



# Sonnenberg & Company, CPAs

A Professional Corporation

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Leonard C. Sonnenberg, CPA

**DRAFT**

**La Jolla Village Merchants Association**  
Audited Financial Statements  
June 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
**La Jolla Village Merchants Association**

We have audited the accompanying financial statements of La Jolla Village Merchants Association (LJVMA, a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 LJVMA as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

***Report on Summarized Comparative Information***

We have previously audited LJVMA's June 30, 2015 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated November 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures - Budget vs. Actual, City of San Diego Contracts SBEP and BID on page 12 and the Statement of Compliance on page 13 are presented for purposes of additional analysis and not required parts 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

November 22, 2016

Sonnenberg & Company, CPAs

**La Jolla Village Merchants Association**  
**STATEMENT OF FINANCIAL POSITION**  
 June 30, 2016  
 (With Comparative Totals for 2015)

	06/30/16		06/30/15	
	LJVMA	LJCAP	Total	Total
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 19,840	\$ (4,313)	\$ 15,527	10,376
Accounts Receivable	2,299	6,125	8,424	9,343
Accounts Receivable - City SD	1,200	21,540	22,740	3,115
Prepaid Insurance	5,046		5,046	2,243
Prepaid Rent		275	275	
Security Deposit			-	9,500
Furniture & Equipment	39,363		39,363	39,363
Website	21,050		21,050	21,050
Less: Accumulated Depreciation	(54,398)		(54,398)	(46,812)
<b>TOTAL ASSETS</b>	<b>\$ 34,400</b>	<b>\$ 23,627</b>	<b>\$ 58,027</b>	<b>\$ 48,178</b>
<b>LIABILITIES:</b>				
Accounts Payable	\$	\$	\$ -	\$ 3,066
Accrued Payroll			-	6,744
Prepaid Income	4,672		4,672	-
Security Deposit			-	8,500
<b>TOTAL LIABILITIES</b>	<b>4,672</b>	<b>-</b>	<b>4,672</b>	<b>18,310</b>
<b>NET ASSETS:</b>				
Unrestricted	\$ 29,728	\$ 23,627	\$ 53,355	\$ 29,868
<b>TOTAL NET ASSETS</b>	<b>\$ 34,400</b>	<b>\$ 23,627</b>	<b>\$ 58,027</b>	<b>\$ 48,178</b>

The Accompanying Notes are an Integral Part of the Financial Statements

**La Jolla Village Merchants Association**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	LJVMA	06/30/16 LJCAP	Total	06/30/15 Total
<b>Revenue and support:</b>				
City of San Diego - BID	\$ 180,122	\$ 23,240	\$ 203,362	\$ 150,000
City of San Diego - SBEP	21,953		21,953	24,750
City of San Diego - BID Tech Assist	5,000		5,000	-
City of San Diego - EDTS			-	41,900
County of San Diego - CEP			-	4,000
Parking Pass		63,440	63,440	66,280
City of San Diego - LJCAP Overage			-	7,324
Promotional Income			-	12,250
Event Income	10,207		10,207	7,118
Donations	4,031		4,031	1,400
Membership			-	2,700
Other Income	17,805		17,805	6,422
<b>Total revenue and support</b>	239,118	86,680	325,798	324,144
<b>Expenses:</b>				
Program Services	187,319	60,785	248,104	274,547
Supporting Services	50,547	3,660	54,207	72,486
<b>Total expenses</b>	237,866	64,445	302,311	347,033
<b>Change in net assets</b>	\$ 1,252	\$ 22,235	\$ 23,487	\$ (22,889)
<b>Interfund Transfer</b>	6,000	(6,000)	-	-
<b>Net assets, beginning of year</b>	22,476	7,392	29,868	52,757
<b>Net assets, end of year</b>	\$ 29,728	\$ 23,627	\$ 53,355	\$ 29,868

The Accompanying Notes are an Integral Part of the Financial Statements

**La Jolla Village Merchants Association**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2016  
(With Comparative Totals for June 30, 2015)

	06/30/16				06/30/15	
	LJVMA Program Services	LJVMA Support Services	LJCAP Program Services	LJCAP Support Services	Total	Total
<b>Expenses:</b>						
Payroll						
Salaries and Wages	\$ 85,361	\$ 28,454	\$	\$	\$ 113,814	\$ 143,762
Payroll Taxes	6,097	2,032			8,129	14,106
Insurance - Workers Comp	2,661	887			3,547	2,447
Employee Benefits	3,978	1,326			5,304	6,725
Total Payroll	98,096	32,699	-	-	130,794	167,040
Audit	3,575	925			4,500	4,500
Computer - IT					-	1,619
Contract Services	6,469	7,931			14,400	20,107
Depreciation	5,690	1,897			7,586	11,333
Design/Beautification	37,463				37,463	28,621
Dues and Subscriptions	1,046	349			1,395	1,019
Election Costs	741	247			988	1,212
Equipment & Furniture	3,524	1,175			4,698	-
Event Expenses	9,555				9,555	288
Insurance - General Liability	1,927	642			2,569	4,929
Office Expense	2,870	957		360	4,186	4,943
Outreach/Promotion	5,185				5,185	6,969
Office Equipment	363	121			484	669
Parking - Staff	289	96			385	1,629
Parking Passes			60,785		60,785	63,860
Professional Fees	750	250			1,000	313
Rent	6,047	2,016		3,300	11,363	23,312
Telephone/Internet	3,731	1,244			4,975	6,077
<b>Total Expenses</b>	\$ 187,319	\$ 50,547	\$ 60,785	\$ 3,660	\$ 302,311	\$ 348,440

The Accompanying Notes are an Integral part of the Financial Statements

**La Jolla Village Merchants Association**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2016  
(With Comparative Totals for June 30, 2015)

	06/30/16	06/30/15
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 23,487	\$ (22,889)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,586	11,333
Changes in operating assets and liabilities:		
(Increase) Decrease in Accounts Receivable	(18,706)	(10,308)
(Increase) Decrease in Prepaid Tax	-	1,901
(Increase) Decrease in Prepaid Insurance	(2,803)	2,366
(Increase) Decrease in Prepaid Rent	(275)	-
Increase (Decrease) in Accounts Payable	(3,066)	(1,434)
Increase (Decrease) in Accrued Payroll	(4,197)	4,197
Increase (Decrease) in Accrued Payroll Tax	(2,547)	2,547
Increase (Decrease) in Deferred Income	4,672	-
<b>Net cash provided (used) by operating activities</b>	<b>4,151</b>	<b>(12,287)</b>
<b>Cash flows from investing activities:</b>		
Security Deposits	9,500	-
Security Deposit Collected on Sublease	(8,500)	-
<b>Net cash provided (used) by investing activities</b>	<b>1,000</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	5,151	(12,287)
<b>Cash and cash equivalents, beginning of year</b>	10,376	22,663
<b>Cash and cash equivalents, end of year</b>	\$ 15,527	\$ 10,376

The Accompanying Notes are an Integral Part of these Financial Statements.

**La Jolla Village Merchants Association**  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**Note 1.        Organization and Nature of Activities**

The La Jolla Village Merchants Association (LJVMA) was formed in May 2011 as a non-profit mutual benefit corporation. Its purpose is to enhance the growth and improvement of the La Jolla downtown area, 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, LJVMA administers the La Jolla Business Improvement District (BID), in partnership with the City of San Diego. This District includes businesses and property owners located within a 30-block area of the District. LJVMA's Board of Directors includes owners of businesses or property located within the Improvement District as well as Associate members. LJVMA's activities include promotion, economic restructuring, organization via newsletter and directory, design, Small Business Enhancement Program Funds (SBEP), and promotional materials.

LJVMA became the Fiduciary Agent for the La Jolla Coastal Access and Parking (LJCAP) Agency on January 1, 2013. LJVMA manages an employee discounted parking program in La Jolla, California.

**Note 2.        Summary of Significant Accounting Policies**

**Basis of Presentation**

LJVMA's financial statements have been prepared on the accrual basis of accounting. The BID Agreement requires an audit in accordance with U.S. generally accepted accounting principles (GAAP). However, some portions of the BID Agreement are not in accordance with GAAP. GAAP requires matching revenues and expenses by period, and the BID Agreement does not allow for accounts receivable or accounts payable.

Under the BID Agreement, LJVMA does not have entitlement per se to the BID revenue. Their income source is the City of San Diego and the amount is the funding the City of San Diego provides. Under GAAP, the cash expended in a period should match with the income generated in that period. However, LJVMA does not receive BID Assessments directly from the businesses, it only collects them from the City after the fact. LJVMA does not receive a detailed list of the business or the date of the billing. LJVMA may be collecting funds months after the year end, with no ability to identify the funds as to which month or year they belong. There is no way to determine what they were budgeted to collect and what the write off or bad debt amounts would be. Therefore, BID revenue from the City is recorded only when received.

Funds collected by the City of San Diego for a prior year are not required to be paid to LJVMA. BID Funds which were collected by the City of San Diego and not disbursed by the City of San Diego are considered carryover funds. However, since LJVMA does not have entitlement to the funds they cannot be recorded as accounts receivable. They may receive the funds in the following year, depending on the current terms of the Council approved budget and agreement. The funds would then be then recorded as income in the following year when received.



**La Jolla Village Merchants Association**  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**Note 2. Summary of Significant Accounting Policies (continued)**

**Accounting for Net Assets**

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Association are maintained in accordance with the principles of net asset accounting. That is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. LJVMA reports gifts of cash and other assets as temporarily restricted support 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 the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from program or capital restrictions. LJVMA had no temporarily restricted net assets at June 30, 2016.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit LJVMA to expend all of the income (or other economic benefits) derived from the donated assets. LJVMA had no permanently restricted net assets at June 30, 2016.

**Functional Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Certain expense allocations were based on a percentage of payroll and other expense allocations were based on space allocations or other estimates.

**Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with LJVMA's audited financial statements for the year ended June 30, 2015, from which the summarized information was derived.

**La Jolla Village Merchants Association**  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**Note 2. Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the dates and for the periods presented.

**Cash and cash equivalents**

For purposes of the statements of cash flows, LJVMA considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**Accounts Receivable**

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

**Donated Goods and Services**

Donated goods and services are recognized as contributions in the period received if the goods 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 LJVMA.

**Impairment of Long-lived Assets**

LJVMA evaluates its investment in 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 or disposition 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.

**Property and equipment**

Property and equipment are recorded at purchased cost or at fair value at the date of donation if donated. Maintenance and repairs 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. During the year ended June 30, 2016, LJVMA did not purchase any capital assets.

While the City has retained title to these assets and in the event of contract non-compliance or termination, the City may recover the capital equipment and transfer it to another entity. LJVMA's policy is to capitalize such assets in accordance with GAAP. Accordingly this equipment has been capitalized on the statement of financial position and is being depreciated. Depreciation expense for the year ended June 30, 2016 was \$7,586 and was provided over the 3-5 year estimated useful lives of the respective assets on a straight-line basis.

**La Jolla Village Merchants Association**  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**Note 3. Service Contracts - Grants**

LJVMA'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, LJVMA has no provisions for the possible disallowance of program costs on its financial statements.

LJVMA has an annual service contract with the City of San Diego through the La Jolla Business Improvement District (BID) to enhance the growth and improvement of the La Jolla downtown area. The BID estimates the Assessments to be collected in a year and LJVMA makes its budget based on that amount. For the year ended June 30, 2016, \$180,122 was collected by the City of San Diego and transferred to the LJVMA

LJVMA has a Small Business Enhancement Program (SBEP) Grant with the City of San Diego. The grant was for \$21,953. The grant was to be used only for payroll, payroll taxes, fringe benefits, and office bookkeeping.

LJVMA has a La Jolla Business Improvement District (BID) Technical Assistance and Bookkeeping Grant with the City of San Diego. The grant was for \$8,000 which included \$3,000 for city event offset costs. However, there were no events including city offset costs and LJVMA was not allowed to claim them. LJVMA claimed a total of \$5,000.

**Note 4. Income Tax Status**

LJVMA is a California nonprofit corporation exempt from federal income tax under Internal Revenue Code Section 501(c)(6). The exemption is effective as of December 29, 1989. LJVMA is also exempt from state income taxes under California State Tax Code 23701(e). LJVMA currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded.

LJVMA has reviewed its position for all open tax years and believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. LJVMA's federal and state Exempt Organization Tax Returns are subject to examination, generally for three years after they were filed.

**Note 5. Concentration of Credit Risk**

LJVMA maintains its cash in a checking account at two financial institutions. The Federal Deposit Insurance Corporation (FDIC) limit per depositor is \$250,000. LJVMA's cash balance did not exceed the FDIC limit during the fiscal year. Concentration of credit risks with respect to trade receivables are limited, as the majority of LJVMA's receivables consist of earned fees from reimbursement-contracts granted by the City of San Diego.

**La Jolla Village Merchants Association**  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**Note 6. Concentration of Revenues**

LJVMA received 62% of its revenue from the BID Contract and 19% from the LJCAP Parking passes during the year ending June 30, 2016. Discontinuance of these grants could impact LJVMA negatively.

**Note 7. Date of Management's Review**

LJVMA's management has evaluated subsequent events through November 22, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require adjustment to, or disclosures in, the financial statements.

**Note 8. Lease Agreements**

LJVMA leases two locations. The office location is a month to month lease from a private party, LJVMA's Board President, at the rate of \$275 per month.

The information center at 1162 Prospect Street in the La Jolla Village was leased from a private party commencing on October 1, 2012. On August 1, 2014, LJVMA subleased 80% of the 1162 Prospect building for \$8,500. LJVMA paid a security deposit of \$9,500 to the lessor and LJVMA received a security deposit of \$8,500 from the sub-tenant.

In February of 2015, the 1162 Prospect Street parcel was sold. LJVMA stayed on the property paying a month to month amount as they did not sign the lease extension. As of October 31, 2015, LJVMA vacated the premises.

**Note 9. Interfund Transactions**

LJCAP was to pay \$1,200 to LJVMA per month beginning in October 2014. The total amount to be transferred for the year ended June 30, 2016 was \$14,400. LJCAP transferred a total of \$6,000 during the year ended June 30, 2016. Therefore, interfund transfers total \$6,000.

**La Jolla Village Merchants Association**  
**SCHEDULE OF EXPENDITURES**  
 Budget vs Actual  
 City of San Diego Contracts - SBEP and BID  
 July 2015 through June 2016

	BID Funds			SBEP		
	Actual	Budget	Over (Under) Budget	Actual	Budget	Over (Under) Budget
<b>Funds Available</b>						
BID Income	\$ 175,194	\$ 180,000	\$ (4,806)	\$	\$	\$
BID - Prior Years Overage	4,928	50,000	(45,072)			
SBEP				24,000	24,000	
<b>Total Funds Available</b>	<u>180,122</u>	<u>230,000</u>	<u>(49,878)</u>	<u>24,000</u>	<u>24,000</u>	<u>-</u>
<b>Personnel</b>						
Salaries and Wages	73,737	78,730		21,000	21,000	
Payroll Taxes	7,731	1,700				
Benefits	5,279	3,000				
<b>Total Personnel</b>	<u>86,747</u>	<u>83,430</u>	<u>3,317</u>	<u>21,000</u>	<u>21,000</u>	<u>-</u>
<b>Office Administration</b>						
Accounting/Bookkeeping	10,200		10,200	3,000	3,000	-
Audit	4,500	4,000	500			
Cell Phone	1,360	1,000	360			
Dues/Subscriptions/Fees	1,220	500	720			
Election Costs	939	3,500	(2,561)			
Equipment & Furniture	2,698		2,698			
Insurance	2,363	4,345	(1,982)			
Internet	1,974	1,100	874			
Office Supplies	3,350	2,725	625			
Professional Fees	1,000	1,000	-			
Rent / Utilities	4,031	15,600	(11,569)			
Telephone	1,557	1,500	57			
<b>Total Office Administration</b>	<u>35,192</u>	<u>35,270</u>	<u>(78)</u>	<u>3,000</u>	<u>3,000</u>	<u>-</u>
<b>Design</b>						
Benches		2,500	(2,500)			
Decorative (Roof Line) Lighting	14,903	10,000	4,903			
Landscaping	17,597	20,000	(2,403)			
<b>Total Design</b>	<u>32,500</u>	<u>32,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Special Events</b>	9,555	11,000	(1,445)			
<b>Outreach and Promotion</b>						
Marketing / Newsletter	2,241	5,800	(3,559)			
Website Maintenance	600	2,000	(1,400)			
<b>Total Outreach and Promotion</b>	<u>2,841</u>	<u>7,800</u>	<u>(4,959)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Contingency</b>	13,287	60,000	(46,713)			
<b>Total Expenditures</b>	<u>180,122</u>	<u>230,000</u>	<u>(49,878)</u>	<u>24,000</u>	<u>24,000</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report

## La Jolla Village Merchants Association

### STATEMENT OF COMPLIANCE

November 22, 2016

To The City of San Diego:

The La Jolla Village Merchants Association is in compliance with all 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 La Jolla Village Merchants Association.

All required reports and disclosures have been submitted.

Sheila Fortune  
Executive Director

See Independent Auditor's Report