

LITTLE ITALY ASSOCIATION
Financial Statements
For The Year Ended June 30, 2016
And
Independent Auditors' Report

LITTLE ITALY ASSOCIATION
Financial Statements
June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Little Italy Association

We have audited the accompanying financial statements of Little Italy Association (a Non-Profit Organization), which comprise of the statement of financial position as of June 30, 2016, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for 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 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 Little Italy Association as of June 30, 2016, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 10 is presented for purposes of additional analysis and is 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.



Guerrero, Jimenez, Diaz, & Co., LLP
Certified Public Accountants

San Diego, California
November 29, 2016

Little Italy Association
Statement of Financial Position
For the Year Ended June 30, 2016

ASSETS

Current Assets

Cash in Banks (note 2)	\$	496,858
Inventory		4,087
Investment (note 4)		10,290
Accounts Receivable (note 3)		42,479
Total Current Assets		553,714

Property & Equipment

Vehicles		46,129
Equipment		60,342
Leasehold Improvements		29,077
Less Accumulated Depreciation		(54,546)
Total Fixed Assets		81,002

Total Assets	\$	634,716
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LIABILITIES & NET ASSETS

Liabilities

Accounts Payable	\$	16,677
Advance from the City of San Diego and Civic San Diego (note 5)		41,500
Payroll Liabilities		1,732
Current Portion of Loan Payable (note 7)		37,765
Total Current Liabilities		97,674

Long Term Liabilities

Notes Payable (note 7)		63,963
Total Long Term Liabilities		63,963

Total Liabilities		161,637
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Net Assets

Unrestricted		473,079
Total Net Assets		473,079

Total Liabilities & Net Assets	\$	634,716
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See Accountant's accompanying notes and report.

Little Italy Association
Statement of Activities
For the Year Ended June 30, 2016

CHANGES IN UNRESTRICTED NET ASSETS:

Revenue

Assessment District and Public:

SBEP - (Public)	\$ 18,112
BID Reimbursement - (Assessment)	99,134
MAD Reimbursement - (Assessment)	843,000
Parking District Reimbursement - (Public)	409,255
Total Assessment District and Public	1,369,501

Non Assessment Non-Public Funding

Mercato	626,065
Other Events and Programs	507,300
Interest Income	584
Other Income	1,422

Total Revenue	2,504,872
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Expenses:

Program & Event Expenses	2,363,553
General & Administrative	53,687
Total Program, Event & General & Administrative Expenses	2,417,240

Increase in Unrestricted Net Assets	87,632
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Increase in Net Assets	87,632
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Net Assets, Beginning of Year	385,447
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Net Assets, End of Year	\$ 473,079
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Little Italy Association
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash Flows from Operating Activities:	
Increase in Net Assets	\$ 87,632
Adjustments to Reconcile Net Assets to Net Cash Provided by Operating Activities:	
Depreciation Expense	14,825
Gain on disposal of Pick-up	(900)
Decrease in Endowment Fund	673
Decrease in Accounts Receivable	161,937
Decrease in Advance from the City	(100,000)
Decrease in Accounts Payable	(14,207)
Increase in Payroll Liabilities	1,732
Total Adjustments	<u>64,060</u>
Net Cash Provided by Operating Activities	<u>151,692</u>
Cash Flows from Investing Activities	
Funds used in Purchase of Pick-up	(23,615)
Proceeds from disposal of Pick-up	900
Net Cash Used by Investing Activities	<u>(22,715)</u>
Cash Flows from Financing Activities	
Proceeds from Loans Payable - Net of Repayments of principal	98,587
Net Cash used by Financing Activities	<u>98,587</u>
Net Increase/(Decrease) in Cash	227,564
Cash at Beginning of Period	<u>269,294</u>
Cash at End of Period	<u>\$ 496,858</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Interest Payments	<u>\$ 3,251</u>

See Accountant's accompanying notes and report.

LITTLE ITALY ASSOCIATION

Notes to Financial Statements

June 30, 2016

NOTE 1 - Summary of Significant Accounting Policies

Nature of Organization

Little Italy Association (L.I.A.) ("the Association") is a public benefit non-profit organization dedicated to improve, promote, and foster the Little Italy district a 48 block area located in west downtown San Diego, through programs, events and activities. The Organization was incorporated on December 3, 1998. It represents businesses in the area as well as property owners and residents, in the areas of public safety, beautification, promotion and economic development in the community.

Financial Statement Presentation

Financial statement presentation follows the FASB Accounting Standards Codification No. 958 (ASC 958), "Not-For-Profit Entities" (Formerly Statement of Financial Accounting Standards No. 116 and No. 117). Under ASC 958, the organization is required to record and report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the operations of the Association
- Temporarily restricted net assets consist of contributions that are subject to specific donor-imposed stipulations that can be fulfilled by actions of the Association pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted net assets consist of contributions subject to donor-imposed stipulations that they be maintained permanently by the Association.

Property and Equipment

Property and equipment are recorded at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets, which are generally 3 to 10 years.

Income Tax Status

The Association has been granted exemption from federal income tax under Section 501(c) 3 of the Internal Revenue Code and similar California law under Sections 9910-9927 of the Corporation codes and is not subject to income taxes on related business income. Management of the organization has evaluated its tax position and related income tax contingencies. Management does not believe that any material uncertain tax position exists. The association generally is no longer subject to income tax examinations by federal authorities for the years ending June 30, 2011 and before and by state authorities for years ending June 30, 2010 and before.

Revenues Recognition

Little Italy Association is funded principally through the administration of two contracts with the City of San Diego (special assessment districts BID and MAD), and the administration of one contract with the Civic San Diego (formerly Centre City Development Corp., a city government agency for

the Community Parking District). Additional funds are generated from special projects and special events.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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 could differ from these estimates.

Basis of Accounting

The financial statements of the organization are prepared on the accrual basis of accounting.

Cash and Cash Equivalents

Time deposits with maturity date of three or less months are considered to be cash equivalents.

NOTE 2 – Cash in Banks

Cash in banks are listed as follows:

Checking – B.I.D.	\$ 3,673
Checking – MAD	165,831
Savings Account	230,859
Checking – Mercato Account	194
Checking – Payroll	13,480
Checking – Programs Account	49,157
Checking – Parking District	<u>33,664</u>
Total Cash in Banks	<u>496,858</u>

NOTE 3 – Accounts Receivable

The balance in accounts receivable of \$204,415 as of June 30, 2016, represent the unpaid claims submitted to the City of San Diego for expenditures incurred through June 30, 2016 and other receivables as follows:

Parking District	\$39,888
Other	<u>2,591</u>
Total	<u>42,479</u>

NOTE 4 – Investment

The Association, in May 22, 2008, entered into a Fund Agreement with the San Diego Foundation (“SDF”) and transferred an amount of \$10,000 (“the funds”) to the SDF to create an agency endowment fund. Income from the invested funds will provide support to build upon the cultural heritage of Little Italy, beautify the neighborhood, maintain order, increase commerce and instill a sense of civic duty among its businesses, residents and property owners. The Association maintains control for the funds, and can request the SDF for the withdrawal of such funds.

The balance of this investment is \$10,290 as of June 30, 2016, net of income and expenses.

Note 5 – Advances from the City of San Diego

The Association received \$41,500 from Civic San Diego of Parking funds to meet current Parking related expenses that were not expended and will be deducted from future Parking expense reimbursement request.

Note 6 – Lease Agreement

On September 1, 2011 the Association entered into a sublease agreement for a term of five years ending August 31, 2016, of office space with the Wosk Trust and master leaseholder tenant New City America (related party, see note 9) as the sub-lessor, for premises located at 710 West Ivy Street and 2210 Columbia Street, San Diego, California, 92101.

The rent relationship to New City America is a master lease – sublease relationship for above mentioned office space as well for the adjacent parking lot and basement. The master lease – sublease arrangement was a condition of the master lease by the landlord.

The sublease agreement stipulates that the Association will pay 43% of the base rent and other items such as property taxes, utilities per the Master Lease. The current monthly rent paid to New City America is \$2,024. The sub-lease term is for five years ending on August 31, 2016.

NOTE 7 – Notes Payable

The notes payable outstanding as of June 30, 2016 are as follows:

Note payable to Western Alliance Bank with a 36 monthly installments Of \$750 of principal and interest, through December 29, 2018; with an interest rate of 5%. Proceeds were used to purchase a truck.	21,728
Note payable to Western Alliance Bank with a 36 monthly installments Of \$2,400 of principal and interest, through June 27, 2019; with an interest rate of 5%. Proceeds were used to pay off City of San Diego advance.	<u>80,000</u>
Total Notes Payable	101,728
Less current portion as of June 30, 2016	<u>37,765</u>
Long-term portion as of June 30, 2016	<u>\$63,963</u>

NOTE 8 – Commitment

The new agreement with New City America starts on April 1st, 2016 and will remain in effect until and unless either party gives the other for any reason or no reason, at least sixty days notice of the party's intent to terminate the Agreement, or if there is a breach of the terms of the Agreement.

The Agreement under review stipulates that the annual payments to New City America, Inc, will be \$400,000 for its services of administering the BID, MAD and Community Parking contracts and additional payments for the other Association's events and special projects.

See note 9 – Related Parties, below.

NOTE 9 – Related Parties

The Association, during the year June 30, 2016 paid New City America Inc. \$175,128 to administer the BID contract and all other Association's activities (non-MAD, non-parking, and non-Festa), \$18,112 from the SBEP contract to partially pay to administer the BID and all other Association's activities (non-MAD, non-parking, and non-Festa), \$128,839 to administer the MAD contract, \$67,000 to administer the Community Parking Program, \$24,987 for lease of space and building repairs (see note 6). The Association's Chief Executive Administrator is also the President and owner of New City America, Inc.

Note 10 – Subsequent Events

Subsequent events have been evaluated through November 29, 2016, which is the date the financial statements were available to be issued.

Note 11 – Pending Lawsuit

Little Italy Association, Inc. is one of the nonprofit organization named as defendants in a lawsuit filed by San Diegans for Open Government (Plaintiff/Petitioner) on June 15, 2016. This lawsuit challenges Municipal Defendants' authorization of a variety of tax levies and collections labeled as "assessments" by Municipal Defendants in order to avoid public scrutiny without first obtaining the requisite approval of the voters of the City of San Diego, and the approval of the illegal tax and related contracts in violation of conflict-of-interest laws. The Association is working with its lawyer to defend this lawsuit.

LITTLE ITALY ASSOCIATION
Statement of Functional Expenses
For the Year Ended June 30, 2016

	<u>PROGRAM & EVENTS</u>	<u>GENERAL & ADMINISTRATIVE</u>	<u>TOTAL</u>
Administration of MAD Contract	\$ 109,513	\$ 19,326	\$ 128,839
Administration of BID Contract and Association's Activities	148,629	26,229	174,858
Personnel Costs for MAD employees:			
Salaries	471,672		471,672
Bonuses	6,200		6,200
Workers' Compensation Insurance	68,411		68,411
Medical & Dental Benefits	25,252		25,252
Payroll Taxes & Processing Fees	53,112		53,112
Event/Program Expenses			
Festa	44,000		44,000
Mercato	375,336		375,336
Parking	543,970		543,970
Other	106,724		106,724
Auto Expenses	32,604		32,604
Bank Charges	796		796
Banner Expense	4,908		4,908
Cleaning and Janitorial Supplies	29,218		29,218
Depreciation	14,825		14,825
Donations	17,400		17,400
Dues & Subscriptions	1,060		1,060
Dumpster Services	15,494		15,494
Equipment	6,370		6,370
Equipment Rental	3,996		3,996
Insurance	38,793		38,793
Interest Expense	3,251		3,251
Licenses, Permits & Taxes	-	518	518
Marketing & Promotion	69,035		69,035
Meals & Entertainment	2,451		2,451
Miscellaneous	3,116	550	3,666
Nursery Supplies & Tree Maintenance	18,311		18,311
Office Supplies	13,349		13,349
Postage & Printing	6,352	1,121	7,473
Professional Services	29,001		29,001
Rent	13,061	2,305	15,366
Special Projects	-		-
Storage	32,697		32,697
Street Cleaning & Beautification	13,398		13,398
Telephone	5,929	1,046	6,975
Uniforms	5,552		5,552
Utilities	29,767	2,592	32,359
Total Expenses	<u>\$ 2,363,553</u>	<u>\$ 53,687</u>	<u>\$ 2,417,240</u>

See accountant's accompanying notes and report.