

Financial Report



Business Improvement Association, Inc.

June 30, 2014



Contents

	<u>Page</u>
Independent Auditor's Report on the Financial Statements	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Supplementary Information	
Income/Expense Statement, City of San Diego TOT Funds	10
Report on Compliance with the Requirements of the City of San Diego Commission for Arts and Culture Program	11



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 statement of Hillcrest Business Improvement Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, 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 financial statements that are free from material misstatement.

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 includes 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 of 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 as of June 30, 2014, 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.

Report on Summarized Comparative Information

We have previously audited Hillcrest Business Improvement Association's 2013 financial statements, and our report dated November 12, 2013 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, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Income/Expense Statement, City of San Diego TOT Funds on page 10 is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



WEST RHODE & ROBERTS

San Diego, California
December 9, 2014

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014

(With Summarized Financial Information for June 30, 2013)

	<u>2014</u>	<u>2013</u> (Note 7)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 249,596	\$ 344,661
Accounts receivable	94,847	75,719
Prepaid expenses	<u>10,310</u>	<u>10,422</u>
Total current assets	<u>354,753</u>	<u>430,802</u>
FIXED ASSETS		
Property and equipment	19,274	13,139
Accumulated depreciation	<u>(14,179)</u>	<u>(13,139)</u>
Net fixed assets	<u>5,095</u>	<u>-</u>
Total assets	<u>\$ 359,848</u>	<u>\$ 430,802</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 15,798	\$ 33,344
Deferred revenue	<u>20,123</u>	<u>63,970</u>
Total liabilities	<u>35,921</u>	<u>97,314</u>
NET ASSETS		
Unrestricted	<u>323,927</u>	<u>333,488</u>
Total net assets	<u>323,927</u>	<u>333,488</u>
Total liabilities and net assets	<u>\$ 359,848</u>	<u>\$ 430,802</u>

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u> (Note 7)
REVENUES AND SUPPORT		
Farmers Market income	\$ 228,462	\$ 200,371
City Fest income	158,793	164,891
Pride of Hillcrest/Block Party	129,614	116,259
MAD income	108,407	109,717
BID reimbursement income	107,575	136,686
Other income	70,165	40,079
Hillcrest Fat Tuesday	63,696	-
Taste of Hillcrest	45,857	40,794
Special events income	42,265	47,367
Taste 'N Tinis	19,847	19,340
Interest income	13	123
Total revenues and support	<u>974,694</u>	<u>875,627</u>
EXPENSES		
City Fest	118,934	107,662
MAD	108,332	109,717
Other program expenses	484,646	418,380
Management and general	<u>272,343</u>	<u>283,099</u>
Total expenses	<u>984,255</u>	<u>918,858</u>
Change in net assets	(9,561)	(43,231)
NET ASSETS AT BEGINNING OF YEAR	<u>333,488</u>	<u>376,719</u>
NET ASSETS AT END OF YEAR	<u>\$ 323,927</u>	<u>\$ 333,488</u>

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u> (Note 7)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (9,561)	\$ (43,231)
Depreciation	1,040	520
Allowance for uncollectable	(3,000)	3,000
Change in operating assets and liabilities:		
Accounts receivable	(16,128)	(22,997)
Prepaid expenses	112	(526)
Accounts payable and accrued expenses	(17,546)	23,387
Deferred revenue	<u>(43,847)</u>	<u>13,001</u>
Net cash used in operating activities	<u>(88,930)</u>	<u>(26,846)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(6,135)</u>	-
Net cash used in investing activities	<u>(6,135)</u>	-
DECREASE IN CASH	(95,065)	(26,846)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>344,661</u>	<u>371,507</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 249,596</u>	<u>\$ 344,661</u>

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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.

Significant Accounting Policies

Method of Accounting – The financial statements of the Organization have been prepared in conformity with generally accepted accounting principles on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Classification of Net Assets – Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. 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 by actions of the Organization. As of June 30, 2014, the Organization had no temporarily restricted assets.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions requiring 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, 2014, the Organization had no permanently restricted net assets.

Revenue Recognition – Contributions are recognized as revenue when they are unconditionally pledged.

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, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted revenues are reclassified as 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, 2014, 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.

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

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, 2014.

Property and Equipment – Property and equipment are recorded at cost. Depreciation is provided on 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.

Furniture and equipment	5 years
Computers and printers	3 years

Depreciation expense totaled \$1,040 for the year ended June 30, 2014.

Deferred Revenue – Deferred revenue consists of Block Party and City Fest income received in this fiscal year that was not earned until the City Fest event occurred in July and August of 2014, after the fiscal year end.

Use of Estimates – The preparation of 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 and disclosures 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.

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) issued Accounting Standards Codification No. 740-10, *Accounting for Uncertainties in Income Taxes*, which 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. Tax positions for the open tax years as of June 30, 2014 were reviewed and it was determined that it has no uncertain tax positions requiring accrual or disclosure.

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 functional expenses. Certain costs have been allocated among the programs activities benefited.

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 December 9, 2014, which is the date the financial statements are available for issuance, and concluded that there were no events or transaction 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 income, 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.

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

MAD reimbursement request	\$ 26,909
SBEP City Service reimbursement request	21,190
Commission for Arts & Culture grant	15,279
Farmers Market	12,924
Other	8,640
Amazing High Heel Race receivable	4,900
Taste/Pride receivable	4,312
BID reimbursement request	693
	<u>\$ 94,847</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 \$723 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, 2014, there were no cash balances in excess of the insured amount.

NOTE 7. 2013 FINANCIAL INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by fund or net asset class. Such 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, 2013, from which the summarized information was derived.

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION
INCOME/EXPENSE STATEMENT, CITY OF SAN DIEGO TOT FUNDS
YEAR ENDED JUNE 30, 2014

	<u>Budgeted</u>	<u>Actual</u>	<u>TOT Funds</u>
Operating income	\$ 827,283	\$ 974,694	\$ -
Operating expense	<u>(843,883)</u>	<u>(984,254)</u>	<u>15,279</u>
TOT Total Expenses	<u>\$ (16,600)</u>	<u>\$ (9,560)</u>	<u>\$ 15,279</u>



**REPORT ON COMPLIANCE WITH THE REQUIREMENTS OF THE CITY OF SAN DIEGO COMMISSION
FOR ARTS AND CULTURE ALLOCATIONS PROGRAM**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of financial position of Hillcrest Business Improvement Association, Inc. as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and have issued our report thereon dated December 9, 2014.

In connection with our audit, nothing came to our attention that caused us to believe that the Organization failed to comply with the requirements of the City of San Diego Commission for Arts and Culture Allocations Program. However, our audit was not directed primarily toward obtaining knowledge of such non-compliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Organization's non-compliance with the requirements of the City of San Diego Commission for Arts and Culture Allocations Program.

This report is intended solely for the information and use of the Board of Directors, management of Hillcrest Business Improvement Association, Inc., and the City of San Diego Commission for Arts and Culture Allocations Program and should not be used for any other purpose.

West Rhode & Roberts

WEST RHODE & ROBERTS

San Diego, California
December 9, 2014