

LITTLE ITALY ASSOCIATION OF SAN DIEGO
Financial Statements
For The Year Ended June 30, 2021
And
Independent Auditors' Report

LITTLE ITALY ASSOCIATION OF SAN DIEGO
Financial Statements
June 30, 2021

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Guerrero, Jimenez, Diaz
& Co. LLP
A Certified Public Accounting Firm

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Little Italy Association of San Diego

We have audited the accompanying financial statements of Little Italy Association of San Diego (a Non-Profit Association), which comprise of the statement of financial position as of June 30, 2021, 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 of San Diego as of June 30, 2021, 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.

Guerrero, Jimenez, Diaz, & Co. LLP

Guerrero, Jimenez, Diaz, & Co., LLP

Certified Public Accountants

San Diego, California

January 26, 2022

LITTLE ITALY ASSOCIATION OF SAN DIEGO
 Statements of Financial Position
 June 30, 2021

ASSETS

Current Assets	
Cash in Banks	\$ 1,099,032
Accounts Receivable	81,395
Investments (Note 4)	13,202
Total Current Assets	1,193,629
Property & Equipment	
Vehicles	106,215
Equipment	127,331
Web Design Cost	10,400
Leasehold Improvements	56,777
Less Accumulated Depreciation	(186,376)
Total Fixed Assets	114,347
Total Assets	\$ 1,307,976

LIABILITIES & NET ASSETS

Liabilities:	
Accounts Payable	\$ 127,848
Advance from Bollard Program	171,485
Accrued Interest Liability	1,016
Current Portion of Loan Payable (Note 6)	8,516
Total Current Liabilities	308,865
Long Term Liab	
Notes Payable (Note 6)	
EIDL Loan	148,476
PPP Loan (Note 15)	274,105
Total Long Term Liabilities	422,581
Total Liabilities	731,446
Net Assets	
Without donor restrictions:	
Undesignated	540,508
With donor restrictions	36,021
	576,529
Total Net Assets	576,529
Total Liabilities & Net Assets	\$ 1,307,976

See Accountant's accompanying notes and report.

LITTLE ITALY ASSOCIATION OF SAN DIEGO

Statement of Activities

For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
CHANGES IN UNRESTRICTED NET ASSETS:			
Revenue			
Assessment District and Public:			
SBEP - (Public)	\$ -	\$ 18,374	\$ 18,374
BID Reimbursement - (Assessment)	119,362	-	119,362
MAD Reimbursement - (Assessment)	1,136,373	-	1,136,373
Government Grant Income	-	25,000	25,000
Art Appreciation Grant	-	50,000	50,000
Net Assets Released from Restrictions	57,353	(57,353)	-
Parking District Reimbursement - (Public)	933,188	-	933,188
Total Assessment District and Public	<u>2,246,276</u>	<u>36,021</u>	<u>2,282,297</u>
Non Assessment Non-Public Funding			
Maintenance Non-Assessment	58,625	-	58,625
Other Events and Programs	662,283	-	662,283
Payroll Protection Program Loan	252,029	-	252,029
Other Income	2,000	-	2,000
Total Revenue	<u>3,221,213</u>	<u>36,021</u>	<u>3,257,234</u>
Expenses:			
Program & Event Expenses	3,151,075	-	3,151,075
General & Administrative	59,052	-	59,052
Total Program, Event & General & Administrative Expenses	<u>3,210,128</u>	<u>-</u>	<u>3,210,128</u>
 Increase/ (Decrease) in Unrestricted Net Assets	 <u>11,085</u>	 <u>36,021</u>	 <u>47,106</u>
 Increase/ (Decrease) in Net Assets	 <u>11,085</u>	 <u>36,021</u>	 <u>47,106</u>
Net Assets, Beginning of Year	529,423	-	529,423
 Net Assets, End of Year	 <u>\$ 540,508</u>	 <u>\$ 36,021</u>	 <u>\$ 576,529</u>

See Accountant's accompanying notes and report.

LITTLE ITALY ASSOCIATION OF SAN DIEGO

Statement of Functional Expenses

For the Year Ended June 30, 2021

	<u>PROGRAM & EVENTS</u>	<u>GENERAL & ADMINISTRATIVE</u>	<u>TOTAL</u>
Administration of MAD Contract	\$ 156,183	\$ 27,562	\$ 183,745
Administration of BID Contract and Association's Activities	81,427	14,370	95,797
Personnel Costs for MAD employees:			
Salaries	720,630	-	720,630
Bonuses	8,575	-	8,575
Workers' Compensation Insurance	52,052	-	52,052
Medical & Dental Benefits	72,027	-	72,027
Payroll Taxes & Processing Fees	63,936	-	63,936
P/R Credit- Families First Act	(9,281)	-	(9,281)
Event/Program Expenses			
Program	120,089	-	120,089
Mercato	213,532	-	213,532
Parking	927,549	-	927,549
SBEP	18,374	-	18,374
Auto Expenses	39,354	-	39,354
Bank Charges	304	-	304
Cleaning and Janitorial Supplies	35,230	-	35,230
Depreciation	35,758	-	35,758
Dues & Subscriptions	2,411	-	2,411
Dumpster Services	29,305	-	29,305
Equipment	13,513	-	13,513
Equipment Rental	23,036	-	23,036
Insurance	126,632	-	126,632
Interest Expense	4,851	539	5,390
Licenses, Permits & Taxes	40,238	4,471	44,709
Marketing & Promotion	15,083	-	15,083
Meals & Entertainment	655	-	655
Miscellaneous	5,267	-	5,267
Nursery Supplies & Tree Maintenance	29,128	-	29,128
Office Supplies	22,291	-	22,291
Office Expense	677	119	796
Postage & Printing	1,598	178	1,775
Professional Services	101,454	-	101,454
Rent	55,931	6,215	62,146
Repairs & Maintenance	59,465	-	59,465
Street Cleaning & Beautification	21,088	-	21,088
Telephone	8,719	969	9,688
Uniforms	6,923	-	6,923
Utilities	41,674	4,630	46,304
Contingency	5,397	-	5,397
Total Expenses	\$ <u>3,151,075</u>	\$ <u>59,052</u>	\$ <u>3,210,128</u>

See accountant's accompanying notes and report.

LITTLE ITALY ASSOCIATION OF SAN DIEGO

Statement of Cash Flows
For the Year Ended June 30, 2021

Cash Flows from Operating Activities:	
Increase in Net Assets	\$ 47,106
Adjustments to Reconcile Net Assets to Net Cash Provided by Operating Activities:	
Depreciation Expense	35,758
(Increase)/Decrease in Accounts Receivable	(2,706)
(Increase)/Decrease on Earnings on Investment Activity	(2,000)
Increase/(Decrease) in Account Payable	123,943
Increase/(Decrease) in Advance from Bollard Program	171,485
Total Adjustments	<u>326,480</u>
Net Cash Provided by Operating Activities	<u>373,586</u>
Cash Flows from Investing Activities	-
Cash Flows from Financing Activities	
Repayments of principal on amounts borrowed - Net of proceeds from amounts borrowed	(276,242)
Cash received from EIDL loan	148,476
Cash received from PPP loan	274,105
Net Cash Provided by Financing Activities	<u>146,339</u>
Net Increase/(Decrease) in Cash	519,925
Cash at Beginning of Period	<u>579,105</u>
Cash at End of Period	<u>\$ 1,099,032</u>

See Accountant's accompanying notes and report.

LITTLE ITALY ASSOCIATION OF SAN DIEGO
Notes to Financial Statements
June 30, 2021

NOTE 1 - Summary of Significant Accounting Policies

Nature of Association

Little Italy Association of San Diego (L.I.A.) ("the Association") is a public benefit non-profit Association 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 Association 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.

Significant Accounting Policies

Basis of Accounting

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

Basis of Presentation

The financial statements of the Association have been prepared in accordance with U.S. generally accepted principles ("US GAAP"), which require the Association to report information regarding its financial position and activities according to the following net assets classification.

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 Association. These net assets may be used at the discretion of the Association 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 Association or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increase in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Association's ongoing programs. Nonoperating 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.

Functional Allocation of Expenses

The statement of functional expenses presents expense by function and natural classifications. Expenses directly attributable to a specific functional area of the Association 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.

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU amends the current nonprofit reporting model and enhances nonprofit organizations required disclosures. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and available resources, and the lack of consistency in the type of information provided about expenses and investment in return. The Association has adjusted the presentation of these statements accordingly.

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 Association 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 Association'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 Association has evaluated subsequent events through January 26, 2022, which is the date the financial statements are available for issuance and concluded that no events needed to be disclosed.

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 Taxes

The Association is exempt from federal income tax under the provisions of section 501(c)(3) of Internal Revenue Code and is also exempt from state income taxes. The Financial Accounting Standards Board (FASB) issued Accounting Standards Codifications No. 740-10, Accounting for Uncertainties in Income Tax, 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. The Association has reviewed its positions for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

Revenue Recognition

Little Italy Association of San Diego 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.

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 – MAD	\$ 217,312
Checking – BID	17,791
Checking – Mercato Account	37,831
Checking – Payroll	70,820
Checking – Programs Account	295,414
Checking – Parking District	286,517
Savings Account	<u>173,347</u>
Total	<u>1,099,032</u>

NOTE 3 – Accounts Receivable

The balance in accounts receivable of \$81,395 as of June 30, 2021, represent the unpaid claims submitted to Civic San Diego and various customers and members for expenditures incurred through June 30, 2021 and other receivables as follows:

Parking District	\$ 51,418
Programs	<u>29,977</u>
Total	<u>\$ 81,395</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 \$13,202 as of June 30, 2021, net of income and expenses.

Note 5 – 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 Levin Co., LLC and master leaseholder tenant New City America (related parties, see note 10) 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 \$4,090.

Effective September 1, 2021, the Association will lease the office space directly from Wosk Levin Co., LLC for one year term ending on August 31, 2022, with one year additional option to renew at

3% increase, for a monthly rent of \$9,679. The Association subleases the office space to the following sub-lessee;

Artwalk	\$1,137/mo.
New City America, Inc.	1,392/mo.
Wakita & Associates	517/mo.
Rancho Ted	769/mo.

See note 8 – Lease Commitment, below.

NOTE 6 – Notes Payable

The notes payable outstanding as of June 30, 2021 are as follows:

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.	\$ 4,241
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	<u>4,275</u>
Total Notes Payable	8,516
Less current portion as of June 30, 2021	<u>8,516</u>
Long-term portion as of June 30, 2021	<u>\$ - 0 -</u>

NOTE 7 – Commitment

The new agreement with New City America started 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 \$420,000 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 10 – Related Parties, below.

NOTE 8 – Lease Commitment

The annual base rents during the extension term are as follows:

<u>Period Ending</u>	<u>Amount</u>
7/1/21 – 8/31/21	\$ 8,180
9/1/21 – 8/31/22	<u>116,148</u>
Total	<u>\$124,328</u>

NOTE 9 – Related Parties

The Association, during the year June 30, 2021 paid New City America Inc. \$41,626 to administer the BID contract and all other Association’s activities (non-MAD and non-parking,), \$18,374 from the SBEP contract to partially pay to administer the BID and all other Association’s activities (non-MAD and non-parking), \$95,797 to administer the MAD contract, \$68,790 to administer the Community Parking Program, \$218,928 to administer non-MAD and Non-Parking activities, \$51,857 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 – Liquidity and Availability of Resources

The Association’s financial assets available for general expenditure, that is without donor restrictions limiting their use within one year of the statement of position date are as follows:

Cash and cash equivalents	\$1,099,032
Accounts Receivable	81,395
Investments	<u>13,202</u>
Total financial assets available within one year	1,193,629
Less:	
Amounts unavailable for general expenditures within one year due to:	
Restricted by donors with purpose restrictions	(36,021)
Total financial assets available to management for general Expenditure within one year	<u>\$1,157,608</u>

The Association maintains policies of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 11 – Net Assets without Donor Restrictions

The Association’s net assets without donor restrictions at June 30, 2021 is \$540,508.

Note 12 – Net Assets with Donor Restrictions

The Association’s net assets with donor restrictions at June 30, 2021 is comprised of:

Art Appreciation Grant	\$36,021
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Note 13 – Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished:

County of San Diego Grant	\$25,000
Art Appreciation Grant	13,979
SBEP Grant	<u>18,374</u>
Total	<u>57,353</u>

Note 14 – COVID19 Outbreak

In early 2021, the Association was directly impacted by the coronavirus outbreak (COVID-19). On January 31, 2021, U.S. Health and Human Services Secretary declared a public health emergency for the United States. In March 2021, the Governor of California announced that all nonessential businesses were required to shut down operations for a few weeks, with the exception of take-out and delivery services which were allowed to continue.

In response to the Governor's order, the Association was affected as mentioned in the following:

Events cancelled or postponed, resulting in a loss of revenues:

<u>Event</u>	<u>Approximate Loss of Revenues</u>
Little Italy Mercato & Wednesday Market	\$95,000
Mission Federal ArtWalk	9,500
Taste of Little Italy (In-Person)	25,000
Gran Fondo San Diego	7,000
Little Italy Summer Film Festival	2,500
Marine Band San Diego	800
	<u>\$139,800</u>
Rental income decreased	\$30,000

Note 15 – COVID19 Loans

In early 2021, the Association was directly impacted by the corona virus outbreak. The Association applied for and received two loans to pay various operating expenses as follows:

The Association received the Economic Injury Disaster Loan (EIDL) from the Small Business Administration of \$150,000 on July 9, 2020. All proceeds must be used solely as working capital to alleviate economic injury caused by disaster occurring from January 1, 2020 and continuing thereafter. Monthly payment, including principal and interest, of \$641 will begin twelve months from the date of the promissory note of June 30, 2020. Interest will accrue at 2.75% per annum. The balance on this note is \$148,476 as of June 30, 2021.

The Association received a second loan of \$274,105 on February 1, 2021 from the Paycheck Protection Program ("PPP"). The Association has used \$242,775 of the fund for payroll, rent, and utilities expenses as of June 30, 2021 as required by the PPP. There was a remaining unused amount of \$31,330, which will be used for the same expenses within the required time period per PPP's guidelines. The Association is currently applying for loan forgiveness consideration. For any amount not forgiven, the loan must be repaid over two years at 1% interest per annum.

Note 16 – Pending Lawsuit

Little Italy Association of San Diego, Inc. is one of the nonprofit Associations 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.

On June 6, 2018, 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.

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.

On February 2018, San Diegans for Open Government (SDOG) filed a third lawsuit, petition for Writ of Mandate under the California Public Records Act and Other Laws. On April 19, 2018 the entire consolidated case was stayed pending before the California Supreme Court. As of October 19, 2018, the date the last status conference was held, this matter is still stayed, pursuant to the Court's agreement to stay the matter. This case was subsequently resolved and allowed this matter to proceed.

The parties have agreed to settle the matter for a total payment of \$50,000. With the City of San Diego taking on a disproportionate share, each BID will pay \$2,529. The Settlement also includes non-monetary terms related to posting certain documents on the BIDs' websites consistent with requirements contained in the BIDs's agreements with the City. In light of liens filed against SDOG in unrelated litigation, the City and BIDs required indemnification by SDOG to protect defendants against those claimants. The Parties have recently come to a favorable settlement, with the Association paying \$2,529. The Settlement Agreement is now being circulated for final approval and signature.