



**Financial Statements  
September 30, 2013 and 2012**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Downtown Long Beach Associates

We have audited the accompanying financial statements of Downtown Long Beach Associates (the Association), (a nonprofit organization), which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors consider 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 Downtown Long Beach Associates as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Windes &amp; McClaughry".

Long Beach, California  
December 18, 2013

**DOWNTOWN LONG BEACH ASSOCIATES**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>ASSETS</b>	
	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 1,217,202	\$ 814,234
Investments		253,845
Accounts receivable	596,621	440,714
Other receivable	154,666	
Prepaid expenses	<u>11,292</u>	<u>17,544</u>
	<u>1,979,781</u>	<u>1,526,337</u>
FURNITURE AND EQUIPMENT, net	<u>18,171</u>	<u>8,468</u>
<b>OTHER ASSETS</b>		
Deposits	<u>3,762</u>	<u>3,762</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,001,714</u>	<u>\$ 1,538,567</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 206,128	\$ 123,613
Capital lease obligation, current portion	3,766	
Deferred revenue (Note 4)	<u>1,781,175</u>	<u>1,414,954</u>
	<u>1,991,069</u>	<u>1,538,567</u>
<b>NONCURRENT LIABILITIES</b>		
Capital lease obligation, net of current portion	<u>10,645</u>	
<b>COMMITMENTS (Note 5)</b>		
<b>UNRESTRICTED NET ASSETS</b>	<u>None</u>	<u>None</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,001,714</u>	<u>\$ 1,538,567</u>

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN LONG BEACH ASSOCIATES**

**STATEMENTS OF ACTIVITIES**

	<b>For the Year Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>SUPPORT AND REVENUES</b>		
City of Long Beach:		
Downtown Parking and Business Improvement Area (DPBIA) funds	\$ 582,983	\$ 577,796
City funds	612,660	676,187
Property Based Improvement District (PBID) funds	<u>1,971,881</u>	<u>1,866,560</u>
	<u>3,167,524</u>	<u>3,120,543</u>
<b>OTHER SUPPORT</b>		
Sponsorship revenue	442,917	607,734
Interest income, net	<u>138</u>	<u>1,140</u>
	<u>443,055</u>	<u>608,874</u>
 Total Support and Revenues	 <u>3,610,579</u>	 <u>3,729,417</u>
<b>EXPENSES</b>		
Marketing and promotions	1,745,140	1,934,164
Operating expense	1,318,257	1,188,889
General and administrative	<u>547,182</u>	<u>606,364</u>
	<u>3,610,579</u>	<u>3,729,417</u>
 <b>CHANGE IN UNRESTRICTED NET ASSETS</b>	 None	 None
 <b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	 <u>None</u>	 <u>None</u>
 <b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	 <u>\$ None</u>	 <u>\$ None</u>

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN LONG BEACH ASSOCIATES**

**STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in unrestricted net assets	None	None
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	\$ 5,697	\$ 4,047
(Increase) decrease in:		
Accounts receivable	( 155,907)	84,341
Other receivable	( 154,666)	
Prepaid expenses	6,252	1,480
Increase (decrease) in:		
Accounts payable and accrued expenses	82,515	( 62,323)
Deferred revenue	366,221	39,435
Net Cash Provided By Operating Activities	150,112	66,980
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Redemption of investments	253,845	252,710
Purchase of investments		( 253,845)
Net Cash Provided By (Used In) Investing Activities	253,845	( 1,135)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligation	( 989)	
Net Cash Used In Financing Activities	( 989)	None
<b>NET CHANGE IN CASH</b>	402,968	65,845
<b>CASH AT BEGINNING OF YEAR</b>	814,234	748,389
<b>CASH AT END OF YEAR</b>	<u>\$ 1,217,202</u>	<u>\$ 814,234</u>

The accompanying notes are an integral part of these financial statements.

## **DOWNTOWN LONG BEACH ASSOCIATES**

### **NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012**

#### **NOTE 1 – Summary of Significant Accounting Policies**

##### ***Organization***

Downtown Long Beach Associates (the Association) is a nonprofit corporation organized to attract, stimulate and enhance business activity in downtown Long Beach (the City). To meet these goals, the Association conducts marketing and public relations campaigns, holds special events, and provides a range of services, including maintenance functions and a guide program for downtown businesses and residents. The Association also addresses specific merchant issues in order to improve the business atmosphere in the City.

##### ***Use of Estimates and Assumptions***

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support and revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

##### ***Concentration of Credit Risk***

Throughout the year ended September 30, 2013 and at various times during the year, the Association maintained cash and cash equivalent balances with financial institutions in excess of federally insured limits.

##### ***Investments***

Investments consists of certificates of deposit purchased with an initial maturity of thirty days or more. Such investments are stated at cost, which approximates market value.

##### ***Accounts Receivable***

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to expense and a credit to accounts receivable.

**DOWNTOWN LONG BEACH ASSOCIATES**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

***Furniture and Equipment***

Furniture and equipment are stated at cost. Depreciation expense has been computed using the straight-line method over the estimated useful lives of three to seven years. Expenditures for repairs are expensed as incurred and major additions, renewals, and betterments are capitalized.

***Advertising Costs***

The Association expenses its advertising and promotion costs as incurred. Total advertising costs for the years ended September 30, 2013 and 2012 were \$94,195 and \$25,500, respectively.

***Support and Revenue Recognition***

The Economic Development contract with the Downtown Parking and Business Improvement Area (DPBIA) has a special assessment associated with business licenses in the area. This contract has the same fiscal year as the Association and was ratified by the Long Beach City Council for the current fiscal year. The Association is being provided these funds to promote business in downtown Long Beach.

The Economic Development contract with the Property Based Improvement District (PBID) has a special assessment associated with the real properties in the area. The PBID contract is renewed with the adoption of the PBID budget, which is approved annually by the City Council. The Association is being provided these funds to promote business in downtown Long Beach. The PBID was renewed January 1, 2013 and involves a new management plan which includes collection of assessments from residents in the downtown area.

The Association recognizes contract revenue from its City contracts when the revenues are fixed and determinable. The contract is adjusted monthly based on expenditures for the year. Any excess funds over expenditures are classified as deferred revenue and carried over into the next period.

**DOWNTOWN LONG BEACH ASSOCIATES**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

***Support and Revenue Recognition (Continued)***

The above contracts are contingent upon changes in rates on a year-to-year basis, success in collection of the above funds from the residents and businesses, and continued support from the Long Beach City Council. Also, in the event that the Association does not contract with the City in any year, the Association will return any funds in excess of expenditures classified as deferred revenue.

***Income Taxes***

The Association is exempt from federal income taxes under Internal Revenue Code Section 501(c)(6) and exempt from California franchise tax under Revenue and Taxation Code Section 23701(e).

The Association recognizes the financial statement benefit of tax positions, such as its filing status as tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Association is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal purposes is three years and for California purposes is four years.

***Subsequent Events***

The Association's management has evaluated subsequent events from the statement of financial position date through December 18, 2013 the date the financial statements were available to be issued for the year ended September 30, 2013, and determined that there were no other items to disclose.

**DOWNTOWN LONG BEACH ASSOCIATES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013 AND 2012**

**NOTE 2 – Investments**

Investments consists of the following:

	<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>
Certificates of deposit	None	\$ 253,845

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Association’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Association groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The following is a description of valuation methodologies used for Level 2 assets recorded at fair value:

*Certificates of deposit:* The fair value is measured using a quoted market price in a market that is not actively traded.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

**DOWNTOWN LONG BEACH ASSOCIATES**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

**NOTE 2 – Investments (Continued)**

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2012:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Certificates of deposit	\$ <u>253,845</u>	<u>None</u>	\$ <u>253,845</u>	<u>None</u>

**NOTE 3 – Furniture and Equipment**

Furniture and equipment consists of the following:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Office equipment	\$ 103,968	\$ 88,568
Operational equipment	36,626	36,626
Office furniture	<u>55,734</u>	<u>55,734</u>
	196,328	180,928
Less accumulated depreciation	( <u>178,157</u> )	( <u>172,460</u> )
	<u>\$ 18,171</u>	<u>\$ 8,468</u>

Depreciation expense for the years ended September 30, 2013 and 2012 was \$5,697 and \$4,047, respectively.

**DOWNTOWN LONG BEACH ASSOCIATES**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

**NOTE 4 – DPBIA and PBID Revenue**

As discussed in Note 1, deferred revenue is recognized on contract revenue in excess of expenditures and is recorded as an increase (or decrease) of current year contract revenue.

Revenue reported consists of the following:

	<b>For the Year Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
Downtown Parking and Business Improvement Area funds (DPBIA)	<u>\$ 582,983</u>	<u>\$ 577,796</u>
Property Based Improvement		
District funds (PBID)	\$ 2,160,349	\$ 1,854,983
Deferral adjustment	( 188,468)	<u>11,577</u>
	<u>\$ 1,971,881</u>	<u>\$ 1,866,560</u>

As of September 30, 2013, deferred revenue represents funds designated by the Board of Directors for future projects or to cease activities should the contract with the City be discontinued (see Note 1) as follows:

Three-month reserve for PBID contract	\$ 556,275
Three-month reserve for DPBIA contract	157,800
Economic Development Outreach	161,982
Capital Improvements	792,128
To be allocated	<u>112,990</u>
	<u>\$ 1,781,175</u>

**DOWNTOWN LONG BEACH ASSOCIATES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013 AND 2012**

**NOTE 5 – Commitments**

*Operating Leases*

The Association entered into operating leases for the rental of an office facility and equipment through June 2015. Future minimum lease commitments are as follows:

<b>For the Year Ending September 30,</b>	
2014	\$ 49,249
2015	<u>594</u>
	<u>\$ 49,843</u>

Office facility rental expense for the years ended September 30, 2013 and 2012 was \$79,334 and \$77,037, respectively. Equipment rental expense for the years ended September 30, 2013 and 2012 was \$49,988 and \$37,579, respectively.

The Association entered into an agreement for contracted maintenance services through March 2014. Minimum annual service expense while under contract associated with this agreement is approximately \$585,000. In the event the Association terminates the contract prior to March 2014, the Association is required to buy back the equipment at book value purchased by the contractor to perform the agreed-upon services, or assume the capital lease on the equipment. The Association may also elect to pay the monthly lease payments until the end of the agreement, with the consent of the lessor. The original cost of the equipment purchased is \$33,615, and the current monthly capital lease and insurance payments are \$2,885.

**NOTE 6 – Capital Lease Obligation**

*Capital Lease*

The Association leases equipment under a capital lease. The lease agreement has no stated interest rate and, therefore, interest has been imputed at a rate of approximately 6.54%. The lease is secured by the related equipment.

**DOWNTOWN LONG BEACH ASSOCIATES**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

**NOTE 6 – Capital Lease Obligation (Continued)**

The equipment classification presented in Note 3 includes the following amounts for the capitalized lease as of September 30, 2013:

Operational equipment	\$ 15,400
Less accumulated depreciation	( 1,925)
	<u>\$ 13,475</u>

Future minimum lease payments consist of the following:

<u>Year Ending September 30,</u>	
2014	\$ 3,766
2015	3,766
2016	3,766
2017	3,766
2018	<u>1,567</u>
	16,631
Less amounts representing interest	( 2,220)
	<u>\$ 14,411</u>

**NOTE 7 – Retirement Plans**

The Association sponsors a discretionary salary savings plan, including a 401(k) provision, which allows employee contributions. The plan covers all salaried employees meeting certain eligibility requirements. Employer contributions for the years ended September 30, 2013 and 2012 was \$15,650 and \$15,777, respectively.

**DOWNTOWN LONG BEACH ASSOCIATES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013 AND 2012**

**NOTE 8 – Supplemental Disclosures of Cash Flow Information**

	<b>For the Year Ended</b>	
	<b>September 30,</b>	
	<u><b>2013</b></u>	<u><b>2012</b></u>
Cash paid during the year for:		
Interest	\$ 580	None
Income taxes	None	None
Noncash investing and financing transaction:		
Acquisition under capital lease	\$ 15,400	None