



# Sonnenberg & Company, CPAs

A Professional Corporation

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Leonard C. Sonnenberg, CPA

**ADAMS AVENUE  
BUSINESS ASSOCIATION, INC.**  
Audited Financial Statements  
For the Years Ended  
December 31, 2014 and 2013

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of the Adams Avenue Business Association, Inc. (a nonprofit organization) as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Continued page 2 of 2*

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Adams Avenue Business Association Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Compliance on page 11 and the Statement of Expenditures - Budget vs. Actual, City of San Diego Contracts the on page 12 and Schedule of Event Revenue and Expenses on page 13 are presented for purposes of additional analysis and not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

April 8, 2015

  
Sonnenberg & Company, CPAs

**ADAMS AVENUE BUSINESS ASSOCIATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2014 and 2013

Assets	2014	2013
Cash and cash equivalents - general	\$ 82,142	\$ 45,391
Cash and cash equivalents - school annex	191,990	212,787
Accounts receivable - EDTS	29,000	29,000
Accounts receivable - MAD	1,897	10,825
Accounts receivable - BID	3,000	4,223
Accounts receivable - SBEP	11,080	10,367
Other receivable	700	740
Other current assets	6,723	9,369
Leasehold improvement	1,275,326	1,275,326
Less: accumulated amortization	(1,275,326)	(1,234,190)
Leasehold improvement, Net	<u>          -</u>	<u>41,136</u>
Total assets	<u>\$ 326,532</u>	<u>\$ 363,838</u>
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ -	\$ 2,562
Deferred revenue	12,342	12,517
Estimated accrued liability - school annex	<u>          -</u>	<u>212,891</u>
Total liabilities	<u>12,342</u>	<u>227,970</u>
Net assets		
Unrestricted, leased school annex, net of accum. depr.	-	41,136
Unrestricted, undesignated	<u>314,190</u>	<u>94,732</u>
Total net assets	<u>314,190</u>	<u>135,868</u>
Total liabilities and net assets	<u>\$ 326,532</u>	<u>\$ 363,838</u>

The accompanying notes are an integral part of these financial statements

**ADAMS AVENUE BUSINESS ASSOCIATION, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
For the Years Ended December 31, 2014 and 2013

	2014	2013
Revenue and support		
City of San Diego - MAD	\$ 41,040	\$ 42,631
City of San Diego - BID	53,813	54,723
City of San Diego - SBEP	21,249	21,331
City of San Diego - EDTS	47,968	42,470
County of San Diego grant	-	5,000
Event income	320,921	285,289
Less: event expenses	(215,107)	(203,065)
Net events	105,814	82,224
Redevelopment Income - School Annex, net of expenses	197,180	-
Other income	14,307	12,167
Total revenue and support	481,371	260,546
Expenses		
Events		
Personnel	147,429	130,033
Maintenance Assessment District (MAD)	34,764	26,997
Marketing and promotion	28,186	23,027
Operations		
Depreciation	41,136	82,282
Equipment	40	440
Insurance	7,685	10,076
Office expenses	23,834	19,683
Office Rent	2,400	2,400
Outside services	17,575	17,568
Total expenses	303,049	312,506
Change in net assets	178,322	(51,960)
Beginning net assets, beginning of year	135,868	187,828
Ending net assets, end of year	\$ 314,190	\$ 135,868

The accompanying notes are an integral part of these financial statements

**ADAMS AVENUE BUSINESS ASSOCIATION, INC.**

**STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 178,322	\$ (51,960)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	41,136	82,282
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	9,478	(26,034)
(Increase) decrease in other assets	2,646	(9,369)
Increase (decrease) in accounts payable and accrued expenses	(2,562)	837
Increase (decrease) in deferred income	(175)	527
Increase (decrease) in Estimated accrued liability - school annex	<u>(212,891)</u>	<u>73,260</u>
Net cash provided (used) by operating activities	<u>15,954</u>	<u>69,543</u>
Net increase (decrease) in cash and cash equivalents	15,954	69,543
Cash and cash equivalents, beginning of year	<u>258,178</u>	<u>188,635</u>
Cash and cash equivalents, end of year	<u>\$ 274,132</u>	<u>\$ 258,178</u>

The accompanying notes are an integral part of these financial statements

**ADAMS AVENUE BUSINESS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2014 and 2013

**Note 1      Organization and Nature of Activities**

The Adams Avenue Business Association, Inc. (the Association) was established in 1982 and incorporated in 1985 as a non-profit mutual benefit corporation. Its mission is to promote and increase commercial activity within the Adams Avenue Business Improvement District.

The governing body is the Board of Directors elected annually from the general membership. The members are those businesses located along Adams Avenue from Hamilton Street on the west to Vista Street on the east. Membership is contingent upon paying the required City of San Diego's Business License Tax and the Business Improvement District's fee both of which are simultaneously collected each year by the City of San Diego.

The Association manages the Adams Avenue Business Improvement District and Maintenance Assessment District through contracts with the City of San Diego. The Association also hosts three annual special events; Adams Avenue Unplugged, Taste of Adams Avenue and the Adams Avenue Street Fair. These events are operated as promotion for the business district, community events and fundraising activities for the projects and programs of the Association.

Other activities of Association include marketing and promoting the Adams Avenue Business Improvement District and its member businesses, acting as a resource center for the small business members, acting as liaison with governmental offices, working with the City of San Diego to administer progressive programs that assist small businesses such as the Public Right of Way Program and Storefront Improvement Program.

**Note 2      Summary of Significant Accounting Policies**

**Basis of Presentation**

The Association's financial statements have been prepared on the accrual basis of accounting.

**Accounting for Net Assets**

To ensure observance of certain constraints and restrictions placed on the use of resources, the financial statements of the Association are maintained in accordance with the principles of net asset accounting. That is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

**Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

**ADAMS AVENUE BUSINESS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2014 and 2013

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

**Accounting for Net Assets, continued**

**Temporarily Restricted.** The Association reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulation expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from program. The Association has no temporarily restricted net assets at December 31, 2014 and 2013.

**Permanently Restricted.** These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Association to expend all of the income (or other economic benefits) derived from the donated assets. The Association has no permanently restricted net assets at December 31, 2014 and 2013.

**Income Tax Status**

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the dates and for the periods presented.

**Cash and cash equivalents**

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

**Accounts Receivable**

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



**ADAMS AVENUE BUSINESS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2014 and 2013

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

**Fixed Assets**

Fixed Assets are recorded at cost if purchased or at fair value at the date of donation if donated. Maintenance and repair costs are charged to expense as incurred. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows: buildings 15.5 years. Depreciation expense was \$41,136 and \$82,282 for the year ending December 31, 2014 and 2013 respectively.

**Impairment of Long-lived Assets**

The Association evaluates its investment in long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use or disposition of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

**Donated Goods and Services**

Donated goods and services are recognized as contributions if the goods or services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Association. Volunteers provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

**Deferred Revenue**

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

**Date of Management Review**

Subsequent events were evaluated through April 8, 2015, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require adjustment to, or disclosures in, these financial statements.

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

The Association entered into a ground lease agreement with the Normal Heights United Methodist Church on January 1999. The lease terminated in July 2014.

**ADAMS AVENUE BUSINESS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2014 and 2013

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

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

The Association shall provide the Church quarterly statements of its Net Income and shall provide the Church such other information regarding its income and expenses (including the right to review The Association's books and records related to the School Annex) as the Church may reasonably request for the purpose of verifying the Association's Net Income from the School Annex. In the event of a dispute over calculation of the amount of Net Income, the Church's reasonable estimate of the Association's Net Income shall prevail (and shall be used for the calculation of Monthly Rent) until the matter is resolved. The Association maintains a rent distribution schedule to ensure the compliance with the lease agreement. The Association previously recognized the current year rent received as redevelopment income up to the current year rental expenses. The unearned portion was considered a future possible obligation to the Church. After the lease agreement ended on July 31, 2014, the Association recognized \$197,180 as earned redevelopment income for the year ended December 31, 2014.

Guaranteed lease payment under this operating lease for the years ended December 31, 2014 amounted to \$17,500.

**Note 4**            **Commitments and Contingencies: Grants and Contracts**

The Association's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Association has no provisions for the possible disallowance of program costs on its financial statements.

**ADAMS AVENUE BUSINESS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2014 and 2013

**Note 5**      **Repairs and Restoration Obligations of School Annex/Related Parties**

According to the ground lease agreement, the Association shall throughout the term of the lease, at the Association's own cost and expense, make all necessary repairs, whether interior and exterior, structural or nonstructural, ordinary as well as extraordinary, foreseen as well as unforeseen, to keep the School Annex in a first-class, safe, clean and sanitary condition that is in compliance with all legal requirements. Therefore, disbursements totaling \$92,691 (including accumulated shared income in the amount of \$56,082, ground lease payments in the amount of \$17,500, and repairs and restoration in the amount of \$19,108) were made during the year for the School Annex upon the termination of the lease on July 31, 2014.

STATEMENT OF COMPLIANCE

April 8, 2015

To Whom It May Concern:

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

All required reports and disclosures have been submitted.

Scott Kessler

Executive Director

See Independent Auditor's Report

**ADAMS AVENUE BUSINESS ASSOCIATION, INC.**  
**STATEMENT OF EXPENDITURES**  
 Budget vs Actual  
 City of San Diego Contracts - BID, MAD, SBEP & EDTS  
 July 2013 through June 2014

	BID			MAD			SBEP			EDTS		
	Actual	Budget	Over (Under) Budget	Actual	Budget	Over (Under) Budget	Actual	Budget	Over (Under) Budget	Actual	Budget	Over (Under) Budget
<b>Income</b>												
41000 · SBEP	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,973	\$ 21,000	\$ (27)	\$ -	\$ -	\$ -
42000 · MAD	-	-	-	44,680	41,040	3,640	-	-	-	-	-	-
42020 · BID	50,466	51,000	534	-	-	-	-	-	-	-	-	-
40040 · EDTS	-	-	-	-	-	-	-	-	-	46,900	46,900	-
<b>Total Income</b>	<u>50,466</u>	<u>51,000</u>	<u>534</u>	<u>44,680</u>	<u>41,040</u>	<u>3,640</u>	<u>20,973</u>	<u>21,000</u>	<u>(27)</u>	<u>46,900</u>	<u>46,900</u>	<u>-</u>
<b>Expenses</b>												
<b>50020 · Personnel</b>												
50038 Workers Compensation	-	-	-	-	-	-	-	-	-	-	-	-
50037 · Health Insurance	-	-	-	-	-	-	-	-	-	-	-	-
50027 · Office Staffing	29,310	24,550	(4,760)	14,835	13,368	1,467	19,645	21,000	(1,355)	16,221	12,000	4,221
<b>Total 50020 · Personnel</b>	<u>29,310</u>	<u>24,550</u>	<u>(4,760)</u>	<u>14,835</u>	<u>13,368</u>	<u>1,467</u>	<u>19,645</u>	<u>21,000</u>	<u>(1,355)</u>	<u>16,221</u>	<u>12,000</u>	<u>4,221</u>
<b>52010 · Maintenance</b>												
52035 · Supplies	-	-	-	2,911	3,143	(232)	-	-	-	-	-	-
52030 · Equipment	-	-	-	-	-	-	-	-	-	-	-	-
52025 · Utilities(Water/Electricity)	-	-	-	2,661	2,769	(108)	-	-	-	-	-	-
52020 · Contract Labor	1,666	3,000	1,334	19,350	18,457	893	-	-	-	-	-	-
<b>Total 52010 · Maintenance</b>	<u>1,666</u>	<u>3,000</u>	<u>1,334</u>	<u>24,922</u>	<u>24,369</u>	<u>553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>53100 · Special Events</b>												
53115 · Promotional	-	-	-	-	-	-	-	-	-	11,713	16,900	(5,187)
53125 · Contract Labor	-	-	-	-	-	-	-	-	-	18,000	18,000	-
53140 · Music & Entertainment	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total 53100 · Special Events</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,713</u>	<u>34,900</u>	<u>(5,187)</u>
<b>50040 Operating</b>												
50110 · Insurance	2,630	3,000	370	794	-	794	-	-	-	-	-	-
50210 · Office Supplies	851	1,200	349	-	-	-	-	-	-	-	-	-
50125 · Accounting	7,407	8,750	1,343	3,330	2,830	500	1,328	-	1,328	-	-	-
50060 · Dues and Subscriptions	-	400	400	-	-	-	-	-	-	-	-	-
50080 · Rent	2,200	2,400	200	-	-	-	-	-	-	-	-	-
50090 · Telephone	1,111	1,200	89	799	473	326	-	-	-	-	-	-
50070 · Postage and Delivery	52	400	348	-	-	-	-	-	-	-	-	-
Meetings + Conventions	1,498	1,000	(498)	-	-	-	-	-	-	-	-	-
50085 · Repairs	120	-	(120)	-	-	-	-	-	-	-	-	-
<b>Total 50040 Operating</b>	<u>15,869</u>	<u>18,350</u>	<u>2,481</u>	<u>4,923</u>	<u>3,303</u>	<u>1,620</u>	<u>1,328</u>	<u>-</u>	<u>1,328</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>51510 · Marketing</b>												
51555 · Graphic Design	50	200	150	-	-	-	-	-	-	-	-	-
51530 · Website/Social Media	2,591	400	(2,191)	-	-	-	-	-	-	-	-	-
51535 · Advertising/Promotion	980	1,000	20	-	-	-	-	-	-	-	-	-
51525 · Meeting Expenses	-	-	-	-	-	-	-	-	-	-	-	-
51545 · Newsletter	-	-	-	-	-	-	-	-	-	-	-	-
51515 · Printing & Reproduction	-	500	500	-	-	-	-	-	-	-	-	-
<b>Total 51510 · Marketing</b>	<u>3,621</u>	<u>2,100</u>	<u>(1,521)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CONTINGENCY	-	3,000	3,000	-	-	-	-	-	-	966	-	966
<b>Total Expense</b>	<u>50,466</u>	<u>51,000</u>	<u>534</u>	<u>44,680</u>	<u>41,040</u>	<u>3,640</u>	<u>20,973</u>	<u>21,000</u>	<u>(27)</u>	<u>46,900</u>	<u>46,900</u>	<u>-</u>
<b>Net Income</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent's Auditor Report

**ADAMS AVENUE BUSINESS ASSOCIATION, INC.**  
**Schedule of Event Revenue and Expenses**  
**For the Year Ended December 31, 2014**

	<u>Unplugged</u>	<u>Taste of Adams</u>	<u>Street Fair</u>	<u>Total</u>
Revenue:				
Booth Rentals	\$ 27,283	\$ -	\$ 159,305	\$ 186,588
Ticket Sales	4,555	31,778	-	36,333
Sales of Merchandise	3,545	-	43,376	46,921
Grants/Sponsorship	6,000	-	3,000	9,000
Other Income	13,473	-	28,606	42,079
Total Revenue	<u>54,856</u>	<u>31,778</u>	<u>234,287</u>	<u>320,921</u>
Expenses:				
Equipment Rental	16,659	-	28,651	45,310
Advertising	9,208	6,050	13,801	29,059
Contract Labor	9,471	1,932	57,416	68,819
Music & Entertainment	19,544	-	27,475	47,019
Other Event Expenses	4,526	1,019	19,355	24,900
Total Expenses	<u>59,408</u>	<u>9,001</u>	<u>146,698</u>	<u>215,107</u>
Net Revenue	<u>\$ (4,552)</u>	<u>\$ 22,777</u>	<u>\$ 87,589</u>	<u>\$ 105,814</u>

**For the Year Ended December 31, 2013**

	<u>Unplugged</u>	<u>Taste of Adams</u>	<u>Street Fair</u>	<u>Total</u>
Revenue:				
Booth Rentals	\$ 12,915	\$ 800	\$ 151,321	\$ 165,036
Ticket Sales	-	29,365	-	29,365
Sales of Merchandise	2,218	-	33,775	35,993
Grants/Sponsorship	1,000	-	10,000	11,000
Other Income	4,566	-	39,329	43,895
Total Revenue	<u>20,699</u>	<u>30,165</u>	<u>234,425</u>	<u>285,289</u>
Expenses:				
Equipment Rental	15,652	884	37,371	53,907
Advertising	8,975	5,692	11,302	25,969
Contract Labor	6,270	787	41,214	48,271
Music & Entertainment	17,275	-	30,775	48,050
Other Event Expenses	4,161	630	22,077	26,868
Total Expenses	<u>52,333</u>	<u>7,993</u>	<u>142,739</u>	<u>203,065</u>
Net Revenue	<u>\$ (31,634)</u>	<u>\$ 22,172</u>	<u>\$ 91,686</u>	<u>\$ 82,224</u>

See Independent's Auditor Report