

LITTLE ITALY ASSOCIATION OF SAN DIEGO
Financial Statements
For The Year Ended June 30, 2020
And
Independent Auditors' Report

LITTLE ITALY ASSOCIATION OF SAN DIEGO
Financial Statements
June 30, 2020

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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, 2020, 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, 2020, 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
February 18, 2021

Little Italy Association
Statements of Financial Position
June 30, 2020

ASSETS

Current Assets	
Cash in Banks	\$ 579,105
Accounts Receivable	78,689
Investments (Note 4)	11,203
Total Current Assets	<u>668,998</u>
Property & Equipment	
Vehicles	102,715
Equipment	125,881
Web Design Cost	10,400
Leasehold Improvements	61,728
Less Accumulated Depreciation	<u>(150,618)</u>
Total Fixed Assets	<u>150,106</u>
Total Assets	<u><u>\$ 819,104</u></u>

LIABILITIES & NET ASSETS

Liabilities:	
Accounts Payable	\$ 3,906
Accrued Interest Liability	1,016
Current Portion of Loan Payable (Note 7)	18,288
Total Current Liabilities	<u>23,210</u>
Long Term Liab	
Notes Payable (Note 7)	14,441
PPP Loan (Note 5)	252,029
Total Long Term Liabilities	<u>266,470</u>
Total Liabilities	<u>289,680</u>
Net Assets	
Without donor restrictions:	
Undesignated	529,423
With donor restrictions	-
	<u>529,423</u>
Total Net Assets	<u>529,423</u>
Total Liabilities & Net Assets	<u><u>\$ 819,104</u></u>

See Accountant's accompanying notes and report.

Little Italy Association
Statement of Activities
For the Year Ended June 30, 2020

CHANGES IN UNRESTRICTED NET ASSETS:	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue			
Assessment District and Public:			
SBEP - (Public)	\$ -	\$ 32,004	\$ 32,004
BID Reimbursement - (Assessment)	107,824	-	107,824
MAD Reimbursement - (Assessment)	1,063,637	-	1,063,637
Government Grant Income	-	142,155	142,155
Net Assets Released from Restrictions	174,160	(174,160)	-
Parking District Reimbursement - (Public)	<u>937,527</u>	<u>-</u>	<u>937,527</u>
Total Assessment District and Public	2,283,148	-	2,283,148
Non Assessment Non-Public Funding			
Mercato	696,175	-	696,175
Other Events and Programs	305,229	-	305,229
Other Income	16,793	-	16,793
Total Revenue	<u>3,301,345</u>	<u>-</u>	<u>3,301,345</u>
Expenses:			
Program & Event Expenses	3,229,479	-	3,229,479
General & Administrative	<u>41,237</u>	<u>-</u>	<u>41,237</u>
Total Program, Event & General & Administrative Expenses	3,270,717	-	3,270,717
Increase/ (Decrease) in Unrestricted Net Assets	<u>30,628</u>	<u>-</u>	<u>30,628</u>
Increase/ (Decrease) in Net Assets	<u>30,628</u>	<u>-</u>	<u>30,628</u>
Net Assets, Beginning of Year	498,795	-	498,795
Net Assets, End of Year	<u>\$ 529,423</u>	<u>\$ -</u>	<u>\$ 529,423</u>

See Accountant's accompanying notes and report.

LITTLE ITALY ASSOCIATION
Statement of Functional Expenses
For the Year Ended June 30, 2020

	<u>PROGRAM & EVENTS</u>	<u>GENERAL & ADMINISTRATIVE</u>	<u>TOTAL</u>
Administration of MAD Contract	\$ 121,546	\$ 21,449	\$ 142,996
Administration of BID Contract and Association's Activities	65,004	11,471	76,475
Personnel Costs for MAD employees:			
Salaries	662,987	-	662,987
Bonuses	7,400	-	7,400
Workers' Compensation Insurance	36,059	-	36,059
Medical & Dental Benefits	71,192	-	71,192
Payroll Taxes & Processing Fees	49,709	-	49,709
P/R Credit- Families First Act	(1,274)	-	(1,274)
Event/Program Expenses			
Program	397,730	-	397,730
Mercato	358,119	-	358,119
Parking	931,421	-	931,421
SBEP	23,374	-	23,374
Auto Expenses	34,388	-	34,388
Bank Charges	153	-	153
Cleaning and Janitorial Supplies	34,588	-	34,588
Depreciation	29,244	-	29,244
Dues & Subscriptions	2,667	-	2,667
Dumpster Services	26,109	-	26,109
Equipment	15,715	-	15,715
Equipment Rental	9,904	-	9,904
Insurance	72,706	-	72,706
Interest Expense	914	-102	1,016
Licenses, Permits & Taxes	153	17	170
Marketing & Promotion	27,500	-	27,500
Meals & Entertainment	1,450	-	1,450
Miscellaneous	6,638	-	6,638
Nursery Supplies & Tree Maintenance	51,556	-	51,556
Office Supplies	23,805	-	23,805
Office Expense	(799)	(141)	(941)
Postage & Printing	3,644	405	4,049
Professional Services	47,022	-	47,022
Rent	41,341	4,593	45,935
Repairs	4,866	-	4,866
Street Cleaning & Beautification	27,025	-	27,025
Telephone	10,682	1,187	11,868
Uniforms	5,822	-	5,822
Utilities	19,385	2,154	21,539
Other	9,734	-	9,734
Total Expenses	<u>\$ 3,229,479</u>	<u>\$ 41,237</u>	<u>\$ 3,270,717</u>

See accountant's accompanying notes and report.

Little Italy Association
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash Flows from Operating Activities:	
Increase in Net Assets	\$ 30,628
Adjustments to Reconcile Net Assets to Net Cash Provided by Operating Activities:	
Depreciation Expense	29,244
(Increase)/Decrease in Prepaid Valet Service	1,000
(Increase)/Decrease in Accounts Receivable	74,933
(Increase)/Decrease in Inventory	1,020
Increase/(Decrease) in Account Payable	(24,538)
Increase/(Decrease) in Advances/Grants	(122,747)
Increase/(Decrease) in Interest Liability	1,016
Total Adjustments	<u>(40,073)</u>
Net Cash Provided by Operating Activities	<u>(9,445)</u>
Cash Flows from Investing Activities	
Purchase of vehicles & equipment	(94,412)
Retirement of Auto (Ford F150)	(10,500)
Net Cash Used by Investing Activities	<u>(104,912)</u>
Cash Flows from Financing Activities	
Repayments of principal	(10,220)
Proceeds from loan	13,998
Cash received from PPP loan, net of issuance costs paid	252,029
Net Cash used by Financing Activities	<u>255,807</u>
Net Increase/(Decrease) in Cash	141,450
Cash at Beginning of Period	<u>437,654</u>
Cash at End of Period	<u>\$ 579,105</u>

See Accountant's accompanying notes and report.

LITTLE ITALY ASSOCIATION OF SAN DIEGO

Notes to Financial Statements

June 30, 2020

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 Associations 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 February 8, 2021, which is the date the financial statements are available for issuance and concluded that the below event needed to be disclosed.

In early 2020, the Association was directly impacted by the coronavirus outbreak (COVID-19). On January 31, 2020, U.S. Health and Human Services Secretary declared a public health emergency for the United States. In March 2020, 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>

Valet Program Suspended:

Valet program suspended on 3/18/20 \$350,000

Staff Layoffs:

On March 18, 2020, the Association had to lay off 19 valet employees and 6 Mercato employees.

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	\$ 119,571
Checking – BID	10,567
Checking – Mercato Account	13,628
Checking – Payroll	155,358
Checking – Programs Account	64,461
Checking – Parking District	47,768
Savings Account	<u>167,752</u>
Total Cash in Banks	<u>579,105</u>

NOTE 3 – Accounts Receivable

The balance in accounts receivable of \$78,689 as of June 30, 2020, represent the unpaid claims submitted to the City of San Diego for expenditures incurred through June 30, 2020 and other receivables as follows:

Parking District	\$ 72,818
Maintenance Assessment District	200
BID	4,571
Other	<u>1,100</u>
Total	<u>\$ 78,689</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 \$11,203 as of June 30, 2020, net of income and expenses.

Note 5 – Paycheck Protection Program

In early 2020, the Association was directly impacted by the corona virus outbreak. The Association applied for and received a loan to pay various operating expenses as follows:

The Association received a loan of \$252,029 on May 6, 2020 from the Paycheck Protection Program (“PPP”). The Association has used \$122,782 of the fund for payroll, rent, and utilities expenses as of June 30, 2020 as required by the PPP. There was a remaining unused amount of \$129,247, 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 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 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 \$3,860.

See note 9 – Lease Commitment, below.

NOTE 7 – Notes Payable

The notes payable outstanding as of June 30, 2020 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.	\$ 9,331
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	9,400
Note Payable to Lease Consultants Corporation with a 36 monthly installments of \$673 of principal through October 14, 2022; with 0% interest. Proceeds were used to purchase pressure washer.	<u>13,998</u>
Total Notes Payable	32,729
Less current portion as of June 30, 2020	<u>18,288</u>
Long-term portion as of June 30, 2020	<u>\$ 14,441</u>

NOTE 8 – 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 9 – Lease Commitment

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

<u>Period Ending June 30</u>	<u>Amount</u>
2121	\$29,856

NOTE 10 – Related Parties

The Association, during the year June 30, 2020 paid New City America Inc. \$36,626 to administer the BID contract and all other Association's activities (non-MAD and non-parking,), \$23,374 from the SBEP contract to partially pay to administer the BID and all other Association's activities (non-MAD and non-parking), \$ 65,404 to administer the MAD contract, \$168,405 to administer the Community Parking Program, \$154,246 to administer non-MAD and Non-Parking activities, \$46,320 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 11 – 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 filed a third lawsuit, petition for Writ of Mandate under the California Public Records Act and Other Laws. On April 19, 2019 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. A Case Management Conference was held on November 13, 2020 and the trial date is set for December 3, 2021.