



UNION SQUARE
BUSINESS IMPROVEMENT
DISTRICT

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

Year Ended June 30, 2013
(With Summarized Comparative Totals for 2012)

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LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of UNION SQUARE BUSINESS IMPROVEMENT DISTRICT (the USBID) which comprise the statements of financial position as of June 30, 2013, 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 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.

Auditors' 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 UNION SQUARE BUSINESS IMPROVEMENT DISTRICT as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Union Square Business Improvement District

Report on Summarized Comparative Information

We have previously audited the UNION SQUARE BUSINESS IMPROVEMENT DISTRICT's 2012 financial statements, and our reported dated September 20, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Lautze & Lautze

San Francisco, California
September 26, 2013



UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
STATEMENT OF FINANCIAL POSITION

June 30, 2013

(With Summarized Comparative Totals for 2012)

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 1,979,167	\$ 1,945,043
Grants receivable	34,901	35,741
Assessments and accounts receivable, net	105,287	34,422
Prepaid expenses and other assets	13,597	48,958
Furniture and equipment, net	77,196	17,042
Total assets	\$ 2,210,148	\$ 2,081,206
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 294,745	\$ 336,476
Accrued salaries and benefits	5,651	18,523
Deferred revenue	23,242	-
Total liabilities	323,638	354,999
 Commitments		
Net assets:		
Unrestricted	1,793,610	1,638,131
Temporarily restricted	92,900	88,076
Total net assets	1,886,510	1,726,207
Total liabilities and net assets	\$ 2,210,148	\$ 2,081,206

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013
(With Summarized Comparative Totals for 2012)

	2013			2012
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and other support:				
Assessment revenue	\$ 3,116,158	\$ -	\$ 3,116,158	\$ 3,034,250
Special events	64,850	-	64,850	57,411
Grants	31,551	26,450	58,001	33,000
Contributions	54,865	7,333	62,198	31,714
Interest income	573	-	573	1,015
Net assets released from restrictions	28,959	(28,959)	-	-
Total revenue and other support	<u>3,296,956</u>	<u>4,824</u>	<u>3,301,780</u>	<u>3,157,390</u>
Expenses:				
Program	2,729,901	-	2,729,901	3,445,701
Management and administrative	384,155	-	384,155	514,149
Fundraising	27,421	-	27,421	40,173
Total expenses	<u>3,141,477</u>	<u>-</u>	<u>3,141,477</u>	<u>4,000,023</u>
Change in net assets	155,479	4,824	160,303	(842,633)
Net assets:				
Beginning of year	<u>1,638,131</u>	<u>88,076</u>	<u>1,726,207</u>	<u>2,568,840</u>
End of year	<u>\$ 1,793,610</u>	<u>\$ 92,900</u>	<u>\$ 1,886,510</u>	<u>\$ 1,726,207</u>

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2013

(With Summarized Comparative Totals for 2012)

	2013			2012	
	Program	Management and Administrative	Fundraising	Total	
Contract clean and safe services	\$ 2,060,070	\$ -	\$ -	\$ 2,060,070	\$ 1,957,800
Salaries and wages	188,145	126,319	-	314,464	362,085
Accounting, legal and support	31,574	151,880	-	183,454	176,926
Streetscape improvements	120,304	-	-	120,304	132,949
Special events	83,528	-	26,816	110,344	124,605
Marketing and promotion	106,363	-	-	106,363	89,673
Public affairs, advocacy, and Union Square cares	59,862	-	-	59,862	12,559
Rent and utilities	-	40,865	-	40,865	35,889
In-kind services	10,894	20,289	-	31,183	31,706
Clean and safe operating expenses and projects	29,778	-	-	29,778	110,654
Payroll taxes and benefits	14,158	10,783	-	24,941	26,835
Insurance, permits and fees	10,888	10,831	-	21,719	28,542
Depreciation	13,641	6,053	-	19,694	39,324
Meeting expenses and travel	460	4,892	-	5,352	6,729
Printing expenses	-	5,115	-	5,115	3,368
Office supplies and expenses	225	4,138	-	4,363	7,803
Office equipment lease	-	2,854	-	2,854	3,886
Bank fees and interest expense	11	136	605	752	615
Powell Street Promenade donation	-	-	-	-	843,503
Loss on disposal of equipment	-	-	-	-	4,572
	<u>\$ 2,729,901</u>	<u>\$ 384,155</u>	<u>\$ 27,421</u>	<u>\$ 3,141,477</u>	<u>\$ 4,000,023</u>

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

Year Ended June 30, 2013

(With Summarized Comparative Totals for 2012)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 160,303	\$ (842,633)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	19,694	39,324
Loss on disposal of equipment	-	4,572
Powell Street Promenade donation	-	843,503
(Increase) decrease in assets:		
Assessments receivable	(70,865)	173,728
Grants receivable	840	554,875
Prepaid expenses and other assets	35,361	(14,677)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(41,731)	(126,429)
Accrued salaries and benefits	(12,872)	9,165
Deferred revenue	<u>23,242</u>	<u>-</u>
Net cash provided by operating activities	<u>113,972</u>	<u>641,428</u>
Cash flows from investing activities:		
Cash paid for construction in progress	-	(216,820)
Purchase of furniture and equipment	<u>(79,848)</u>	<u>(14,676)</u>
Net cash used by investing activities	<u>(79,848)</u>	<u>(231,496)</u>
Net increase in cash and cash equivalents	34,124	409,932
Cash and cash equivalents:		
Beginning of year	<u>1,945,043</u>	<u>1,535,111</u>
End of year	<u>\$ 1,979,167</u>	<u>\$ 1,945,043</u>

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 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 world, 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 events, digital and traditional marketing programs 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, 2013

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 (U.S. GAAP), which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Classification of Net Assets

U.S. GAAP requires 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, 2013, the USBID did not have any net assets meeting the definition of permanently restricted.

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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, 2013

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, 2013, the allowance for uncollectible assessments was approximately \$29,000.

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 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, 2013

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. 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.

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.

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, 2013, the USBID received contributed goods and services in the amount of \$31,183.

Advertising

The costs of advertising are charged to expense as incurred. Advertising expense for the year ended June 30, 2013 was \$16,315 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, 2013

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

Income Taxes

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

The USBID recognizes a 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 organization 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, 2013 revealed no tax positions that would have a material impact on the financial statements. The 2009 through 2012 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2008 through 2012 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, 2013, 30% of the assessments receivable were due from two property owners.

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis for the years ended June 30, 2013 and 2012 in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 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, 2012, from which the summarized information was derived.

2. GRANTS RECEIVABLE

Grants receivable at June 30, 2013 consist of the following:

Hallidie Plaza Improvements	\$ 25,000
Powell Street Promenade Maintenance	<u>9,901</u>
	<u><u>\$ 34,901</u></u>

The Hallidie Plaza Improvements project is funded by a grant in the original amount of \$25,000 from the City and County of San Francisco. The Powell Street Promenade Maintenance project is funded by an annual grant of \$33,000 from Audi of America. The grants are payable to the USBID as eligible costs are incurred.

3. FURNITURE AND EQUIPMENT

Furniture and equipment at June 30, 2013 consist of the following:

Furniture and equipment	\$ 109,421
Less accumulated depreciation	<u>(32,225)</u>
	<u><u>\$ 77,196</u></u>

For the year ended June 30, 2013, depreciation expense was \$19,694.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. LINE OF CREDIT

The USBID renewed a revolving line of credit from Bank of America on November 9, 2012, which expires on December 1, 2013, for a maximum borrowing amount of \$500,000. Interest is payable at the prime rate plus 1.75% (5.00% at June 30, 2013). The line of credit is secured by the USBID's inventory and equipment. The line of credit contains certain nonfinancial covenants. The USBID did not borrow from the line of credit during the year ended June 30, 2013.

5. UNRESTRICTED NET ASSETS

Unrestricted net assets at June 30, 2013 are as follows:

Undesignated	\$ 1,298,913
Management and administration	168,989
Clean and safe	161,430
Net investment in furniture and equipment	77,196
Advocacy	68,987
Marketing	<u>18,095</u>
	<u><u>\$ 1,793,610</u></u>

The USBID does not receive the first assessment payment for its fiscal year until January, thus it is incumbent on the organization to have a minimum of seven months of operating reserves at the end of each fiscal year to support operations until the first payment is received in the next fiscal year.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013 are available for the following purposes:

Marketing	\$ 47,180
Hallidie Plaza Improvements	25,000
Maiden Lane Improvements	10,191
Advocacy	7,190
Others	<u>3,339</u>
	<u><u>\$ 92,900</u></u>

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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, 2013, as follows:

Maiden Lane Improvements	\$ 15,195
Hallidie Plaza Improvements	<u>13,764</u>
	<u>\$ 28,959</u>

8. COMMITMENTS

The USBID is obligated under noncancelable operating lease agreements for its office, conference room, and storage. The lease agreements expire on August 31, 2013. In August 2013, the USBID entered into a noncancelable operating lease agreement for its office. The lease term is October 1, 2013 through September 30, 2016.

The USBID also leases equipment. The lease term is August 15, 2012 through November 15, 2015.

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

2014	\$ 47,050
2015	55,557
2016	56,481
2017	<u>13,974</u>
	<u>\$ 173,062</u>

Rent expense for the year ended June 30, 2013 was \$36,295.

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, one of the USBID's Board of Directors, has an ownership interest in the building. Accordingly, approximately \$37,500 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, 2013, the amount paid to MJM for clean and safe services was approximately \$2,060,000. At June 30, 2013, approximately \$223,000 is payable to MJM for services performed during the year ended June 30, 2013. The USBID employs the daughter of one of the USBID's Board of Directors. She also has an ownership interest in the building at 870 Market Street.

UNION SQUARE BUSINESS IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

9. RELATED PARTY TRANSACTIONS (CONTINUED)

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 26, 2013, the date the financial statements were available to be issued.