

Financial Report



Business Improvement Association, Inc.

June 30, 2015

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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, 2015, and the related statements of activities 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 principles used and the reasonableness of significant 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, 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.

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 2014 financial statements, and our report dated December 9, 2014 expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

WEST RHODE & ROBERTS

San Diego, California
November XX, 2015

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.**STATEMENT OF FINANCIAL POSITION****June 30, 2015****(With Summarized Financial Information for June 30, 2014)**

	<u>2015</u>	<u>2014</u> (Note 7)
ASSETS		
Cash and cash equivalents	\$ 213,178	\$ 249,596
Accounts receivable	48,202	94,847
Prepaid expenses	11,877	10,310
Property and equipment	19,274	19,274
Accumulated depreciation	<u>(16,259)</u>	<u>(14,179)</u>
Total assets	<u>\$ 276,272</u>	<u>\$ 359,848</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 11,546	\$ 15,798
Deferred revenue	<u>6,771</u>	<u>20,123</u>
Total liabilities	<u>18,317</u>	<u>35,921</u>
Net assets:		
Unrestricted	<u>257,955</u>	<u>323,927</u>
Total net assets	<u>257,955</u>	<u>323,927</u>
Total liabilities and net assets	<u>\$ 276,272</u>	<u>\$ 359,848</u>

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.**STATEMENT OF ACTIVITIES****Year Ended June 30, 2015****(With Summarized Financial Information for the Year Ended June 30, 2014)**

	<u>2015</u>	<u>2014</u> (Note 7)
REVENUES AND SUPPORT		
Farmers Market income	\$ 228,267	\$ 228,462
City Fest income	155,361	158,793
BID reimbursement income	106,068	107,575
Pride of Hillcrest/Block Party	105,793	129,614
MAD income	77,581	108,407
Hillcrest Fat Tuesday	47,920	63,696
Other income	45,301	70,165
Special events income	38,366	42,265
Taste of Hillcrest	36,030	45,857
Taste 'N Tinis	16,675	19,847
Interest income	-	13
Total revenues and support	<u>857,362</u>	<u>974,694</u>
EXPENSES		
Neighborhood outreach and community events	423,062	484,646
City Fest	120,117	118,934
MAD	91,546	108,332
Management and general	<u>288,609</u>	<u>272,343</u>
Total expenses	<u>923,334</u>	<u>984,255</u>
Change in net assets	(65,972)	(9,561)
NET ASSETS AT BEGINNING OF YEAR	<u>323,927</u>	<u>333,488</u>
NET ASSETS AT END OF YEAR	<u>\$ 257,955</u>	<u>\$ 323,927</u>

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.**STATEMENT OF CASH FLOWS****Year Ended June 30, 2015****(With Summarized Financial Information for the Year Ended June 30, 2014)**

	<u>2015</u>	<u>2014</u> (Note 7)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (65,972)	\$ (9,561)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,080	1,040
Allowance for uncollectable	-	(3,000)
Change in operating assets and liabilities:		
Accounts receivable	46,645	(16,128)
Prepaid expenses	(1,567)	112
Accounts payable and accrued expenses	(4,252)	(17,546)
Deferred revenue	<u>(13,352)</u>	<u>(43,847)</u>
Net cash used in operating activities	<u>(36,418)</u>	<u>(88,930)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>-</u>	<u>(6,135)</u>
Net cash used in investing activities	<u>-</u>	<u>(6,135)</u>
Change in cash and cash equivalents	(36,418)	(95,065)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>249,596</u>	<u>344,661</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 213,178</u>	<u>\$ 249,596</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 – Net assets and revenues, gains, and other support are classified as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor restrictions on when and how the Organization is to use the net assets. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time. As of June 30, 2015, the Organization had no temporarily restricted assets.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions requiring that the principal be maintained permanently by the Organization. Generally, the donors permit the Organization to use all or part of the income earned for either general or donor-specified purposes. As of June 30, 2015, the Organization had no permanently restricted net assets.

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, temporarily restricted revenues are reclassified to unrestricted revenues and reported in the statement of activities as revenues released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as permanently restricted. The income earned from such assets is generally restricted to the purpose designated by the donor.

Contributions of service are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization reports such contributions at their estimated fair value when received. During the year ended June 30, 2015, no material contributions of services were recorded.

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, 2015.

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

Depreciation expense totaled \$2,080 for the year ended June 30, 2015.

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 2015, after the fiscal year end.

Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs activities benefited.

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.

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.

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 **November XX, 2015**, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

Note 2. Fair Value Measurements

Due to the short-term nature of cash equivalents, receivables, prepaid expense, 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 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 3. 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 4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2015:

SBEP City Service reimbursement request	\$ 21,300
Farmers Market	12,802
Other	8,870
MAD reimbursement request	5,230
	<u>\$ 48,202</u>

Note 5. Lease Agreement

The Organization conducts its operations from facilities located at 3737 Fifth Avenue, Suite 203, San Diego, California that is leased for \$784 a month under a month to month operating lease.

Note 6. Concentration of Credit Risk

The Organization, at times, maintains cash balances at a bank in excess of the Federal Deposit Insurance Corporation limit. At June 30, 2015, there were no cash balances in excess of the insured amount.

Note 7. June 30, 2014 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, 2014, from which the summarized information was derived.