

**Downtown San Diego Partnership**

**Financial Statements  
(With Supplementary Information)  
and Independent Auditor's Report**

**June 30, 2014 and 2013**

DRAFT

# Downtown San Diego Partnership

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## Independent Auditor's Report

To the Board of Directors  
Downtown San Diego Partnership

We have audited the accompanying financial statements of Downtown San Diego Partnership (the "Partnership"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the 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 audits. We conducted our audits 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 Downtown San Diego Partnership as of June 30, 2014 and 2013, 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.

San Diego, California  
October \_\_, 2014

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**Downtown San Diego Partnership**

**Statements of Financial Position  
June 30, 2014 and 2013**

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 830,769	\$ 748,907
Accounts receivable, net	890,209	1,058,043
Prepaid expenses and other assets	78,404	112,989
Equipment and leasehold improvements, net	191,694	162,586
Total assets	<u>\$ 1,991,076</u>	<u>\$ 2,082,525</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 190,849	\$ 314,853
Accrued expenses	179,582	149,377
PBID advance from the City of San Diego	817,000	817,000
Deferred rent	14,580	19,844
Deferred revenue	360,018	310,627
Total liabilities	<u>1,562,029</u>	<u>1,611,701</u>
Commitments and contingencies		
Unrestricted net assets	<u>429,047</u>	<u>470,824</u>
Total liabilities and net assets	<u>\$ 1,991,076</u>	<u>\$ 2,082,525</u>

See Notes to Financial Statements.

**Downtown San Diego Partnership**  
**Statements of Activities**  
**Years Ended June 30, 2014 and 2013**

	2014	2013
Revenue and other income:		
PBID assessments and parks reimbursements	\$ 5,405,051	\$ 5,130,258
Membership dues and renewals	530,544	498,375
Special events	566,183	510,773
Transit pass program	441,524	449,609
BID income	81,052	71,042
Banner	35,550	35,650
Other income	-	9,400
Interest income	892	1,096
Total revenue and other income	7,060,796	6,706,203
Expenses:		
Programs:		
PBID	5,380,212	5,016,265
Downtown San Diego Partnership	840,726	832,539
BID	56,052	56,490
Management and general	570,962	568,249
Special events - costs of direct benefits to donors	138,753	138,952
Special events - other expenses	115,868	120,759
Total expenses	7,102,573	6,733,254
Change in net assets	(41,777)	(27,051)
Unrestricted net assets:		
Beginning of year	470,824	497,875
End of year	\$ 429,047	\$ 470,824

See Notes to Financial Statements.

**Downtown San Diego Partnership**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	2014	2013
Operating activities:		
Change in net assets	\$ (41,777)	\$ (27,051)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	60,738	47,677
Deferred rent	(5,264)	8,534
Changes in operating assets and liabilities:		
Accounts receivable	167,834	(97,373)
Prepaid expenses and other assets	34,585	(26,944)
Accounts payable	(124,004)	46,869
Accrued expenses	30,205	33,239
Deferred revenue	49,391	64,626
Net cash provided by operating activities	171,708	49,577
Investing activities:		
Purchases of equipment	(93,946)	(86,718)
Proceeds on sale of equipment	4,100	-
Net cash used in investing activities	(89,846)	(86,718)
Increase (decrease) in cash and cash equivalents	81,862	(37,141)
Cash and cash equivalents:		
Beginning of year	748,907	786,048
End of year	\$ 830,769	\$ 748,907

See Notes to Financial Statements.

## **Downtown San Diego Partnership**

### **Notes to Financial Statements June 30, 2014 and 2013**

#### **Note 1 - Organization and summary of significant accounting policies**

##### **Nature of organization**

Downtown San Diego Partnership (the "Partnership"), a not-for-profit California corporation, was formed in 1993 with the merger of two prominent business associations: San Diegans, Inc. and the Central City Association. Today, the Partnership has approximately 250 members and has emerged as the leading advocate for economic growth and revitalization of downtown San Diego.

The Partnership works closely with regional business organizations and the City of San Diego (the "City") to improve the business climate for downtown San Diego and to help shape policies on issues affecting downtown. Its mission is the advancement of downtown as the economic, cultural and governmental center of the San Diego region through leadership, advocacy and education.

##### **Financial statement presentation**

The Partnership reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period. Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event, or a specific passage of time before the Partnership may spend the funds. Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for generating investment income to fund current operations. At June 30, 2014 and 2013, the Partnership did not have any temporarily restricted or permanently restricted net assets.

##### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **Concentrations of credit risk**

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Partnership maintains its cash accounts in several high-quality financial institutions. At June 30, 2014, the Partnership had approximately \$326,000 in cash and cash equivalents which exceeded Federally insured limits.

The Partnership received approximately 76% of its total revenue from the City for the years ended June 30, 2014 and 2013. At June 30, 2014 and 2013, 96% and 98%, respectively, of the accounts receivable balance was due from the City.



**Downtown San Diego Partnership**

**Notes to Financial Statements  
June 30, 2014 and 2013**

**Cash and cash equivalents**

The Partnership considers all highly-liquid investments with an original maturity date of three months or less when acquired to be cash equivalents.

**Accounts receivable and allowance for doubtful accounts**

Accounts receivable consist of amounts billed and unbilled for services provided through the end of the fiscal year. An allowance for estimated uncollectible accounts is based on past experience and on an analysis of current accounts receivable balances. Accounts deemed uncollectible are written off in the year deemed uncollectible.

**Equipment and leasehold improvements**

Equipment and leasehold improvements are stated at cost, if purchased, or fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the remaining life of the lease or useful life of the asset, whichever is shorter. The Partnership capitalizes assets which cost or have a donated value of \$1,000 or more.

Estimated useful lives, by major classification, are as follows:

Vehicles	4-5 years
Furniture and equipment	5-7 years
Computer equipment	5 years
Leasehold improvements	Shorter of useful life or term of lease

**Impairment of long-lived assets**

The Partnership evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

**Revenue recognition**

**The City (Property and Business Improvement District ("PBID") Assessments) and other sources of revenue**

Revenue from City reimbursements is recognized monthly in the period in which contracted and operating expenses are recognized, including the maintenance and repair of one public water feature.

**Membership dues and renewals**

Revenue from memberships is recognized using the straight-line method over the term of the membership. The unearned portion of membership revenue is reported as deferred revenue.

## **Downtown San Diego Partnership**

### **Notes to Financial Statements June 30, 2014 and 2013**

#### **Transit pass program**

Revenue from transit pass sales is recognized when the passes are picked up or shipped to the customer. Revenue is recorded net of any discounts or returns.

#### **Contributed services and materials**

Contributed services are recognized as contributions if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased. Volunteers also provide services throughout the year that are not recognized as contributions in the financial statements since the required recognition criteria were not met. Contributed materials and other assets are recorded as contributions at their estimated fair values at the date of receipt. No such contributions were received for the years ended June 30, 2014 and 2013.

#### **Functional allocation of expense**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### **Income taxes**

The Partnership, a California nonprofit corporation, is exempt from Federal and state income taxes under Section 501(c)(6) of the Internal Revenue Code and Section 23701(e) of the California Code.

Income tax benefits and/or liabilities are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Partnership has analyzed the tax positions taken in its filings with the Internal Revenue Service and the California Franchise Tax Board. The Partnership believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Partnership's financial condition, results of operations or cash flows. Accordingly, the Partnership has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2014 or 2013.

The Partnership's U.S. Federal and state income tax returns prior to fiscal years 2011 and 2010, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

#### **Reclassifications**

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

#### **Subsequent events**

Subsequent events have been evaluated through October \_\_, 2014, which is the date the financial statements were available to be issued.

## Downtown San Diego Partnership

### Notes to Financial Statements June 30, 2014 and 2013

#### Note 2 - Accounts receivable

At June 30, 2014 and 2013, accounts receivable consists of:

	2014	2013
City	\$ 851,984	\$ 1,029,735
Other	40,285	29,431
	<u>892,269</u>	<u>1,059,166</u>
Less allowance for doubtful accounts	2,060	1,123
	<u>\$ 890,209</u>	<u>\$ 1,058,043</u>

#### Note 3 - Equipment and leasehold improvements

At June 30, 2014 and 2013, equipment and leasehold improvements consists of:

	2014	2013
Vehicles	\$ 343,174	\$ 315,866
Furniture and equipment	406,598	374,546
Computer equipment	70,641	40,155
Leasehold improvements	21,050	21,050
	<u>841,463</u>	<u>751,617</u>
Less accumulated depreciation and amortization	649,769	589,031
	<u>\$ 191,694</u>	<u>\$ 162,586</u>

Depreciation and amortization expense was \$60,738 and \$47,677 for the years ended June 30, 2014 and 2013, respectively.

#### Note 4 - PBID contract

The Partnership has a ten-year agreement with the City to run the PBID program through June 30, 2015. In connection therewith, the Partnership received an \$817,000 non-interest bearing advance from the City. This advance must be repaid by June 30, 2015, the end of the current contractual period. The Partnership is in the final stages of negotiating an extension of the PBID program for another ten-year period.

## Downtown San Diego Partnership

### Notes to Financial Statements June 30, 2014 and 2013

#### Note 5 - Commitments and contingencies

##### Operating leases

The Partnership leases its office facilities under non-cancelable operating leases. These leases expire in fiscal year 2015. The minimum annual rentals under these leases are being charged to expense on a straight-line basis over the lease terms. Deferred rent as of June 30, 2014 and 2013 was \$14,580 and \$19,844, respectively. The Partnership entered into a new lease on July 1, 2010 which includes \$15,160 of tenant incentives, which are being amortized over the life of the lease.

Future minimum lease commitment under these agreements for the year subsequent to June 30, 2014 is \$167,685.

Total rent expense for the years ended June 30, 2014 and 2013 was \$182,949 and \$190,017, respectively.

##### Grants and contracts

The Partnership has \$9,000 of grants and \$5,486,103 of contracts with government agencies which are subject to audit for the year ended June 30, 2014. As of June 30, 2014, no such audits have been performed. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. The Partnership believes that any liability which may result from these audits would not be material.

Independent Auditor's Report  
on Supplementary Information

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To the Board of Directors  
Downtown San Diego Partnership

Our report on our audits of the basic financial statements of Downtown San Diego Partnership appears on pages 2-3. Those audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 13 through 17 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 audits 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 the 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.

The supplementary information on page 18, which is the responsibility of management, is of a nonaccounting nature and the supplementary information on page 19 which is marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the 2014 financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

San Diego, California  
October \_\_, 2014

**Downtown San Diego Partnership**

**Supplementary Information  
Statements of Financial Position - Downtown Partnership  
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 454,785	\$ 415,255
Accounts receivable, net	38,225	27,371
Prepaid expenses and other assets	31,406	26,709
Equipment and leasehold improvements, net	<u>18,682</u>	<u>6,461</u>
Total assets	<u>\$ 543,098</u>	<u>\$ 475,796</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 39,246	\$ 46,570
Accrued expenses	63,599	54,152
Deferred rent	7,508	12,772
Deferred revenue	<u>360,018</u>	<u>310,627</u>
Total liabilities	470,371	424,121
Unrestricted net assets	<u>72,727</u>	<u>51,675</u>
Total liabilities and net assets	<u>\$ 543,098</u>	<u>\$ 475,796</u>

See Independent Auditor's Report on Supplementary Information.

**Downtown San Diego Partnership**

**Supplementary Information  
Statements of Activities - Downtown Partnership  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Revenue and other income:		
Membership dues and renewals	\$ 530,544	\$ 498,375
Special events	566,183	510,773
Transit pass program	457,364	465,449
BID income	81,052	71,042
PBID income	72,000	72,000
Banner	35,550	35,650
Other income	-	9,400
Interest income	720	714
Total revenue and other income	<u>1,743,413</u>	<u>1,663,403</u>
Expenses:		
Salaries, wages and payroll taxes	591,726	516,870
Special events	254,621	259,712
Transit pass program	417,966	425,262
Rent	89,078	102,661
Miscellaneous	27,633	79,977
Employee benefits	35,214	36,441
Contract renewal - PBID	47,292	91,092
Marketing	47,571	57,139
BID expenses	56,052	56,490
Downtown business attraction	-	9,963
Membership and corporate events	18,609	14,096
Insurance	20,234	17,748
Automobile	9,842	8,477
Utilities	11,274	11,351
Office supplies	8,693	7,642
Legal and accounting	71,626	18,214
Depreciation	2,245	2,024
Postage	322	453
Dues and subscriptions	12,363	627
Banner	-	750
Total expenses	<u>1,722,361</u>	<u>1,716,989</u>
Excess (deficiency) of revenue and other income over expenses	<u>\$ 21,052</u>	<u>\$ (53,586)</u>

See Independent Auditor's Report on Supplementary Information.

**Downtown San Diego Partnership**

**Supplementary Information  
Statements of Financial Position - PBID  
June 30, 2014 and 2013**

	<u>Assets</u>	2014	2013
Cash and cash equivalents		\$ 375,984	\$ 333,652
Accounts receivable, net		851,984	1,030,672
Prepaid expenses and other assets		46,998	86,280
Equipment and leasehold improvements, net		173,012	156,125
Total assets		<u>\$ 1,447,978</u>	<u>\$ 1,606,729</u>
	<u>Liabilities and Net Assets</u>		
Liabilities:			
Accounts payable		\$ 151,603	\$ 268,283
Accrued expenses		115,983	95,225
PBID advance from the City of San Diego		817,000	817,000
Deferred rent		7,072	7,072
Total liabilities		<u>1,091,658</u>	<u>1,187,580</u>
Unrestricted net assets		356,320	419,149
Total liabilities and net assets		<u>\$ 1,447,978</u>	<u>\$ 1,606,729</u>

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**Downtown San Diego Partnership**  
**Supplementary Information**  
**Statements of Activities - PBID**  
**Years Ended June 30, 2014 and 2013**

	2014	2013
Revenue and other income:		
PBID assessments and parks reimbursement	\$ 5,405,051	\$ 5,130,258
Interest income	172	382
Total revenue and other income	5,405,223	5,130,640
Expenses:		
Contractual services	1,923,509	2,012,290
Salaries, wages and payroll taxes	2,010,205	1,780,700
Employee benefits	433,040	397,186
Utilities	156,475	158,548
Repairs and maintenance	111,751	110,560
Rent	93,781	87,356
Insurance	111,897	107,919
Cleaning and janitorial supplies	123,602	106,872
Miscellaneous	88,754	43,327
Depreciation	58,494	45,653
Legal and accounting	37,126	19,081
Uniforms	11,769	6,361
Office supplies	7,440	8,711
Equipment outlay	298,815	217,648
Travel and training	1,021	1,244
Postage	373	649
Total expenses	5,468,052	5,104,105
(Deficiency) excess of revenue and other income over expenses	\$ (62,829)	\$ 26,535

See Independent Auditor's Report on Supplementary Information.

**Downtown San Diego Partnership**

**Supplementary Information  
Financial Statement Reconciliation to Final City Invoice  
Year Ended June 30, 2014**

Total expenses per statement of activities - PBID	\$ 5,468,052
Equipment purchases	75,385
Unallowed depreciation expense	(58,494)
Unallowed legal expense	(5,000)
Adjustment to record accrued salaries and related payroll taxes at June 30, 2014	(20,759)
Non-cash accrual corrections	(54,133)
Total expenses per final invoice to the City	<u>\$ 5,405,051</u>

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# Downtown San Diego Partnership



DOWNTOWN  
**SAN DIEGO**  
PARTNERSHIP  
Statement of Compliance

September 26, 2014

To Whom It May Concern:

The Downtown San Diego Partnership Clean and Safe is in compliance with all the City of San Diego requirements, such as general requirements, compensation, and reimbursement, record keeping and insurance as set forth in the agreements between the City of San Diego and Downtown San Diego Partnership Clean and Safe Program.

Respectfully,

A handwritten signature in blue ink, appearing to read "Bahija Hamraz", is written over a large, light gray "DRAFT" watermark that is oriented diagonally across the page.

Bahija Hamraz

Executive Director

**Downtown San Diego Partnership**

**Supplementary Information  
Budget Versus Actual - PBID  
Year Ended June 30, 2014  
(unaudited)**

	Budget Billed	Actual Billed	Invoiced Difference
Assessments	\$ 5,911,025	\$ 5,840,750	\$ (70,275)
Parks	13,600	24,301	10,701
Interest Income	360	172	(188)
Total Revenue and Other Income	<u>5,924,985</u>	<u>5,865,223</u>	<u>(59,762)</u>
Office Supplies	6,000	7,436	1,436
Postage / Mailing	1,000	373	(627)
District Mailings / Web Services	15,000	3,331	(11,669)
Cleaning / Janitorial Supplies	100,000	123,602	23,602
Cement and Aggregates	5,000	5,622	622
Dry Goods / Uniforms	8,000	11,769	3,769
Other Repairs / Maintenance	50,000	44,490	(5,510)
Vehicle Fuel	64,000	61,639	(2,361)
Audit Services	20,000	17,911	(2,089)
Vehicle Insurance	22,000	16,686	(5,314)
Misc. Services / Supplies	156,750	329,146	172,396
Leasing / Purchasing (Equipment)	10,000	45,054	35,054
Payroll Services/Parking/Misc	25,000	26,636	1,636
Rents / Leases	94,000	93,781	(219)
Training	5,000	848	(4,152)
Travel	1,000	173	(827)
Photocopy	4,800	4,657	(143)
Fidelity and General Liability Insurance	86,000	95,211	9,211
Workers Comp / EE Benefits	696,442	642,350	(54,092)
Insurance Other / Benefits	32,354	32,354	-
Salary and Wages	1,797,254	1,645,301	(151,953)
Salaries and Wages Medians	90,820	102,481	11,661
Misc. Contract Services	1,940,705	1,851,509	(89,196)
Program Oversight	72,000	72,000	-
Waste Removal	60,000	63,827	3,827
Telephones	2,500	2,617	117
Cell Phones	18,000	21,666	3,666
Electric Services	35,000	31,514	(3,486)
Water Services	41,000	36,852	(4,148)
Legal Expenses	5,000	14,215	9,215
Total Reimbursable Expenses	<u>5,464,625</u>	<u>5,405,051</u>	<u>(59,574)</u>
Interest / City Admin Charges	130,000	130,000	-
Lighting Expense	330,000	330,000 *	-
Total Other Expenses	<u>460,000</u>	<u>460,000</u>	<u>-</u>
Net Income	<u>\$ 360</u>	<u>\$ 172</u>	<u>\$ (188)</u>

\* This amount is based on preliminary data from the City which is pending detailed verification.

See Independent Auditor's Report on Supplementary Information.