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Leonard C. Sonnenberg, CPA

**ADAMS AVENUE
BUSINESS ASSOCIATION, INC.**
Audited Financial Statements
For the Years Ended
December 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors of
Adams Avenue Business Association, Inc.

We have audited the accompanying statements of financial position of the Adams Avenue Business Association, Inc. (a nonprofit organization) as of December 31, 2012 and 2011, 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 corporation'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 corporation'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.

Continued page 2 of 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Adams Avenue Business Association Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Disclaimer of Opinion on Required Supplementary Information

Our opinion was made for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken as a whole. The accompanying supplementary information on pages 11 and 12 is presented for purpose of additional analysis and is not a required part of the above financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements referred to above and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

April 15, 2013


Sonnenberg & Company, CPAs

ADAMS AVENUE BUSINESS ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents - general	\$ 49,004	\$ 39,865
Cash and cash equivalents - school annex	139,631	56,271
Accounts receivable - TOT	11,021	12,809
Accounts receivable - MAD	18,100	7,497
School annex receivable	-	11,473
Other current assets	-	677
School annex building	1,275,326	1,275,326
Less: accumulated depreciation	(1,151,908)	(1,069,626)
School annex building, net of accum. depr.	123,418	205,700
Total assets	\$ 341,174	\$ 334,292
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,725	\$ 952
Deferred revenue	11,990	22,385
Estimated accrued liability - school annex	139,631	67,744
Total liabilities	153,346	91,081
Net assets		
Unrestricted, leased school annex, net of accum. depr.	123,418	205,700
Unrestricted, undesignated	64,410	37,511
Total net assets	187,828	243,211
Total liabilities and net assets	\$ 341,174	\$ 334,292

The accompanying notes are an integral part of these financial statements

ADAMS AVENUE BUSINESS ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2012 and 2011

	2012	2011
Revenue and support		
City of San Diego - MAD	\$ 31,097	\$ 59,366
City of San Diego - BID	47,227	40,771
City of San Diego - SBEP	23,601	46,152
Event income	290,552	301,115
Redevelopment Income - School Annex	61,788	88,078
Government TOT	29,730	31,688
Government grants	5,000	9,700
Other income	18,708	8,890
Interest income	3	4
Total revenue and support	507,706	585,764
Expenses		
Events	211,600	264,205
Personnel	136,552	98,500
Maintenance Assessment District (MAD)	20,801	56,619
Maintenance - School Annex	31,890	58,078
Lease payments - School Annex	30,000	30,000
Marketing and promotion	5,555	6,573
Operations		
Depreciation	82,282	82,282
Equipment	25	6,596
Interest	-	54
Insurance	9,891	9,327
Office expenses	12,197	16,682
Office Rent	2,400	2,300
Outside services	19,896	17,470
Total expenses	563,089	648,686
Change in net assets	(55,383)	(62,922)
Beginning net assets, beginning of year	243,211	306,133
Ending net assets, end of year	\$ 187,828	\$ 243,211

The accompanying notes are an integral part of these financial statements

ADAMS AVENUE BUSINESS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (55,383)	\$ (62,922)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	82,282	82,282
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	2,658	15,029
(Increase) decrease in other assets	677	(587)
Increase (decrease) in accounts payable and accrued expenses	773	(21,818)
Increase in deferred income	(10,395)	15,245
Increase in Estimated accrued liability - school annex	71,887	40,352
Net cash provided (used) by operating activities	92,499	67,582
 Cash Flows from Investing Activities:		
Disposal of Fixed Assets	-	8,634
Net cash provided (used) by investing activities	-	8,634
 Cash flows from financing activities:		
Principal payments on line of credit	-	(15,000)
Net cash provided (used) by financing activities	-	(15,000)
 Net increase (decrease) in cash and cash equivalents	92,499	61,216
 Cash and cash equivalents, beginning of year	96,136	34,920
 Cash and cash equivalents, end of year	\$ 188,635	\$ 96,136
 Supplemental disclosures:		
Interest expense incurred during the year	\$ -	\$ 54

The accompanying notes are an integral part of these financial statements

ADAMS AVENUE BUSINESS ASSOCIATION, INC., INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

Note 2 **Summary of Significant Accounting Policies, continued**

Accounting for Net Assets, continued

Temporarily Restricted. The Association 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 stipulation 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 and changes in net assets as net assets released from program. The Association has no temporarily restricted net assets at December 31, 2012 and 2011.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Association to expend all of the income (or other economic benefits) derived from the donated assets. The Association has no permanently restricted net assets at December 31, 2012 and 2011.

Income Tax Status

The Association is exempt from taxation under Section 501(c)(6) of the Internal Revenue Code as a business league, whereby it is exempt from income taxes. However, income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. The Association currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded.

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 reported amounts of assets, liabilities, revenues, and expenses as of the dates and for the periods presented.

Cash and cash equivalents

The Association has defined cash and cash equivalents as cash in banks and highly liquid investments with an original maturity of three months or less.

Accounts Receivable

Accounts receivable are from city and county granting agencies. No allowance for doubtful accounts has been established since management believes all accounts receivable are collectible, and it has been the Association's experience that all such receivables have been collected in the past.

ADAMS AVENUE BUSINESS ASSOCIATION, INC., INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

Note 2 **Summary of Significant Accounting Policies, continued**

Accounting for Net Assets, continued

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ADAMS AVENUE BUSINESS ASSOCIATION, INC., INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

Note 2 **Summary of Significant Accounting Policies, continued**

Fixed Assets

Fixed Assets 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. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows: buildings 15.5 years. Depreciation expense was \$82,282 for both years ending December 31, 2012 and 2011.

Impairment of Long-lived Assets

The Association 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.

Donated Goods and Services

Donated goods and services are recognized as contributions 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 the Association. Volunteers provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Deferred Revenue

Prepaid fees for events and contract income received in advance are deferred.

Date of Management Review

Subsequent events were evaluated through April 15, 2013, 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, these financial statements.

Note 3 **Obligations Under School Annex Operating Lease/Related Parties**

The Association entered into a ground lease agreement with the Normal Heights United Methodist Church on January 1999. The lease terminates on June 2014, unless terminated earlier as provided by the lease agreement.

ADAMS AVENUE BUSINESS ASSOCIATION, INC., INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

Note 3 Obligations Under Operating Lease/Related Parties (continued)

Monthly rent was 1,500 until June 2010, when the monthly rent was increased to the greater of \$2,500 or 50% of the net income for each month. "Net income", as used in the Lease, shall mean "Gross Income" less "Approved Expenses." "Gross Income" shall mean: All income from all sources arising out of or relating to the School Annex during the term, including without limitation sublease rentals, license fees, user fees, concessions, and the "Gross Sales" of the Association. "Approved Expenses" shall mean: all real property taxes and assessments, utility charges, insurance premiums, and reasonable and customary maintenance costs actually incurred by the Association directly arising out of the operation of School Annex under the Lease.

The Association shall provide the Church quarterly statements of its Net Income and shall provide the Church such other information regarding its income and expenses (including the right to review The Association's books and records related to the School Annex) as the Church may reasonably request for the purpose of verifying the Association's net Income from the School Annex. In the event of a dispute over calculation of the amount of Net Income, the Church's reasonable estimate of the Association's Net Income shall prevail (and shall be used for the calculation of Monthly Rent) until the matter is resolved. The Association maintains a rent distribution schedule to ensure the compliance with the lease agreement. The distribution to the Church was estimated to be \$26,132 in the escrow account at December 31, 2012. This accumulated amount is calculated by taking 50% of the gross rent minus the guaranteed amount \$2,500 per month and 50% monthly maintenance cost. The escrow amount might increase or decrease over the next two and half years (lease ends on June 30, 2014) depending on the rental income received and the related rental expenses. Therefore, the Association recognizes the current year rent received as redevelopment income up to the current year rental expenses. The unearned portion is considered a future possible obligation to the Church.

Guaranteed lease payment under this operating lease for the years ended December 31, 2012 and 2011 amounted to \$30,000 for both years.

Future minimum payments, assuming rent amounts of \$2,500, by year and in the aggregate, under this lease, consist of the following:

<u>Year Ended December 31,</u>	
2013	\$ 30,000
2014	<u>15,000</u>
	<u>\$ 45,000</u>

ADAMS AVENUE BUSINESS ASSOCIATION, INC., INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

Note 4 **Repairs and Restoration Obligations of School Annex/Related Parties**

According to the ground lease agreement, the Association shall throughout the term of the lease, at the Association's own cost and expense, make all necessary repairs, whether interior and exterior, structural or nonstructural, ordinary as well as extraordinary, foreseen as well as unforeseen, to keep the School Annex in a first-class, safe, clean and sanitary condition that is in compliance with all legal requirements. Therefore, the Association accrued \$95,744 for future possible repairs and restoration obligations for the School Annex at the year ended December 31, 2012. The Association estimated \$45,000 for a new roof, \$14,000 for sidewalk repair/replacement, \$9,000 for interior classroom paint, \$7,000 for classroom flooring, and \$20,744 for other major future repairs and maintenance.

Note 5 **Commitments and Contingencies: Grants and Contracts**

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

SUPPLEMENTARY INFORMATION

STATEMENT OF COMPLIANCE

April 15, 2013

To Whom It May Concern:

The Adams Avenue Business association is in compliance with all City of San Diego requirements, such as general requirements, compensation and reimbursements, record keeping and insurance as set forth in the agreements between the City of San Diego and the Adams Avenue Business Association.

All required reports and disclosures have been submitted.

Scott Kessler

Executive Director

See Independent Auditor's Report

ADAMS AVENUE BUSINESS ASSOCIATION, INC.
STATEMENT OF EXPENDITURES
 Budget vs Actual
 City of San Diego Contracts - BID, MAD, SBEP & TOT
 July 2011 through June 2012

	BID			MAD			SBEP			TOT		
	Actual	Budget	Over (Under) Budget	Actual	Budget	Over (Under) Budget	Actual	Budget	Over (Under) Budget	Actual	Budget	Over (Under) Budget
Income												
41000 · SBEP	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$18,751	\$18,751	\$ -	\$ -	\$ -	\$ -
42000 · MAD	-	-	-	45,168	41,000	4,168	-	-	-	-	-	-
42020 · BID	45,000	45,000	-	-	-	-	-	-	-	-	-	-
40040 · TOT	-	-	-	-	-	-	-	-	-	24,188	24,188	-
Total Income	<u>45,000</u>	<u>45,000</u>	<u>-</u>	<u>45,168</u>	<u>41,000</u>	<u>4,168</u>	<u>18,751</u>	<u>18,751</u>	<u>-</u>	<u>24,188</u>	<u>24,188</u>	<u>-</u>
Expenses												
50020 · Personnel												
50038 Workers Compensation	177	250	(73)	-	-	-	-	-	-	-	-	-
50037 · Health Insurance	-	2,000	(2,000)	-	-	-	-	-	-	-	-	-
50027 · Office Staffing	21,356	15,750	5,606	8,689	17,659	(8,970)	18,751	-	18,751	-	-	-
Total 50020 · Personnel	<u>21,533</u>	<u>18,000</u>	<u>3,533</u>	<u>8,689</u>	<u>17,659</u>	<u>(8,970)</u>	<u>18,751</u>	<u>-</u>	<u>18,751</u>	<u>(18,751)</u>	<u>37,502</u>	<u>(56,253)</u>
52010 · Maintenance												
52035 · Supplies	-	-	-	7,507	7,100	407	-	-	-	-	-	-
52025 · Utilities(Water/Electricity)	-	-	-	3,882	760	3,122	-	-	-	-	-	-
52020 · Contract Labor	3,000	3,000	-	19,485	6,896	12,589	-	18,751	(18,751)	-	-	-
Total 52010 · Maintenance	<u>3,000</u>	<u>3,000</u>	<u>-</u>	<u>30,874</u>	<u>14,756</u>	<u>16,118</u>	<u>-</u>	<u>18,751</u>	<u>(18,751)</u>	<u>-</u>	<u>-</u>	<u>-</u>
53100 · Special Events												
53115 · Promotional	-	-	-	-	-	-	-	-	-	9,366	9,366	-
53125 · Contract Labor	-	-	-	-	-	-	-	-	-	14,822	14,822	-
53140 · Music & Entertainment	-	-	-	-	-	-	-	-	-	-	-	-
Total 53100 · Special Events	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,188</u>	<u>24,188</u>	<u>-</u>
50040 Operating												
50110 · Insurance	3,509	3,300	209	1,080	1,190	(110)	-	-	-	-	-	-
50210 - Office Supplies	1,651	400	1,251	105	453	(348)	-	-	-	-	-	-
50125 - Accounting	9,250	1,000	8,250	3,800	1,217	2,583	-	-	-	-	-	-
50060 · Dues and Subscriptions	370	7,500	(7,130)	-	-	-	-	-	-	-	-	-
50080 - Rent	2,000	2,400	(400)	-	-	-	-	-	-	-	-	-
50090 · Telephone	1,287	1,400	(113)	559	384	175	-	-	-	-	-	-
50070 · Postage and Delivery	413	1,100	(687)	-	-	-	-	-	-	-	-	-
Meetings + Conventions	1,032	210	822	-	-	-	-	-	-	-	-	-
50085 - Repairs	-	-	-	-	-	-	-	-	-	-	-	-
Total 50040 Operating	<u>19,512</u>	<u>17,310</u>	<u>2,202</u>	<u>5,544</u>	<u>3,244</u>	<u>2,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
51510 · Marketing												
51555 - Graphic Design	-	210	(210)	-	-	-	-	-	-	-	-	-
51530 - Website	538	430	108	60	36	24	-	-	-	-	-	-
51525 · Meeting Expenses	-	-	-	-	-	-	-	-	-	-	-	-
51545 · Newsletter	-	1,800	(1,800)	-	-	-	-	-	-	-	-	-
51515 · Printing & Reproduction	417	1,250	(833)	-	-	-	-	-	-	-	-	-
Total 51510 · Marketing	<u>955</u>	<u>3,690</u>	<u>(2,735)</u>	<u>60</u>	<u>36</u>	<u>24</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CONTINGENCY	-	3,000	(3,000)	-	5,305	(5,305)	-	-	-	-	-	-
Total Expense	<u>45,000</u>	<u>45,000</u>	<u>-</u>	<u>45,168</u>	<u>41,000</u>	<u>4,168</u>	<u>18,751</u>	<u>18,751</u>	<u>-</u>	<u>24,188</u>	<u>24,188</u>	<u>-</u>
Net Income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent's Auditor Report