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CITY HEIGHTS BUSINESS ASSOCIATION
AUDITED FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
City Heights Business Association, Inc.

I have audited the accompanying financial statements of City Heights Business Association, Inc., (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Heights Business Association, Inc., as of June 30, 2020 and 2019, 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.

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Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Budget vs Actual City of San Diego Contracts on page 11 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 audit 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 auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Andres D. Garcia, CPA
October 27, 2020

CITY HEIGHTS BUSINESS ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS:		
Cash and Cash Equivalents	\$ 146,075	\$ 132,052
Accounts Receivable - Maintenance Assessment District	99,288	88,821
Accounts Receivable - Other City of San Diego Contracts	1,033	1,533
Security Deposit	<u>1,000</u>	<u>1,000</u>
TOTAL ASSETS	<u><u>\$ 247,396</u></u>	<u><u>\$ 223,406</u></u>
LIABILITIES:		
Accounts Payable	\$ 3,273	\$ -
Accrued Vacation	10,391	3,769
MAD Advance	<u>84,824</u>	<u>84,824</u>
TOTAL LIABILITIES	<u>98,488</u>	<u>88,593</u>
NET ASSETS:		
Without Donor Restrictions	<u>148,908</u>	<u>134,813</u>
TOTAL NET ASSETS	<u>148,908</u>	<u>134,813</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 247,396</u></u>	<u><u>\$ 223,406</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements

CITY HEIGHTS BUSINESS ASSOCIATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 and 2019

	2020	2019
Revenue and Support:		
City of San Diego - Maintenance Assessment District	\$ 337,701	\$ 335,045
City of San Diego - Business Improvement District	36,977	39,744
City of San Diego - Small Business Enhancement Program	27,366	20,341
Grants	22,474	35,727
Other Income	641	1,600
Total Revenue and Support	<u>425,159</u>	<u>432,457</u>
Expenses:		
Program Services		
Maintenance Services	94,957	191,305
Total Program Services	<u>94,957</u>	<u>191,305</u>
Supporting Services:		
Personnel		
Salaries	220,326	144,310
Payroll Taxes	18,211	11,892
Total Personnel	<u>238,537</u>	<u>156,202</u>
Operating		
Accounting	10,976	10,860
Audit	5,000	4,200
Conferences, Meetings, Training	5,189	7,257
Contingency	936	-
Insurance	14,421	5,530
Marketing (Website)	8,858	-
Postage and Printing	708	1,391
Occupancy	16,984	14,377
Special Projects & Events	-	7,527
Supplies	9,046	6,707
Telephone	4,992	4,414
Travel	460	1,518
Total Operating	<u>77,570</u>	<u>63,781</u>
Total Supporting Services	<u>316,107</u>	<u>219,983</u>
Total Expenses	<u>411,064</u>	<u>411,288</u>
Change in Net Assets	14,095	21,169
Net Assets, Beginning of Year	<u>134,813</u>	<u>113,644</u>
Net Assets, End of Year	<u>\$ 148,908</u>	<u>\$ 134,813</u>

The Accompanying Notes are an Integral Part of the Financial Statements

CITY HEIGHTS BUSINESS ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 and 2019

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2020</u>	<u>2019</u>
Change in Net Assets	\$ 14,095	\$ 21,169
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
(Increase) Decrease in:		
Accounts Receivable - MAD	(10,467)	7,098
Accounts Receivable - Other City of San Diego Contracts	500	(1,533)
Increase (Decrease) in:		
Accounts Payable	3,273	-
Accrued Vacation	6,622	(799)
Deferred Revenue	-	(7,058)
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>14,023</u>	<u>18,877</u>
Increase in Cash and Cash Equivalents	14,023	18,877
Cash and Cash Equivalents, Beginning of Period	<u>132,052</u>	<u>113,175</u>
Cash and Cash Equivalents, End of Period	<u>\$ 146,075</u>	<u>\$ 132,052</u>

The Accompanying Notes are an Integral Part of the Financial Statements

CITY HEIGHTS BUSINESS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2020 and 2019

Note 1. Nature of Organization

The City Heights Business Association (CHBA) was formed in June 2003 as a non-profit mutual benefit corporation. Its purpose is to enhance the growth and improvement of the City Heights area, located in the City of San Diego, through partnerships created with the community's business and property owners. These partnerships provide the means to promote economic growth while preventing deterioration of the community.

Currently, CHBA administers the City Heights Business Improvement District and the City Heights Maintenance Assessment District funds, in partnership with the City of San Diego. These Districts include over 700 businesses and property owners and serve the most ethnically diverse population in San Diego. CHBA's Board of Directors includes owners of businesses or property located within the Improvement or Maintenance Assessment Districts as well as Associate members.

CHBA's activities include promotion, economic restructuring, organization via newsletter and directory, design, Small Business Enhancement Program Funds, and promotional materials. In addition, CHBA is responsible for ensuring maintenance including litter control, illegal dump removal, graffiti control, sidewalk safety hazard monitoring, lighting service, tree maintenance, and security. Many of these services are provided under contract with Urban Corps of San Diego.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting: The accompanying financial statements are prepared on the accrual basis of accounting and accordingly reflect all significant accounts receivable, payable and other liabilities.

Fund Accounting: To ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the Organization are maintained in accordance with the principles of fund accounting. Under such principles, resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives.

The Organization also prepares financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205 and subsections as amended by ASU 2016-14. The Organization uses the terms *Net Assets Without Donor Restrictions* and *Net Assets With Donor Restrictions* to describe the two required net asset classes.

Net Assets Without Donor Restrictions: net assets not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions: net assets subject to donor-imposed stipulations.

Cash and Cash Equivalents: The Organization has defined cash and cash equivalents as cash in banks and money market accounts with an initial maturity of three months or less.

CITY HEIGHTS BUSINESS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2020 and 2019

Note 2. Summary of Significant Accounting Policies, continued

Accounts Receivable: Accounts receivables are receivables from governmental agencies. Therefore, no allowance for doubtful accounts has been provided.

Property and Equipment: Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$1,000 and the useful life is greater than one year. CHBA has no capitalized assets as of June 30, 2020 and 2019 and therefore no depreciation expense for the years ended June 30, 2020 and 2019. All property and equipment purchased by CHBA with funds received from the City of San Diego are considered property of the City. If the agreement with the City of San Diego is terminated for any reason, CHBA is required to deliver such assets to the City of San Diego.

Donated Materials and Services: Donated materials and services are recognized as contributions if the materials or 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 by the Organization. Volunteers provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Use of Estimates: The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Concentration of Credit Risks: The primary receivable balance outstanding at June 30, 2020 and 2019 consists of governmental contract receivables due from the City of San Diego. Concentration of credit risks with respect to trade receivables are limited, as the majority of CHBA's receivables consist of earned fees from reimbursement-contracts granted by the City of San Diego. Management has determined that all balances are collectible.

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, whereby only unrelated business income, as defined by Section 509(a)(1) of the Internal Revenue Code is subject to federal income tax. The Organization currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded.

The FASB Interpretation No.48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) which was subsequently included in the FASB Codification as ASC 740, prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management of the Organization has evaluated its uncertain tax positions and related income tax contingencies. Management does not believe that any material uncertain tax positions exist. The Organization's tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are filed and a period of four years for California taxing authorities.

CITY HEIGHTS BUSINESS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2020 and 2019

Note 3. Commitments and Contingencies

CHBA's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, CHBA has no provisions for the possible disallowance of program costs on its financial statements.

Note 4. Operating Lease Obligation

On December 19, 2016 CHBA extended its lease agreement for office space located at 4305 University Avenue, extending the term of the lease from February 1, 2017 through January 31, 2020, with a monthly base rent of \$1,038. Base rent is increased annually by 3%.

On July 29, 2019 CHBA extended its lease agreement for office space located at 4305 University Avenue, extending the term of the lease from February 1, 2020 through January 31, 2023, with a monthly base rent of \$1,134. Base rent is increased annually by 3%.

Additionally, monthly utilities are calculated on a pro-rata share, approximately 6%.

Total lease payments under this lease were \$16,159 and \$14,377, respectively, for the years ended June 30, 2020 and 2019.

Future minimum lease payments, by year and in the aggregate, under this lease consist of the following:

<u>Year ending June 30:</u>	
2021	\$ 13,779
2022	14,193
2023	<u>8,422</u>
	<u>\$ 36,394</u>

Note 5. Functional Expenses

The following is a summary of expenses by functional classification for the years ending June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Program Services	\$ 94,957	\$ 191,305
Support Services		
Personnel	238,537	156,202
Operating	<u>77,570</u>	<u>63,781</u>
Total	<u>\$ 411,064</u>	<u>\$ 411,288</u>

CITY HEIGHTS BUSINESS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2020 and 2019

Note 6. Prepaid Advance – MAD

The three contracts that CHBA maintains with the City of San Diego are all reimbursement contracts. To allow CHBA to operate efficiently, the City of San Diego provides a prepayment that must be repaid by CHBA in 60 months. CHBA received \$79,000 on December 30, 2016. The MAD Advance balance at June 30, 2020 and 2019 is \$84,824.

Note 7. Related Organization

During the year ended June 30, 2009, the City Heights Foundation (the Foundation) was formed and incorporated as a nonprofit public benefit corporation {501(c)(3)}. The Foundation's exempt purpose is to combat the deterioration of the City Heights community, provide educational programs and opportunities for the self-development and betterment of the general public.

The Foundation maintains office space located at 4305 University Avenue, Suite 520, the office location of CHBA. The Foundation has some members of its Board of Directors that are also on the CHBA Board of Directors. The organizations maintain separate accounting records. For the years ending June 30, 2020 and 2019, the Foundation did not pay CHBA for administrative overhead.

CHBA does not maintain control over the Foundation. Therefore, CHBA statements of financial position, activities and changes in net assets, and cash flows do not include the transactions of the Foundation for the years ended June 30, 2020 and 2019.

Note 8. Liquidity and Availability of Financial Assets

The Organization's working capital and cash flows are relatively consistent throughout the year due to monthly assessments from BID, MAD and SBEP programs. To manage liquidity the Organization maintains adequate cash balances.

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>06/30/2020</u>
Financial assets at year-end	\$ 246,396
Less those unavailable for general expenditures within one year due to:	<u>none</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 246,396</u>

CITY HEIGHTS BUSINESS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2020 and 2019

Note 9. 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, 2020 through October 27, 2020, 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.

COVID-19

Since June 30, 2020, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

On March 11, 2020, the economy shut down in an effort to stop COVID-19 from spreading. The Organization has not suffered any significant financial losses as a result of the pandemic since the contracts with the City of San Diego did not change. As the City of San Diego begins to see the impact of reduced tax revenue, the Organization may see an impact in the coming months which may force the Organization to revise the budget for the year ending June 30, 2021.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Organization for future periods.

SUPPLEMENTARY INFORMATION

City Heights Business Association
Schedule of Budget vs Actual City of San Diego Contracts
SBEP, BID, MAD
July 2019 through June 2020

	110 SBEP			200 BID			400 MAD		
	Actual	Budget	Over (Under) Budget	Actual	Budget	Over (Under) Budget	Actual	Budget	Over (Under) Budget
Revenues									
41000 · SBEP Contract	17,366	17,366	-	-	-	-	-	-	-
41005 · SBEP COVID-19	5,000	-	5,000	-	-	-	-	-	-
41010 · Technical Assistance/Acctng.	5,000	5,000	-	-	-	-	-	-	-
41015 · City Fees & Services	-	500	(500)	-	-	-	-	-	-
40020 · BID Contract	-	-	-	36,977	51,189	(14,212)	-	-	-
42000 · MAD Contract	-	-	-	-	-	-	337,701	400,000	(62,299)
Total Revenues	27,366	22,866	4,500	36,977	51,189	(14,212)	337,701	400,000	(62,299)
50020 · Personnel									
50027 · Executive Director	20,713	15,550	5,163	22,231	29,650	(7,419)	48,388	41,250	7,138
50030 · Clean & Safe Ambassador	-	-	-	774	1,575	(801)	121,598	133,540	(11,942)
50031 · Fica/R Expense	1,584	1,600	(16)	1,760	2,300	(540)	13,004	16,188	(3,184)
50032 · Sui Expense	59	110	(51)	38	1,015	(977)	1,513	2,922	(1,409)
50033 · Futa Tax Expense	10	-	10	6	120	(114)	236	120	116
Total Personnel	22,366	17,260	5,106	24,809	34,660	(9,851)	184,740	194,020	(9,280)
General Operating									
50045 · Rent - Office	-	-	-	387	-	387	15,772	15,600	172
50050 · Telephone/Fax/Cell/Internet	-	-	-	1,236	550	686	3,745	3,000	745
50055 · Storage Space	-	-	-	-	-	-	825	1,980	(1,155)
50060 · Mtngs/Conf/Dues/Subscriptions	-	1,106	(1,106)	1,240	1,000	240	2,284	-	2,284
50071 · Insurance-Workers Comp	-	-	-	-	-	-	10,063	8,820	1,243
50072 · Insurance - General Liability	-	-	-	-	-	-	3,074	2,160	914
50073 · Insurance -Directors & Officers	-	-	-	-	-	-	1,284	1,620	(336)
50075 · Postage/Printing	-	-	-	279	500	(221)	423	500	(77)
50081 · Audit	-	-	-	-	-	-	-	-	-
50082 · Accounting Services	3,000	3,000	-	-	-	-	12,976	12,000	976
50095 · Travel/Mileage/Auto Expense	-	-	-	101	100	1	313	1,500	(1,187)
50150 · Office Supplies/Equipment	1,527	1,000	527	1,154	500	654	6,295	6,500	(205)
50165 · Contingency	-	-	-	436	2,000	(1,564)	-	19,500	(19,500)
Total General Operating	4,527	5,106	(579)	4,834	4,650	184	57,054	73,180	(16,126)
Outreach & Promotion									
51560 · Website	-	-	-	7,335	11,879	(4,544)	1,051	-	1,051
51540 · Marketing / Special Events	473	-	-	-	-	-	-	-	-
51545 · City Permit Fees	-	500	(500)	-	-	-	-	-	-
Total Outreach & Promotion	473	500	(27)	7,335	11,879	(4,544)	1,051	-	1,051
Maintenance Services									
52105 · Maintenance Services	-	-	-	-	-	-	47,435	74,300	(26,865)
52110 · Urban Corps Contract	-	-	-	-	-	-	21,035	33,500	(12,465)
52150 · Community Sign	-	-	-	-	-	-	26,387	25,000	1,387
Total Maintenance Services	-	-	-	-	-	-	94,857	132,800	(37,943)
Total Expenses	27,366	22,866	4,500	36,977	51,189	(14,212)	337,701	400,000	(62,299)
Net Revenue over Expenses	-	-	-	-	-	-	-	-	-

See Independent Auditor's Report