellaneous	<u>3,455</u>	<u>-</u>	<u>3,455</u>	<u>3,455</u>	<u>6,910</u>	<u>3,568</u>
Total Expenses	<u>\$ 580,665</u>	<u>\$ 100,400</u>	<u>\$ 681,065</u>	<u>\$ 354,906</u>	<u>\$ 1,035,971</u>	<u>\$ 490,163</u>

The Accompanying Notes are an Integral Part of the Financial Statements

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
(With Summarized Financial Information for the Year Ended June 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (39,281)	\$ 10,860
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) Provided by Operating Activities:		
SBA PPP Loan (Forgiven) Obtained	(36,285)	36,285
(Increase) Decrease in:		
Accounts Receivable	4,497	(13,277)
Prepaid Expenses	(36,917)	(22,381)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	48,164	12,327
Deferred Revenue	27,772	4,516
CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES:	(32,050)	28,330
Net (Decrease) Increase in Cash & Cash Equivalents	(32,050)	28,330
Cash & Cash Equivalents, Beginning of Year	92,174	63,844
Cash & Cash Equivalents, End of Year	\$ 60,124	\$ 92,174

The Accompanying Notes are an Integral Part of the Financial Statements

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

Note 1. Nature of Organization

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.

Note 2. Summary of Significant Accounting Policies

Basis 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, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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 Organization 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, 2022.

Measure of Operations: The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization’s ongoing programs and interest and dividends earned on investments. Non-operating activities are limited to resources that generate return from long-term 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.

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

Note 2. Summary of Significant Accounting Policies, continued

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 the City of San Diego for expenditures incurred through the end of the fiscal year and other receivables. An allowance for doubtful accounts is based on an analysis of expected collection rates determined from past history. No allowance for doubtful accounts was considered necessary as of June 30, 2022.

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 2022, after the fiscal year end.

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.

Use of Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Income Tax Status

The Organization is a California Not-For-Profit corporation exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(6) and California State Tax Code 23701(e), respectively. 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).

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

Note 4. 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 5. Accounts Receivable

Accounts receivable consists of the following at June 30, 2022:

City of San Diego Contracts	\$ 23,408
Farmers Market	17,032
Other Receivables	<u>3,603</u>
	<u>\$ 44,043</u>

Note 6. Lease Commitment

The Organization leases office space under an operating lease. For the year ended June 30, 2022, rent expense totaled \$18,541.

On March 18, 2022, the Organization entered into a new lease agreement for office space in a new location. The lease term commenced on April 1, 2022 and ends March 31, 2023, with a monthly base rent of \$4,500 and a \$5,000 security deposit. This lease will continue on a month-to-month basis upon conclusion of the original lease term.

The future minimum lease payment, by year and in the aggregate, under this lease consist of the following:

<u>Year ending June 30;</u>	
2023	<u>\$48,270</u>

Note 7. SBA PPP Loan

The Organization received a promissory note from California Bank and Trust for the Paycheck Protection Program (PPP) to help the Organization through the COVID-19 pandemic. On February 8, 2021, the Organization received a promissory note in the amount of \$36,285 with a fixed annual interest rate of 1%.

The Organization submitted their forgiveness application and on August 2021, California Bank and Trust informed the Organization that all principal and interest was forgiven in full. The forgiven amount of \$36,285 is included in Other Income on the Statement of Activities.

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

Note 8. Liquidity and Availability of Financial Assets

The Organization’s working capital and cash flows are relatively consistent throughout the year due to monthly invoicing on City of San Diego contracts and a weekly Farmers Market. For months in which special events occur the Organization receives grants, contributions and sponsorships for the events corresponding to the timing of the event. To manage liquidity the Organization maintains adequate cash balances. The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following reflects the Organization’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

<u>Financial Assets</u>		
Cash and Cash Equivalents		\$ 60,124
Accounts Receivable		44,043
Less those unavailable for general expenditure within one year:	none	-
 Financial assets available to meet cash needs for general expenditure within one year		 <u>\$104,167</u>

Note 9. Subsequent Events

The management of the Organization have reviewed the results of operations and evaluated subsequent events for the period of time from its year end June 30, 2022 through March 31, 2023, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.