

BONK, CUSHMAN, EAGLE & GARCIA
CERTIFIED PUBLIC ACCOUNTANTS

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**HILLCREST BUSINESS
IMPROVEMENT ASSOCIATION, INC.**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2023 & 2022**

TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES – 2023	5
STATEMENT OF FUNCTIONAL EXPENSES – 2022	6
STATEMENTS OF CASH FLOWS	7
NOTES TO THE FINANCIAL STATEMENTS	8 - 11

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Hillcrest Business Improvement Association, Inc.
San Diego, CA

Opinion

We have audited the accompanying financial statements of Hillcrest Business Improvement Association, Inc., (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillcrest Business Improvement Association, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hillcrest Business Improvement Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hillcrest Business Improvement Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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Auditor's Responsibilities for the Audit of the Financial Statements, continued

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hillcrest Business Improvement Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hillcrest Business Improvement Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Bonk, Cushman, Eagle & Garcia

December 6, 2023

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 & 2022

	<u>2023</u>	<u>2022</u>
ASSETS:		
Cash and Cash Equivalents	\$ 50,061	\$ 60,124
Accounts Receivable	42,650	44,043
Prepaid Expenses	48,939	64,781
Total Current Assets	<u>141,650</u>	<u>168,948</u>
Total Assets	<u>\$ 141,650</u>	<u>\$ 168,948</u>
LIABILITIES:		
Accounts Payable and Accrued Expenses	\$ 26,247	\$ 67,645
Deferred Revenue	58,245	34,935
Total Current Liabilities	<u>84,492</u>	<u>102,580</u>
Total Liabilities	<u>\$ 84,492</u>	<u>\$ 102,580</u>
NET ASSETS:		
Without Donor Restrictions	\$ 57,158	\$ 66,368
Total Net Assets	<u>57,158</u>	<u>66,368</u>
Total Liabilities & Net Assets	<u>\$ 141,650</u>	<u>\$ 168,948</u>

The Accompanying Notes are an Integral Part of the Financial Statements

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2023 & 2022

	2023	2022
<u>Operating Activities</u>		
SUPPORT AND REVENUE:		
Farmers Market Income	\$ 316,371	\$ 298,658
BID Reimbursements	88,653	90,000
Other Income	188,496	189,514
Hillcrest Maintenance Assessment District	100,990	100,400
Pride of Hillcrest/Block Party	176,693	284,304
Other Events	290,487	141,958
Total Support and Revenue	1,161,690	1,104,834
 OPERATING EXPENSES:		
Program services:		
Neighborhood Outreach and Community Events	547,412	580,665
Hillcrest Maintenance Assessment District	94,229	100,400
Total Program Services	641,641	681,065
Supporting Services:		
Management and General	335,124	354,906
Total Program and Supporting Services	976,765	1,035,971
Cost of direct benefits to donors	194,135	108,144
Total Operating Expenses	1,170,900	1,144,115
 Change in Net Assets Without Donor Restrictions	(9,210)	(39,281)
 Net Assets, Beginning of Year	66,368	105,649
 Net Assets, End of Year	\$ 57,158	\$ 66,368

The Accompanying Notes are an Integral Part of the Financial Statements

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	Program Services			Supporting Services	
	Neighborhood Outreach and Community Events	Hillcrest Maintenance Assessment District	Total Program Services	Management and General	Total
	Expenses				
Salaries & Wages	\$ 186,612	\$ 26,974	\$ 213,586	\$ 57,379	\$ 270,965
Payroll Taxes & Employee Benefits	26,560	2,482	29,042	20,465	49,507
Total Payroll & Related Expenses	213,172	29,456	242,628	77,844	320,472
Community Physical Improvements	9,226	63,340	72,566	136,027	208,593
Professional Services	31,052	1,433	32,485	26,052	58,537
Neighborhood Outreach & Promotion	217,473	-	217,473	19,022	236,495
Office Expense	17,727	-	17,727	17,420	35,147
Occupancy	33,676	-	33,676	33,673	67,349
Insurance	23,012	-	23,012	23,012	46,024
Miscellaneous	2,074	-	2,074	2,074	4,148
Total Expenses	\$ 547,412	\$ 94,229	\$ 641,641	\$ 335,124	\$ 976,765

The Accompanying Notes are an Integral Part of the Financial Statements

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services			Supporting Services	Total
	Neighborhood Outreach and Community Events	Hillcrest Maintenance Assessment District	Total Program Services	Management and General	
Expenses					
Salaries & Wages	\$ 111,727	\$ -	\$ 111,727	\$ 71,263	\$ 182,990
Payroll Taxes & Employee Benefits	17,825	-	17,825	16,834	34,659
Total Payroll & Related Expenses	<u>129,552</u>	<u>-</u>	<u>129,552</u>	<u>88,097</u>	<u>217,649</u>
Community Physical Improvements	57,997	98,800	156,797	168,369	325,166
Professional Services	55,627	1,600	57,227	37,864	95,091
Neighborhood Outreach & Promotion	284,271	-	284,271	8,178	292,449
Office Expense	16,959	-	16,959	16,139	33,098
Occupancy	13,764	-	13,764	13,764	27,528
Insurance	19,040	-	19,040	19,040	38,080
Miscellaneous	3,455	-	3,455	3,455	6,910
Total Expenses	<u>\$ 580,665</u>	<u>\$ 100,400</u>	<u>\$ 681,065</u>	<u>\$ 354,906</u>	<u>\$ 1,035,971</u>

The Accompanying Notes are an Integral Part of the Financial Statements

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2023 & 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (9,210)	\$ (39,281)
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) Provided by Operating Activities:		
SBA PPP Loan (Forgiven)	-	(36,285)
(Increase) Decrease in:		
Accounts Receivable	1,393	4,497
Prepaid Expenses	15,842	(36,917)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(41,398)	48,164
Deferred Revenue	23,310	27,772
CASH FLOWS (USED) BY OPERATING ACTIVITIES:	<u>(10,063)</u>	<u>(32,050)</u>
Net (Decrease) in Cash & Cash Equivalents	(10,063)	(32,050)
Cash & Cash Equivalents, Beginning of Year	<u>60,124</u>	<u>92,174</u>
Cash & Cash Equivalents, End of Year	<u>\$ 50,061</u>	<u>\$ 60,124</u>

The Accompanying Notes are an Integral Part of the Financial Statements

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 & 2022

Note 1. 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.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting: The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of Presentation: The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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

The Organization did not have any net assets with donor restrictions as of June 30, 2023 and 2022.

Measure of Operations: The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization’s ongoing programs and interest and dividends earned on investments. Non-operating 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.

Revenue Recognition: Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 & 2022

Note 2. Summary of Significant Accounting Policies, continued

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, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as endowment funds. The income earned from such assets is generally restricted to the purpose designated by the donor.

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.

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 the City of San Diego for expenditures incurred through the end of the fiscal year and other receivables. An allowance for doubtful accounts is based on an analysis of expected collection rates determined from past history. No allowance for doubtful accounts was considered necessary as of June 30, 2023 and 2022.

Deferred Revenue: Deferred revenue consists of Block Party and City Fest income received in these two fiscal years that was not earned until the events occurred in July and August of 2023 and 2022, respectively.

Functional Allocation of Expenses: The statement of functional expenses presents expense by function and natural classification. Expenses directly attributable to a specific functional area of the Organization 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.

Use of Estimates: The preparation of the 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, disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Income Tax Status

The Organization is a California Not-For-Profit corporation exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(6) and California State Tax Code 23701(e), respectively. The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Accounting for Uncertainties in Income Tax*, 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 Organization has reviewed its position for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

Some of the operations of the Organization are subject to unrelated business income tax (UBIT).

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 & 2022

Note 4. 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.

Note 5. Accounts Receivable

Accounts receivable consists of the following at June 30, 2023 and 2022:

	<u>06/30/2023</u>	<u>06/30/2022</u>
City of San Diego Contracts	\$ 29,956	\$ 23,408
Farmers Market	7,303	17,032
Other Receivables	<u>5,391</u>	<u>3,603</u>
	<u>\$ 42,650</u>	<u>\$ 44,043</u>

Note 6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consists of the following at June 30, 2023 and 2022:

	<u>06/30/2023</u>	<u>06/30/2022</u>
Accounts Payable	\$ 2,000	\$ 55,001
Payroll Related Payables	4,247	10,683
Accrued Expenses	-	1,961
Payable to Hillcrest Community Foundation	<u>20,000</u>	<u>-</u>
	<u>\$ 26,247</u>	<u>\$ 67,645</u>

As of the date of this report, the amount payable to the Hillcrest Community Foundation has been paid and there is no outstanding balance.

Note 7. Office Occupancy

The Organization leases office space at 1601-07 University Avenue, San Diego, California under an operating lease agreement. On March 18, 2022, the Organization entered into this lease agreement with an initial lease term of April 1, 2022 through March 31, 2023, with monthly base rent of \$4,500 and a \$5,000 security deposit. This lease will continue on a month-to-month basis upon conclusion of the original lease term. Rent expenses under this lease in the years ended June 30, 2023 and 2022 were \$59,492 and \$10,456, respectively.

HILLCREST BUSINESS IMPROVEMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 & 2022

Note 8. SBA PPP Loan

The Organization received a promissory note from California Bank and Trust for the Paycheck Protection Program (PPP) to help the Organization through the COVID-19 pandemic. On February 8, 2021, the Organization received a promissory note in the amount of \$36,285 with a fixed annual interest rate of 1%.

The Organization submitted their forgiveness application and on August 2021, California Bank and Trust informed the Organization that all principal and interest was forgiven in full. The forgiven amount of \$36,285 is included in Other Income on the Statement of Activities in the year ended June 30, 2022.

Note 9. Liquidity and Availability of Financial Assets

The Organization's working capital and cash flows are relatively consistent throughout the year due to monthly invoicing on City of San Diego contracts and a weekly Farmers Market. For months in which special events occur the Organization receives grants, contributions and sponsorships for the events corresponding to the timing of the event. To manage liquidity the Organization maintains adequate cash balances. The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>06/30/2023</u>	<u>06/30/2022</u>
<u>Financial Assets</u>		
Cash and Cash Equivalents	\$ 50,061	\$ 60,124
Accounts Receivable	42,650	44,043
Less those unavailable for general expenditure within one year: none	<u> -</u>	<u> -</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 92,711</u>	<u>\$ 104,167</u>

Note 10. Subsequent Events

The management of the Organization have reviewed the results of operations and evaluated subsequent events for the period of time from its year end June 30, 2023 through December 6, 2023, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.