



# Downtown San Diego Partnership Audit Committee

October 22, 2015 2:00 p.m.

401 B Street, Suite 100, San Diego, CA 92101

## Welcome

- Non Agenda Public Comment
- Introduction of CohnReznick Staff and Audit Committee Members

## Overview

- CohnReznick Staff to discuss required communications
- CohnReznick Staff to review draft audit results
- Audit Committee to Approve Audit

Action

## Adjourn



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**Downtown San Diego Partnership**

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

**June 30, 2015 and 2014**

PRELIMINARY DRAFT FOR  
REVIEW AND DISCUSSION  
ONLY - SUBJECT TO  
CHANGE

## 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, 2015 and 2014, 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, 2015 and 2014, 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 \_\_, 2015

**Downtown San Diego Partnership**

**Statements of Financial Position  
June 30, 2015 and 2014**

Assets

	2015	2014
Cash and cash equivalents	\$ 559,318	\$ 830,769
Accounts receivable, net	499,308	890,209
Prepaid expenses and other assets	19,714	78,404
Equipment and leasehold improvements, net	191,836	191,694
Total assets	<u>\$ 1,270,176</u>	<u>\$ 1,991,076</u>

Liabilities and Net Assets

Liabilities		
Accounts payable	\$ 232,640	\$ 190,849
Accrued expenses	205,336	250,707
PBID advance from the City of San Diego	-	817,000
Deferred rent	-	14,580
Deferred revenue	390,491	360,018
Total liabilities	<u>828,467</u>	<u>1,633,154</u>
Commitments and contingencies		
Unrestricted net assets	<u>441,709</u>	<u>357,922</u>
Total liabilities and net assets	<u>\$ 1,270,176</u>	<u>\$ 1,991,076</u>

See Notes to Financial Statements.

**Downtown San Diego Partnership**  
**Statements of Activities**  
**Years Ended June 30, 2015 and 2014**

	2015	2014
Revenue and other income		
PBID assessments and parks reimbursements	\$ 6,211,496	\$ 5,405,051
Membership dues and renewals	596,043	530,544
Special events	590,974	566,183
Transit pass program	419,035	441,524
BID income	87,175	81,052
Banner	47,200	35,550
Interest income	914	892
	<u>7,952,837</u>	<u>7,060,796</u>
Total revenue and other income		
Expenses		
Programs		
PBID	6,098,217	5,380,212
Downtown San Diego Partnership	896,906	840,726
BID	62,175	56,052
Management and general	524,744	642,087
Special events - costs of direct benefits to donors	173,400	138,753
Special events - other expenses	113,608	115,868
	<u>7,869,050</u>	<u>7,173,698</u>
Total expenses		
Change in net assets	83,787	(112,902)
Unrestricted net assets		
Beginning of year	357,922	470,824
End of year	<u>\$ 441,709</u>	<u>\$ 357,922</u>

See Notes to Financial Statements.

**Downtown San Diego Partnership**  
**Statements of Cash Flows**  
**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Operating activities		
Change in net assets	\$ 83,787	\$ (112,902)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	60,584	60,738
Deferred rent	(14,580)	(5,264)
Changes in operating assets and liabilities		
Accounts receivable	(426,099)	167,834
Prepaid expenses and other assets	58,690	34,585
Accounts payable	41,791	(124,004)
Accrued expenses	(45,371)	101,330
Deferred revenue	30,473	49,391
Net cash provided by (used in) operating activities	<u>(210,725)</u>	<u>171,708</u>
Investing activities		
Purchases of equipment	(60,726)	(93,946)
Proceeds on sale of equipment	-	4,100
Net cash used in investing activities	<u>(60,726)</u>	<u>(89,846)</u>
Increase (decrease) in cash and cash equivalents	(271,451)	81,862
Cash and cash equivalents		
Beginning of year	<u>830,769</u>	<u>748,907</u>
End of year	<u>\$ 559,318</u>	<u>\$ 830,769</u>
Supplemental schedule of noncash financing activities		
Reduction of advance from PBID due to accounts receivable withholdings	<u>\$ 817,000</u>	<u>\$ -</u>

See Notes to Financial Statements.

## **Downtown San Diego Partnership**

### **Notes to Financial Statements June 30, 2015 and 2014**

#### **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, 2015 and 2014, 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, 2015, the Partnership had approximately \$135,000 in cash and cash equivalents which exceeded Federally insured limits.

The Partnership received approximately 78% and 76% of its total revenue from the City for the years ended June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, 86% and 96%, respectively, of the accounts receivable balance was due from the City.

##### **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.



## Downtown San Diego Partnership

### Notes to Financial Statements June 30, 2015 and 2014

#### 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.

*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, 2015 and 2014.

#### 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.

## Downtown San Diego Partnership

### Notes to Financial Statements June 30, 2015 and 2014

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, 2015 or 2014.

The Partnership's U.S. Federal and state income tax returns prior to fiscal years 2012 and 2011, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

#### Subsequent events

Subsequent events have been evaluated through October \_\_, 2015 which is the date the financial statements were available to be issued.

#### Note 2 - Accounts receivable

At June 30, 2015 and 2014, accounts receivable consists of:

	2015	2014
City	\$ 431,607	\$ 851,984
Other	69,761	40,285
	<u>501,368</u>	<u>892,269</u>
Less allowance for doubtful accounts	(2,060)	(2,060)
	<u>\$ 499,308</u>	<u>\$ 890,209</u>

#### Note 3 - Equipment and leasehold improvements

At June 30, 2015 and 2014, equipment and leasehold improvements consists of:

	2015	2014
Vehicles	\$ 348,675	\$ 343,174
Furniture and equipment	425,795	406,598
Computer equipment	106,670	70,641
Leasehold improvements	21,050	21,050
	<u>902,190</u>	<u>841,463</u>
Less accumulated depreciation and amortization	(710,354)	(649,769)
	<u>\$ 191,836</u>	<u>\$ 191,694</u>

Depreciation and amortization expense was \$60,584 and \$60,738 for the years ended June 30, 2015 and 2014, respectively.

## Downtown San Diego Partnership

### Notes to Financial Statements June 30, 2015 and 2014

#### 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 a \$817,000 non-interest bearing advance from the City. This advance was repaid prior to June 30, 2015. Subsequent to June 30, 2015, the PBID contract was renegotiated for a new 10 year term (see Note 6).

To operate the PBID program, the City assesses certain taxes over property owners in Downtown San Diego. These PBID assessment funds are held by the City to be used against future reimbursements for the PBID program, and are not included on the Partnership's statements of financial position. As of June 30, 2015, these funds totaled approximately \$427,000.

#### Note 5 - Commitments and contingencies

##### Operating leases

The Partnership leases its office facilities under non-cancelable operating leases. These leases expired in fiscal year 2015, and were continued on a month-to-month basis through the year ended June 30, 2015. The minimum annual rentals under these leases were being charged to expense on a straight-line basis over the lease terms. Deferred rent as of June 30, 2015 and 2014 was \$0 and \$14,580, respectively. The Partnership entered into a lease on July 1, 2010 which included \$15,160 of tenant incentives, which were amortized over the life of the lease, and fully amortized as of June 30, 2015.

During fiscal year 2016, the Organization entered into two non-cancelable operating leases (see Note 6). Future minimum lease commitments under these agreements for the years subsequent to June 30, 2015 are approximately as follows:

Year Ending June 30,	
2016	\$ 143,000
2017	186,000
2018	194,000
2019	201,000
2020	209,000
Thereafter	411,000
Total	<u>\$ 1,344,000</u>

Total rent expense for the years ended June 30, 2015 and 2014 was \$179,400 and \$182,949, respectively.

##### Grants and contracts

The Partnership has \$6,298,671 of contracts with government agencies which are subject to audit for the year ended June 30, 2015. As of June 30, 2015, 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.

**Downtown San Diego Partnership**

**Notes to Financial Statements  
June 30, 2015 and 2014**

**Note 6 - Subsequent events**

On July 1, 2015, the Partnership executed a ten-year agreement with the City to run the PBID program through June 30, 2025. In connection therewith, the Partnership received a \$1,000,000 non-interest bearing advance from the City. This advance must be repaid by June 30, 2025, the end of the new contractual period.

The Organization entered into two non-cancelable operating leases for its existing office facilities on September 21, 2015 and October 1, 2015. These leases have 8 and 5 year terms and expire on June 30, 2023 and December 31, 2020, respectively.

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Independent Auditor's Report on Supplementary Information

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 page 2. Those audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 12 through 16 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 17, which is the responsibility of management, is of a nonaccounting nature and the supplementary information on page 18, which is marked "unaudited," has not been subjected to the auditing procedures applied in the audit of the 2015 financial statements. Accordingly, we do not express an opinion or provide any assurance on such information.

San Diego, California  
October \_\_, 2015

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**Downtown San Diego Partnership**

**Statements of Financial Position - Downtown Partnership  
June 30, 2015 and 2014**

Assets

	2015	2014
Cash and cash equivalents	\$ 474,343	\$ 454,785
Accounts receivable, net	67,702	38,225
Prepaid expenses and other assets	19,362	31,406
Equipment and leasehold improvements, net	31,231	18,682
Total assets	<u>\$ 592,638</u>	<u>\$ 543,098</u>

Liabilities and Net Assets

Liabilities		
Accounts payable	\$ 16,594	\$ 39,246
Accrued expenses	70,555	63,599
Deferred rent	-	7,508
Deferred revenue	390,491	360,018
Total liabilities	477,640	470,371
Unrestricted net assets	114,998	72,727
Total liabilities and net assets	<u>\$ 592,638</u>	<u>\$ 543,098</u>

See Independent Auditor's Report on Supplementary Information.

# Downtown San Diego Partnership

## Statements of Activities - Downtown Partnership Years Ended June 30, 2015 and 2014

	2015	2014
Revenue and other income		
Membership dues and renewals	\$ 596,043	\$ 530,544
Special events	590,974	566,183
Transit pass program	419,035	457,364
BID income	87,175	81,052
PBID income	72,000	72,000
Banner	47,200	35,550
Interest income	676	720
	<hr/>	<hr/>
Total revenue and other income	1,813,103	1,743,413
	<hr/>	<hr/>
Expenses		
Salaries, wages and payroll taxes	650,500	591,726
Special events	287,007	254,621
Transit pass program	381,588	417,966
Rent	88,869	89,078
Miscellaneous	39,462	27,633
Employee benefits	48,955	35,214
Contract renewal - PBID	52,792	47,292
Marketing	43,616	47,571
BID expenses	62,175	56,052
Membership and corporate events	56,223	18,609
Insurance	21,195	20,234
Automobile	8,335	9,842
Utilities	12,168	11,274
Office supplies	9,639	8,693
Legal and accounting	(553)	71,626
Depreciation	7,261	2,245
Postage	436	322
Dues and subscriptions	1,164	12,363
	<hr/>	<hr/>
Total expenses	1,770,832	1,722,361
	<hr/>	<hr/>
Excess of revenue and other income over expenses	\$ 42,271	\$ 21,052
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See Independent Auditor's Report on Supplementary Information.



**Downtown San Diego Partnership**  
**Statements of Financial Position - PBID**  
**June 30, 2015 and 2014**

Assets

	2015	2014
Cash and cash equivalents	\$ 84,975	\$ 375,984
Accounts receivable, net	431,606	851,984
Prepaid expenses and other assets	352	46,998
Equipment and leasehold improvements, net	160,605	173,012
Total assets	<u>\$ 677,538</u>	<u>\$ 1,447,978</u>

Liabilities and Net Assets

Liabilities		
Accounts payable	\$ 216,046	\$ 151,603
Accrued expenses	134,781	187,108
PBID advance from the City of San Diego	-	817,000
Deferred rent	-	7,072
Total liabilities	350,827	1,162,783
Unrestricted net assets	326,711	285,195
Total liabilities and net assets	<u>\$ 677,538</u>	<u>\$ 1,447,978</u>

See Independent Auditor's Report on Supplementary Information.



**Downtown San Diego Partnership**

**Statements of Activities - PBID  
Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Revenue and other income		
PBID assessments and parks reimbursement	\$ 6,211,496	\$ 5,405,051
Interest income	<u>238</u>	<u>172</u>
Total revenue and other income	<u>6,211,734</u>	<u>5,405,223</u>
Expenses		
Contractual services	2,376,820	1,923,509
Salaries, wages and payroll taxes	2,221,859	2,010,205
Employee benefits	498,730	433,040
Utilities	187,695	156,475
Repairs and maintenance	113,570	111,751
Rent	90,531	93,781
Insurance	116,747	111,897
Cleaning and janitorial supplies	163,764	123,602
Miscellaneous	55,317	88,754
Depreciation	53,322	58,494
Legal and accounting	54,097	108,251
Uniforms	13,831	11,769
Office supplies	9,493	7,440
Equipment outlay	213,062	298,815
Travel and training	1,065	1,021
Postage	<u>315</u>	<u>373</u>
Total expenses	<u>6,170,218</u>	<u>5,539,177</u>
Excess (deficiency) of revenue and other income over expenses	<u>\$ 41,516</u>	<u>\$ (133,954)</u>

See Independent Auditor's Report on Supplementary Information.

**Downtown San Diego Partnership**

**Financial Statement Reconciliation to Final City Invoice  
Year Ended June 30, 2015**

Total expenses per statement of activities - PBID	\$ 6,170,218
Equipment purchases	46,132
Unallowed depreciation expense	(53,322)
Unallowed legal expense	(31,468)
Adjustment to record accrued salaries and related payroll taxes at June 30, 2015	(18,798)
Total expenses per final invoice to the City	<u>\$ 6,112,762</u>

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## Downtown San Diego Partnership



To Whom It May Concern,

The Downtown San Diego Partnership Clean and Safe is in compliance with all of 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 the Downtown San Diego Partnership Clean and Safe Program.

Respectfully,

A handwritten signature in black ink, appearing to read "Bahija H".

Bahija Hamraz

Executive Director

See Independent Auditor's Report on Supplementary Information.