



UNION SQUARE  
BUSINESS IMPROVEMENT  
DISTRICT

**FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT**

Year Ended June 30, 2011  
(With Summarized Comparative Totals for 2010)

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LAUTZE & LAUTZE  
CPAs & FINANCIAL ADVISORS

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
UNION SQUARE BUSINESS IMPROVEMENT DISTRICT  
San Francisco, California

We have audited the accompanying statement of financial position of the UNION SQUARE BUSINESS IMPROVEMENT DISTRICT (the USBID) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the USBID's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the USBID's 2010 financial statements and, in our report dated September 8, 2010, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the UNION SQUARE BUSINESS IMPROVEMENT DISTRICT as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Lautze & Lautze*

San Francisco, California  
August 19, 2011

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**STATEMENT OF FINANCIAL POSITION**

June 30, 2011

(With Summarized Comparative Totals for 2010)

	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,535,111	\$ 1,305,047
Assessments receivable, net of allowance for uncollectible assessments of \$28,698	208,150	287,708
Grants receivable	590,616	74,472
Prepaid expenses and other assets	34,281	28,775
Furniture and equipment, net	14,631	15,440
Construction in progress	658,314	-
Total assets	\$ 3,041,103	\$ 1,711,442
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 462,905	\$ 188,029
Accrued salaries and benefits	9,358	2,689
Total liabilities	472,263	190,718
 Commitments		
Net assets:		
Unrestricted	1,526,912	1,386,656
Temporarily restricted	1,041,928	134,068
Total net assets	2,568,840	1,520,724
Total liabilities and net assets	\$ 3,041,103	\$ 1,711,442

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2011  
(With Summarized Comparative Totals for 2010)

	2011			2010
	Unrestricted	Temporarily Restricted	Total	Total
Revenue, gains (losses), and other support:				
Assessment revenue	\$ 3,035,872	\$ -	\$ 3,035,872	\$ 3,000,485
Contributions	140,424	15,072	155,496	148,951
Grants	92,212	892,788	985,000	74,472
Property maintenance services	-	-	-	6,774
Interest income	1,388	-	1,388	1,436
Loss on disposal of equipment	-	-	-	(10,564)
Total revenue, gains (losses), and other support	<u>3,269,896</u>	<u>907,860</u>	<u>4,177,756</u>	<u>3,221,554</u>
Expenses:				
Program	2,499,447	-	2,499,447	1,666,450
Management and administrative	570,662	-	570,662	286,027
Fundraising	59,531	-	59,531	45,199
Total expenses	<u>3,129,640</u>	<u>-</u>	<u>3,129,640</u>	<u>1,997,676</u>
Change in net assets	140,256	907,860	1,048,116	1,223,878
Net assets:				
Beginning of year	<u>1,386,656</u>	<u>134,068</u>	<u>1,520,724</u>	<u>296,846</u>
End of year	<u>\$ 1,526,912</u>	<u>\$ 1,041,928</u>	<u>\$ 2,568,840</u>	<u>\$ 1,520,724</u>

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2011  
(With Summarized Comparative Totals for 2010)

	2011			2010	
	Program	Management and Administrative	Fundraising	Total	Total
Contract clean and safe services	\$ 1,944,698	\$ -	\$ -	\$ 1,944,698	\$ 1,465,776
Salaries and wages	10,967	267,367	-	278,334	115,000
Accounting, legal and support	31,146	174,223	-	205,369	104,355
Special events	156,047	-	29,088	185,135	29,869
Marketing and promotion	173,823	-	-	173,823	18,651
Clean and safe operating expenses	104,023	-	-	104,023	111,810
In-kind services	4,500	30,897	30,443	65,840	33,499
StreetScape improvements	52,190	-	-	52,190	-
Rent and utilities	6	31,008	-	31,014	11,873
Payroll taxes and benefits	851	29,282	-	30,133	13,912
Insurance, permits and fees	6,129	11,846	-	17,975	4,392
Public affairs and advocacy	13,788	-	-	13,788	3,608
Office supplies and expenses	241	8,102	-	8,343	5,705
Depreciation	-	4,436	-	4,436	1,827
Printing expenses	39	4,048	-	4,087	2,810
Office equipment lease	-	3,953	-	3,953	2,182
Meeting expenses and travel	699	2,631	-	3,330	171
Bank fees and interest expense	300	2,869	-	3,169	7,360
Interim management and renewal	-	-	-	-	54,973
Improvements	-	-	-	-	3,905
Miscellaneous	-	-	-	-	5,998
	<u>\$ 2,499,447</u>	<u>\$ 570,662</u>	<u>\$ 59,531</u>	<u>\$ 3,129,640</u>	<u>\$ 1,997,676</u>

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**STATEMENT OF CASH FLOWS**  
Year Ended June 30, 2011  
(With Summarized Comparative Totals for 2010)

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 1,048,116	\$ 1,223,878
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	-	28,698
Depreciation	4,436	1,827
Loss on disposal of equipment	-	10,564
(Increase) decrease in assets:		
Assessments receivable	79,558	(292,191)
Grants receivable	(516,144)	(74,472)
Prepaid expenses and other assets	(5,506)	(28,775)
Increase in liabilities:		
Accounts payable and accrued expenses	95,096	62,471
Accrued salaries and benefits	6,669	2,688
	712,225	934,688
Net cash provided by operating activities		
Cash flows from investing activities:		
Cash paid for construction in progress	(478,534)	-
Purchase of furniture and equipment	(3,627)	(15,326)
	(482,161)	(15,326)
Net cash used by investing activities		
Cash flows from financing activities:		
Borrowings on line of credit	-	810,000
Repayments on line of credit	-	(810,000)
	-	-
Net cash provided by financing activities		
Net increase in cash and cash equivalents	230,064	919,362
Cash and cash equivalents:		
Beginning of year	1,305,047	385,685
End of year	\$ 1,535,111	\$ 1,305,047

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Purpose and Organization**

The Union Square Business Improvement District (the USBID) was formed in 1999 by property owners and merchants to improve the image and economic vitality of the Greater Union Square area by providing cleaning and maintenance and public safety programs to a 10 block area.

The USBID renewed its contract with the City and County of San Francisco (City) for a ten year term on July 1, 2009. Effective with the renewal, the USBID expanded the district from the original ten blocks to twenty-seven whole or partial blocks, representing nearly 3,000 parcel owners in the district. The USBID also expanded services and added marketing, advocacy, beautification and capital improvement programs.

The USBID exists to provide services that assure a positive experience of Union Square so that Union Square will maintain its ranking as one of the top destinations in the City, that the district will be equally enjoyed by residents and workers, and that this experience will enhance the district's economic base and be reflected in positive property values for the USBID's members.

The USBID's mission statement is as follows:

We enhance the visitor experience and business environment, making Union Square the #1 destination in the world.

Programs and services provided by the USBID are:

Clean and Safe:

- Community Service Ambassadors – Ambassadors are located throughout the USBID to greet and assist the public with information and directions, and guide those in need of social services to appropriate resources.
- 10B Police Officers – 10B Police officers are on patrol in the district from 11am to 9pm Sunday through Wednesday and 1pm to 11pm Thursday through Saturday.
- Cleaning and Graffiti Removal – People are on duty to clean litter from the sidewalks and to remove graffiti.

Other:

- Marketing, Streetscapes & Beautification – Promoting the Union Square area and its interests through special events, marketing activities and public relations, décor and other improvements to beautify the area.
- Public Affairs Advocacy – Advocating public policy and services to ensure the economic vitality of the district.

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting**

The USBID prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

**Basis of Presentation**

**Classification of Net Assets**

Accounting principles generally accepted in the United States of America require that the USBID report 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. Accordingly, the net assets of the USBID are classified and reported as described below:

*Unrestricted:* Those net assets and activities which represent the portion of expendable funds that are available to support the USBID's operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

*Temporarily Restricted:* Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

*Permanently Restricted:* Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

As of June 30, 2011, the USBID did not have any net assets meeting the definition of permanently restricted.

**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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximate fair value as these receivables and payables earn or are charged interest based on the prevailing rates.

**Cash and Cash Equivalents**

The USBID considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Assessments Receivable**

Assessments receivable, net represents obligations of local property assessments due to the USBID. Unpaid receivables do not accrue interest.

The USBID uses the allowance method to account for uncollectible assessments. The allowance for uncollectible assessments receivable reflects management's best estimate of the amounts that will not be collected based on historical experience and an evaluation of the outstanding receivables at the end of the year.

**Furniture and Equipment**

The USBID capitalizes acquisitions of furniture and equipment with a cost or value in excess of \$1,000 and with an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value or appraised value at the date of acquisition. Depreciation is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 7 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities.

**Revenue Recognition**

**Assessment Revenue**

The USBID receives its support primarily from a special tax assessment levied by the City on properties located within the USBID in accordance with City Ordinance. The assessment is recorded by the USBID when earned. The City remits the assessment monies to the USBID as the assessments are collected from the property owners.

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

**Contributions**

The USBID recognizes all contributions in the year of receipt, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized when the corresponding expenditures are incurred or when the time restriction expires. This occurs by increasing one class of net assets and decreasing another in the statement of activities. Such transactions are recorded as *net assets released from restrictions* and are reported separately from other transactions. The USBID records donor-restricted contributions and net investment income as increases in unrestricted net assets if the restrictions are met within the same year.

**Contributed Goods and Services**

Donated material and equipment are recorded as contributions at their estimated value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the USBID reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The USBID reclassifies temporarily restricted net assets to unrestricted net assets at that time.

The USBID records contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated.

For the year ended June 30, 2011, the USBID received contributed goods and services in the amount of \$65,841.

**Advertising**

The costs of advertising are charged to expense as incurred. Advertising expense for the year ended June 30, 2011 was \$7,200.

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes**

The USBID is a qualified organization exempt from federal income taxes under §501(c)(4) of the Internal Revenue Code and §23701f of the California Revenue and Taxation Code.

The USBID has adopted the accounting standard on accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and requires the affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from tax positions taken in income tax returns.

If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. This standard also requires organizations to disclose additional quantitative and qualitative information in their financial statements about uncertain tax positions.

The USBID's evaluation on June 30, 2011 revealed no tax positions that would have a material impact on the financial statements. The 2007 through 2010 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2006 through 2010 tax years remain subject to examination by the California Franchise Tax Board. The USBID does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

**Concentrations of Risk**

**Financial Instruments**

Financial instruments which potentially subject the USBID to concentrations of credit risk consist principally of cash and cash equivalents. The USBID maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. The USBID has not experienced any losses in such accounts. In May, 2010, the USBID adopted a policy requiring all funds be fully insured and as of June, 2011, all funds were fully insured. Management believes that the USBID is not exposed to any significant credit risk related to concentrations.

**Assessments Receivable**

At June 30, 2011, 47% of the assessments receivable are due from properties owned by the City and County of San Francisco.

**Functional Allocation of Expenses**

The costs of providing various program and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefited.

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassifications**

Certain amounts in the summarized comparative totals for 2010 have been reclassified to conform to the 2011 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

**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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the USBID's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

**2. GRANTS RECEIVABLE**

Grants receivable at June 30, 2011 consist of the following:

Powell Street Pedestrian Improvement Project	\$ 495,616
Hallidie Plaza Improvements	<u>95,000</u>
	<u><u>\$ 590,616</u></u>

The Powell Street Pedestrian Improvement Project is funded by a grant in the original amount of \$890,000 from Audi of America. The Hallidie Plaza Improvement Project is funded by a grant in the original amount of \$95,000 from the City and County of San Francisco. The grants are payable to the USBID as eligible costs are incurred. To date, \$394,384 has been received from Audi of America. As of June 30, 2011, the Hallidie Plaza improvements were just beginning and the USBID had yet to submit expenses incurred to date for payment.

Subject to approval by the USBID's Board of Directors and approval by the City and County of San Francisco's Board of Supervisors, the USBID may donate the Powell Street Pedestrian Project to the City and County of San Francisco.

**3. FURNITURE AND EQUIPMENT, NET**

Furniture and equipment, net at June 30, 2011 consist of the following:

Furniture and equipment	\$ 21,482
Less accumulated depreciation	<u>(6,851)</u>
	<u><u>\$ 14,631</u></u>

For the year ended June 30, 2011, depreciation expense was \$4,436.

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**4. CONSTRUCTION IN PROGRESS**

The USBID has begun the design and implementation of the Powell Street Pedestrian Improvement Project. The project extends the sidewalk encompassing the parking lane of two blocks of Powell Street between Ellis Street and Geary Street to provide additional space for urban use. The grant from Audi of America will fund up to \$890,000 of the costs incurred for materials, construction, and installation of the project. A ribbon cutting and grand opening ceremony was held on July 13, 2011 but construction continued through August 2011 and the total cost of the project was approximately \$950,000.

**5. LINE OF CREDIT**

The USBID obtained a revolving line of credit from Bank of America on October 7, 2009, which expired on October 1, 2010, for a maximum borrowing amount of \$500,000. This line of credit was renewed under the same terms on September 17, 2010 and expires on December 1, 2011. Interest is payable at the prime rate plus 1.75% (5.00% at June 30, 2011). The line of credit is secured by the USBID's equipment and receivables. The USBID did not borrow from the line of credit during the year ended June 30, 2011.

**6. UNRESTRICTED NET ASSETS**

Unrestricted net assets at June 30, 2011 are as follows:

Clean and safe	\$ 337,369
Marketing	243,091
Management	101,601
Net investment in furniture and equipment	14,631
Advocacy	8,115
Undesignated	<u>822,105</u>
	<u><u>\$ 1,526,912</u></u>

**7. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2011 are available for the following purposes:

Powell Street Pedestrian Improvement Project	\$ 890,000
Hallidie Plaza Improvements	70,000
Marketing	47,180
Maiden Lane Improvements	27,558
Advocacy	<u>7,190</u>
	<u><u>\$ 1,041,928</u></u>

**UNION SQUARE BUSINESS IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**8. COMMITMENTS**

The USBID is obligated under a noncancelable operating lease agreement for its office and storage. The lease term is February 1, 2010 through August 31, 2013. The USBID also leases equipment with monthly lease payments expiring November, 2012.

The following is a schedule of minimum lease commitments for the years ending June 30:

2012	\$ 27,049
2013	26,600
2014	<u>4,462</u>
	<u>\$ 58,111</u>

Rent expense for the year ended June 30, 2011 was \$26,885.

**9. RELATED PARTY TRANSACTIONS**

MJM Management Group (MJM), the primary service provider for the clean and safe services of the USBID, rents office space at 870 Market Street. James Flood, Treasurer of the Board of Directors, has an ownership interest in the building. Accordingly, \$35,731 of the amounts paid to MJM represents rent at 870 Market Street. MJM also employs the daughter of the USBID Board Treasurer. One of the USBID's Board of Directors is a consultant for MJM. Accordingly, both Directors abstain from voting for all matters regarding MJM. During the year ended June 30, 2011, the amount paid to MJM for clean and safe services was approximately \$1,940,000. At June 30, 2011, \$202,950 is payable to MJM for services performed during the year ended June 30, 2011.

**10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Accounts payable includes \$179,780 for construction in progress at June 30, 2011.

**11. SUBSEQUENT EVENTS**

The USBID has evaluated all subsequent events through August 19, 2011, the date the financial statements were available to be issued.