

LITTLE ITALY ASSOCIATION
Financial Statements
For The Year Ended June 30, 2017
And
Independent Auditors' Report

LITTLE ITALY ASSOCIATION
Financial Statements
June 30, 2017

TABLE OF CONTENTS

PAGE

1-2	Independent Auditors' Report
3	Statement of Financial Position
4	Statement of Activities
5	Statement of Cash Flows
6-10	Notes to Financial Statements
11	Statement of Functional Expenses

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, 2017, 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, 2017, 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
January 3, 2018

Little Italy Association
Statement of Financial Position
For the Year Ended June 30, 2017

ASSETS

Current Assets	
Cash in Banks (note 2)	\$ 584,582
Inventory	2,000
Investment (note 4)	11,084
Accounts Receivable (note 3)	243,223
Total Current Assets	840,889
Property & Equipment	
Vehicles	97,215
Equipment	60,342
Leasehold Improvements	29,077
Less Accumulated Depreciation	(74,758)
Total Fixed Assets	111,876
Total Assets	\$ 952,765

LIABILITIES & NET ASSETS

Liabilities	
Accounts Payable	\$ 21,378
Advance from the City of San Diego and Civic San Diego (note 5)	100,000
MAD Advance	80,000
Payroll Liabilities	-
Deferred Revenues	10,017
Current Portion of Loan Payable (note 7)	48,022
Total Current Liabilities	259,417
Long Term Liabilities	
Notes Payable (note 7)	69,638
Total Long Term Liabilities	69,638
Total Liabilities	329,055
Net Assets	
Unrestricted	623,710
Total Net Assets	623,710
Total Liabilities & Net Assets	\$ 952,765

See Accountant's accompanying notes and report.

Little Italy Association
Statement of Activities
For the Year Ended June 30, 2017

CHANGES IN UNRESTRICTED NET ASSETS:

Revenue

Assessment District and Public:

SBEP - (Public)	\$ 23,518
BID Reimbursement - (Assessment)	103,405
MAD Reimbursement - (Assessment)	900,000
Parking District Reimbursement - (Public)	774,463
City TOT Grant	25,398
County Grant for Dog Park	25,000
Total Assessment District and Public	1,851,784

Non Assessment Non-Public Funding

Festa Event, Excluding Government Grants	12,584
Mercato	674,811
Other Events and Programs	789,788
Interest Income	559
Other Income	9,745

Total Revenue	3,339,271
---------------	-----------

Expenses:

Program & Event Expenses	3,133,101
General & Administrative	55,539
Total Program, Event & General & Administrative Expenses	3,188,640

Increase in Unrestricted Net Assets	150,631
--	---------

Increase in Net Assets	150,631
-------------------------------	---------

Net Assets, Beginning of Year	473,079
--------------------------------------	---------

Net Assets, End of Year	\$ 623,710
--------------------------------	------------

Little Italy Association
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash Flows from Operating Activities:	
Increase in Net Assets	\$ 150,631
Adjustments to Reconcile Net Assets to Net Cash Provided by Operating Activities:	
Depreciation Expense	20,212
Decrease in Inventory	2,087
Increase in Endowment Fund	(794)
Increase in Accounts Receivable	(200,743)
Increase in Advance from the City	138,500
Increase in Accounts Payable	4,701
Increase in Deferred Revenue	10,017
Decrease in Payroll Liabilities	(1,733)
Total Adjustments	<u>(27,753)</u>
Net Cash Provided by Operating Activities	<u>122,878</u>
Cash Flows from Investing Activities	
Funds used in Purchase of Pick-up	(51,086)
Net Cash Used by Investing Activities	<u>(51,086)</u>
Cash Flows from Financing Activities	
Proceeds from Loans Payable - Net of Repayments of principal	15,932
Net Cash used by Financing Activities	<u>15,932</u>
Net Increase/(Decrease) in Cash	87,724
Cash at Beginning of Period	<u>496,858</u>
Cash at End of Period	<u>\$ 584,582</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Interest Payments	<u>\$ 7,340</u>

See Accountant's accompanying notes and report.

LITTLE ITALY ASSOCIATION
Notes to Financial Statements
June 30, 2017

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, 2012 and before and by state authorities for years ending June 30, 2011 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.	\$ 881
Checking – MAD	115,953
Savings Account	174,865
Checking – Mercato Account	1,648
Checking – Payroll	4,118
Checking – Programs Account	179,308
Checking – Parking District	<u>107,809</u>
Total Cash in Banks	<u>584,582</u>

NOTE 3 – Accounts Receivable

The balance in accounts receivable of \$204,388 as of June 30, 2017, represent the unpaid claims submitted to the City of San Diego for expenditures incurred through June 30, 2017 and other receivables as follows:

Maintenance Assessment District	\$ 150,000
Parking District	88,898
Other	<u>4,325</u>
Total	<u>\$ 243,223</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 \$11,084 as of June 30, 2017, net of income and expenses.

Note 5 – Advances from the City of San Diego

The Association received \$100,000 from Civic San Diego of Parking funds to meet current Parking related expenses that 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 Association exercised its first option to extend the sub-lease term for five years ending on August 31, 2021, which provides an increase of 3%, and the base rent will be adjusted on the second and fourth anniversary of the extension term. The current monthly rent paid to New City America is \$2,146.

NOTE 7 – Notes Payable

The notes payable outstanding as of June 30, 2017 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.	13,648
Note Payable to Ford Credit with a 60 monthly installments of \$424 of principal through April 21, 2022; with 0% interest. Proceeds were used to purchase Ford F-150 V6 truck	24,601
Note Payable to Ford Credit with a 60 monthly installments of \$427 of principal through April 21, 2022; with 0% interest. Proceeds were used to purchase Ford F-150 V8 truck	24,781
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>54,630</u>
Total Notes Payable	117,660
Less current portion as of June 30, 2017	<u>48,022</u>
Long-term portion as of June 30, 2017	<u>\$69,638</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, 2017 paid New City America Inc. \$164,815 to administer the BID contract and all other Association's activities (non-MAD, non-parking, and non-Festa), \$18,245 from the SBEP contract to partially pay to administer the BID and all other Association's activities (non-MAD, non-parking, and non-Festa), \$135,736 to administer the MAD contract, \$87,900 to administer the Community Parking Program, \$28,229 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, 2017, 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 organizations named as defendants in three lawsuits filed by San Diegans for Open Government (Plaintiff/Petitioner):

The first one was filed in 2014, an additional lawsuit was filed in 2015 which has been consolidated with the original 2014 lawsuit and is considered one lawsuit for which trial is scheduled for February 23, 2018.

On June 6, 2017, a second lawsuit was filed to challenge the most recent fiscal year which is nearly exactly the same as the 2014 case. The Municipal Defendants have filed a motion with the court to narrow this case down to a single lawsuit (similar to the first case). The Municipal Defendants also filed a motion to consolidate this lawsuit with the 2014 case as it involves exactly the same issues. Trial has not been currently set for this most current lawsuit.

The above lawsuits challenge 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. Municipal Defendants deny that the challenged assessments are taxes within the relevant definition and that public approval of them is required. The City is defending that issue and motion to determine that issue is set to be heard in January of 2018. An appeal by the losing party will likely follow the outcome of that motion.

On February 2017, San Diegans for Open Government filed a third lawsuit, petition for Writ of Mandate under the California Public Records Act and Other Laws. Trial is scheduled to start at the beginning of 2018.

LITTLE ITALY ASSOCIATION
Statement of Functional Expenses
For the Year Ended June 30, 2017

	<u>PROGRAM & EVENTS</u>	<u>GENERAL & ADMINISTRATIVE</u>	<u>TOTAL</u>
Administration of MAD Contract	\$ 115,376	\$ 20,360	\$ 135,736
Administration of BID Contract and Association's Activities	140,093	24,722	164,815
 Personnel Costs for MAD employees:			
Salaries	574,696		574,696
Bonuses	26,500		26,500
Workers' Compensation Insurance	90,724		90,724
Medical & Dental Benefits	34,121		34,121
Payroll Taxes & Processing Fees	56,893		56,893
 Event/Program Expenses			
Festa	39,000		39,000
Mercato	411,574		411,574
Parking	944,254		944,254
Other	295,040		295,040
 Auto Expenses	28,230		28,230
Bank Charges	588		588
Banner Expense	3,013		3,013
Cleaning and Janitorial Supplies	27,523		27,523
Depreciation	20,212		20,212
Donations	1,515		1,515
Dues & Subscriptions	1,060		1,060
Dumpster Services	16,881		16,881
Equipment	7,988		7,988
Equipment Rental	6,124		6,124
Insurance	40,968		40,968
Interest Expense	7,340		7,340
Licenses, Permits & Taxes	-	478	478
Marketing & Promotion	52,231		52,231
Meals & Entertainment	4,221		4,221
Miscellaneous	4,871	860	5,730
Nursery Supplies & Tree Maintenance	15,324		15,324
Office Supplies	15,063		15,063
Office Expense	698	123	821
Postage & Printing	5,192	916	6,108
Professional Services	40,978		40,978
Rent	24,364	4,300	28,664
Special Projects	-		-
Storage	35,056		35,056
Street Cleaning & Beautification	9,365		9,365
Telephone	6,729	1,188	7,917
Uniforms	1,626		1,626
Utilities	27,671	2,592	30,263
 Total Expenses	 \$ <u>3,133,101</u>	 \$ <u>55,539</u>	 \$ <u>3,188,640</u>

See accountant's accompanying notes and report.