



UNION SQUARE
BUSINESS IMPROVEMENT
DISTRICT

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

Year Ended June 30, 2012
(With Summarized Comparative Totals for 2011)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities.....	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements.....	6 - 13



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

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, 2012, 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 2011 financial statements and, in our report dated August 19, 2011, 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, 2012, 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
September 20, 2012

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
STATEMENT OF FINANCIAL POSITION

June 30, 2012

(With Summarized Comparative Totals for 2011)

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 1,945,043	\$ 1,535,111
Grants receivable	35,741	590,616
Assessments receivable, net	34,422	208,150
Prepaid expenses and other assets	48,958	34,281
Furniture and equipment, net	17,042	14,631
Construction in progress	-	658,314
	\$ 2,081,206	\$ 3,041,103
Total assets	\$ 2,081,206	\$ 3,041,103
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 336,476	\$ 462,905
Accrued salaries and benefits	18,523	9,358
	354,999	472,263
Total liabilities	354,999	472,263
 Commitments		
Net assets:		
Unrestricted	1,638,131	1,526,912
Temporarily restricted	88,076	1,041,928
	1,726,207	2,568,840
Total net assets	1,726,207	2,568,840
Total liabilities and net assets	\$ 2,081,206	\$ 3,041,103

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012
(With Summarized Comparative Totals for 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and other support:				
Assessment revenue	\$ 3,034,250	\$ -	\$ 3,034,250	\$ 3,035,872
Special events	57,411	-	57,411	37,085
Grants	33,000	-	33,000	985,000
Contributions	31,714	-	31,714	118,411
Interest income	1,015	-	1,015	1,388
Net assets released from restrictions	953,852	(953,852)	-	-
Total revenue and other support	<u>4,111,242</u>	<u>(953,852)</u>	<u>3,157,390</u>	<u>4,177,756</u>
Expenses:				
Program	3,445,701	-	3,445,701	2,499,447
Management and administrative	514,149	-	514,149	570,662
Fundraising	40,173	-	40,173	59,531
Total expenses	<u>4,000,023</u>	<u>-</u>	<u>4,000,023</u>	<u>3,129,640</u>
Change in net assets	111,219	(953,852)	(842,633)	1,048,116
Net assets:				
Beginning of year	<u>1,526,912</u>	<u>1,041,928</u>	<u>2,568,840</u>	<u>1,520,724</u>
End of year	<u>\$ 1,638,131</u>	<u>\$ 88,076</u>	<u>\$ 1,726,207</u>	<u>\$ 2,568,840</u>

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012
(With Summarized Comparative Totals for 2011)

	2012			2011	
	Program	Management and Administrative	Fundraising	Total	Total
Contract clean and safe services	\$ 1,957,800	\$ -	\$ -	\$ 1,957,800	\$ 1,944,698
Powell Street Promenade donation	843,503	-	-	843,503	-
Salaries and wages	123,378	229,541	-	352,919	278,334
Accounting, legal and support	9,541	167,385	-	176,926	205,369
Streetscape improvements	132,949	-	-	132,949	52,190
Special events	97,913	-	26,692	124,605	185,135
Clean and safe operating expenses	110,654	-	-	110,654	104,023
Marketing and promotion	89,673	-	-	89,673	173,823
Depreciation	33,644	5,680	-	39,324	4,436
Payroll taxes and benefits	10,336	25,665	-	36,001	30,133
Rent and utilities	-	35,889	-	35,889	31,014
In-kind services	5,480	13,226	13,000	31,706	65,840
Insurance, permits and fees	10,871	17,671	-	28,542	17,975
Public affairs and advocacy	12,559	-	-	12,559	13,788
Office supplies and expenses	291	7,512	-	7,803	8,343
Meeting expenses and travel	2,537	4,192	-	6,729	3,330
Loss on disposal of equipment	4,572	-	-	4,572	-
Office equipment lease	-	3,886	-	3,886	3,953
Printing expenses	-	3,368	-	3,368	4,087
Bank fees and interest expense	-	134	481	615	3,169
	<u>\$ 3,445,701</u>	<u>\$ 514,149</u>	<u>\$ 40,173</u>	<u>\$ 4,000,023</u>	<u>\$ 3,129,640</u>

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
STATEMENT OF CASH FLOWS
Year Ended June 30, 2012
(With Summarized Comparative Totals for 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (842,633)	\$ 1,048,116
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	39,324	4,436
Loss on disposal of equipment	4,572	-
Powell Street Promenade donation	843,503	-
(Increase) decrease in assets:		
Assessments receivable	173,728	79,558
Grants receivable	554,875	(516,144)
Prepaid expenses and other assets	(14,677)	(5,506)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(126,429)	95,096
Accrued salaries and benefits	9,165	6,669
	641,428	712,225
Net cash provided by operating activities		
Cash flows from investing activities:		
Cash paid for construction in progress	(216,820)	(478,534)
Purchase of furniture and equipment	(14,676)	(3,627)
	(231,496)	(482,161)
Net cash used by investing activities		
Net increase in cash and cash equivalents	409,932	230,064
Cash and cash equivalents:		
Beginning of year	1,535,111	1,305,047
End of year	\$ 1,945,043	\$ 1,535,111

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 (the 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 patrol throughout the USBID to greet and assist the public with information and directions, and guide those in need of social services to appropriate resources. Ambassadors are on duty 8:30am to 11pm daily.
- 10B Police Officers – 10B Police officers are on patrol in the district from 1pm to 11pm daily to respond to members' needs and manage other quality of life issues in the district.
- Cleaning and Graffiti Removal – Maintenance staff is on duty daily from 6am to 9pm to clean litter from sidewalks and to remove graffiti. Each sidewalk in the district is steam cleaned every 2 weeks.

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, 2012

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, 2012, the USBID did not have any net assets meeting the definition of permanently restricted.

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, 2012

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

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 represents obligations of local property owners 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. As of June 30, 2012, the allowance for uncollectible assessments was \$28,698.

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. Interest is not charged on late assessments, however late penalties are charged in accordance with the City's policy.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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. Contributions with donor-imposed restrictions and investment income generated from such investments that are complied with in the year of receipt are reported as unrestricted support.

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, 2012, the USBID received contributed goods and services in the amount of \$31,706.

Advertising

The costs of advertising are charged to expense as incurred. Advertising expense for the year ended June 30, 2012 was \$19,581 and has been included in marketing and promotion on the statement of functional expenses.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

Income Taxes

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

The USBID follows the 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. For tax exempt entities, favorable tax status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status.

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, 2012 revealed no tax positions that would have a material impact on the financial statements. The 2008 through 2011 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2007 through 2011 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. The USBID has a policy requiring all funds be fully insured. Management believes that the USBID is not exposed to any significant credit risk related to concentrations.

Assessments Receivable

As of June 30, 2012, 58% of the assessments receivable were due from two property owners.

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, 2012

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

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, 2011, from which the summarized information was derived.

2. FURNITURE AND EQUIPMENT

Furniture and equipment, net at June 30, 2012 consist of the following:

Furniture and equipment	\$ 29,574
Less accumulated depreciation	<u>(12,532)</u>
	<u><u>\$ 17,042</u></u>

For the year ended June 30, 2012, depreciation expense was \$7,692.

3. CONSTRUCTION IN PROGRESS

In August, 2011, the USBID completed the design and implementation of the Powell Street Pedestrian Improvement Project (the Project) which began during the year ended June 30, 2011. 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. A grant from Audi of America funded \$890,000 of the costs incurred for materials, construction, installation of the project, and maintenance. Materials, construction, and installation of the project totaled \$875,135, which was capitalized. Maintenance of \$58,912 was incurred during the year ended June 30, 2012.

In October, 2011, the Project was donated to and accepted by the City. Accordingly, donation expense of \$843,503, net of depreciation of \$31,632, was recorded during the year ended June 30, 2012.

4. LINE OF CREDIT

The USBID renewed a revolving line of credit from Bank of America on November 2, 2011, which expires on December 1, 2012, for a maximum borrowing amount of \$500,000. Interest is payable at the prime rate plus 1.75% (5.00% at June 30, 2012). The line of credit is secured by the USBID's equipment and receivables. The line of credit contains certain nonfinancial covenants. The USBID did not borrow from the line of credit during the year ended June 30, 2012.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

5. UNRESTRICTED NET ASSETS

Unrestricted net assets at June 30, 2012 are as follows:

Undesignated	\$ 1,064,105
Clean and safe	261,385
Marketing	199,740
Management and administration	60,590
Advocacy	35,269
Net investment in furniture and equipment	<u>17,042</u>
	<u><u>\$ 1,638,131</u></u>

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2012 are available for the following purposes:

Marketing	\$ 47,180
Maiden Lane Improvements	19,942
Hallidie Plaza Improvements	13,764
Advocacy	<u>7,190</u>
	<u><u>\$ 88,076</u></u>

7. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes during the year ended June 30, 2012, as follows:

Powell Street Pedestrian Improvement Project	\$ 875,135
Hallidie Plaza Improvements	56,236
Powell Street Pedestrian Improvement Project - maintenance	14,865
Maiden Lane Improvements	<u>7,616</u>
	<u><u>\$ 953,852</u></u>

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 entered into a noncancelable operating lease agreement for its conference room. The lease term is December 1, 2011 through August 31, 2013. The USBID also leased equipment which was cancelled in August, 2012. In August 2012, a new lease for equipment was entered into which expires in November, 2015.

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

2013	\$ 38,293
2014	9,043
2015	3,153
2016	<u>1,051</u>
	<u>\$ 51,540</u>

Rent expense for the year ended June 30, 2012 was \$31,661.

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, \$36,771 of the amounts paid to MJM represents rent at 870 Market Street. One of the USBID's Board of Directors is a consultant for MJM. During the year ended June 30, 2012, the amount paid to MJM for clean and safe services was approximately \$1,960,000. At June 30, 2012, approximately \$270,000 is payable to MJM for services performed during the year ended June 30, 2012. The USBID employs the daughter of the USBID Board Treasurer.

The USBID has a written conflict of interest policy that requires, among other things, that no member of the Board can participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each Board member is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the USBID does business with an entity in which a Board member has a material financial interest. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the USBID, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the USBID, in accordance with applicable conflict of interest laws. When a conflict of interest does exist, all affected parties (Board members or staff) must refrain from the decision-making process and abstain from the voting process.

10. SUBSEQUENT EVENTS

The USBID has evaluated all subsequent events through September 20, 2012, the date the financial statements were available to be issued.