

San Jose Downtown Association

Financial Statements
and Supplementary Information

June 30, 2022



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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
San Jose Downtown Association
San Jose, California

We have reviewed the accompanying financial statements of San Jose Downtown Association (a California Nonprofit Mutual Benefit Corporation) (the "Association"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional revenue and expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of San Jose Downtown Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



An independent firm
associated with Moore
Global Network Limited

Supplementary Information

The supplementary information included on page 20 is presented for purposes of additional analysis and is not a required part of the basic 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 supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.



Armanino^{LLP}
San Jose, California

September 30, 2022

San Jose Downtown Association
Statement of Financial Position
June 30, 2022

ASSETS

Current assets	
Cash and cash equivalents	\$ 908,950
Contracts receivable - BID	84,472
Contracts receivable - PBID	369,170
Accounts receivable	212,275
Prepaid expenses	<u>49,612</u>
Total current assets	1,624,479
Property and equipment, net	<u>232,057</u>
Total assets	<u><u>\$ 1,856,536</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 96,270
Accrued expenses	289,848
Deferred revenue	398,331
Mortgage payable, current portion	<u>12,552</u>
Total current liabilities	<u>797,001</u>
Long-term liabilities	
Mortgage payable, net of current portion	<u>131,151</u>
Total long-term liabilities	<u>131,151</u>
Total liabilities	<u>928,152</u>
Net assets	
Without donor restrictions	<u>928,384</u>
Total net assets	<u>928,384</u>
Total liabilities and net assets	<u><u>\$ 1,856,536</u></u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Activities
For the Year Ended June 30, 2022

	Without Donor Restrictions			With Donor Restrictions	Total All Funds
	San Jose Downtown Association Fund	Business Improvement District Fund	City of San Jose (OED) Fund		
Revenues, gains and other support					
City (OED) contract	\$ -	\$ -	\$ 763,454	\$ -	\$ 763,454
Other contracts	748,170	-	-	-	748,170
BID contract	-	556,610	-	-	556,610
Grants	551,151	-	-	-	551,151
Concessions / admissions	226,296	-	-	-	226,296
Sponsorships	207,367	-	-	-	207,367
Paycheck Protection Program grant	71,202	-	-	-	71,202
Miscellaneous	46,467	-	-	-	46,467
Participant fees	13,276	-	-	-	13,276
Administrative income	1,140	-	-	-	1,140
Total revenues, gains and other support	<u>1,865,069</u>	<u>556,610</u>	<u>763,454</u>	<u>-</u>	<u>3,185,133</u>
Functional expenses					
Program services					
Ice Rink	127,036	25,000	100,000	-	252,036
Farmers' Market	23,849	27,290	30,000	-	81,139
Downtown for the Holidays / Holiday Promotions	-	-	-	-	-
Music in the Park	128,338	55,450	47,616	-	231,404
Communications	45,574	96,220	11,060	-	152,854
Advocacy, Research and Planning	222	47,000	-	-	47,222
District Promotions	289	6,000	4,500	-	10,789
Starlight Cinemas	8,801	-	38,004	-	46,805
SoFA Street Markets	10,350	-	-	-	10,350
Equipment Storage	8,544	-	-	-	8,544
Parking Promotions and Marketing	729	72,950	269,500	-	343,179
Foundation / Membership and Miscellaneous	556	14,500	107,334	-	122,390
Property Business Improvement District	499,168	-	-	-	499,168
Dine Downtown	75	2,200	32,000	-	34,275
City Dance	500	-	22,930	-	23,430
Plaza Park Canopy	1,560	-	25,000	-	26,560
EDA Grant	110,388	-	-	-	110,388
Albierto City Grant	136,363	-	-	-	136,363
Sonic Runway	725	-	7,070	-	7,795
Beautiful Tableau	138,931	-	-	-	138,931
Downtown Lights	18	-	68,440	-	68,458
DTSJ by the Numbers	21,400	-	-	-	21,400
Total program services	<u>1,263,416</u>	<u>346,610</u>	<u>763,454</u>	<u>-</u>	<u>2,373,480</u>
Support services					
Management and general	545,558	210,000	-	-	755,558
Total support services	<u>545,558</u>	<u>210,000</u>	<u>-</u>	<u>-</u>	<u>755,558</u>
Total functional expenses	<u>1,808,974</u>	<u>556,610</u>	<u>763,454</u>	<u>-</u>	<u>3,129,038</u>
Change in net assets	56,095	-	-	-	56,095
Net assets, beginning of year	872,289	-	-	-	872,289
Net assets, end of year	<u>\$ 928,384</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 928,384</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Functional Revenue and Expenses
For the Year Ended June 30, 2022

	Ice Rink	Farmers' Market	Downtown for the Holidays / Holiday Promotions	Music in the Park	Communications	Advocacy, Research and Planning	District Promotions	Starlight Cinemas
Revenues, gains and other support								
Concessions / admissions	\$ 53,652	\$ -	\$ -	\$ 172,644	\$ -	\$ -	\$ -	\$ -
City (OED) contract	100,000	30,000	-	47,616	11,060	-	4,500	38,004
Other contracts	-	-	-	-	-	-	-	-
BID contract	25,000	27,290	-	55,450	96,220	49,000	6,000	-
Paycheck Protection Program grant	-	-	-	-	-	-	-	-
Grants	40,000	-	-	12,000	-	-	-	20,003
Sponsorships	100,200	34,000	6,000	47,167	-	-	-	20,000
Participant fees	-	11,851	-	-	-	-	-	-
Miscellaneous	-	-	-	25,001	-	-	-	-
Administrative income	-	-	-	-	-	-	-	-
Total revenues, gains and other support	<u>318,852</u>	<u>103,141</u>	<u>6,000</u>	<u>359,878</u>	<u>107,280</u>	<u>49,000</u>	<u>10,500</u>	<u>78,007</u>
Functional expenses								
Personnel expenses	60,000	28,000	-	55,000	115,000	47,000	9,800	10,000
Technical support	7,927	6,224	-	16,524	-	-	-	7,789
Event production	133,645	2,700	-	101,065	-	-	-	4,183
Marketing	49	20,112	-	9,622	37,854	-	989	17,852
Other expenses	321	451	-	522	-	222	-	-
Subcontractors	-	-	-	3,600	-	-	-	-
Supplies and materials	1,466	2,429	-	16,420	-	-	-	1,048
Insurance	-	15,259	-	2,985	-	-	-	1,000
Depreciation	27,864	-	-	-	-	-	-	-
Cost of concessions	-	-	-	16,752	-	-	-	-
City services	20,764	5,964	-	8,914	-	-	-	4,933
Total functional expenses	<u>252,036</u>	<u>81,139</u>	<u>-</u>	<u>231,404</u>	<u>152,854</u>	<u>47,222</u>	<u>10,789</u>	<u>46,805</u>
	<u>\$ 66,816</u>	<u>\$ 22,002</u>	<u>\$ 6,000</u>	<u>\$ 128,474</u>	<u>\$ (45,574)</u>	<u>\$ 1,778</u>	<u>\$ (289)</u>	<u>\$ 31,202</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Functional Revenue and Expenses
For the Year Ended June 30, 2022

	SoFA Street Markets	Equipment Storage	Parking Promotions and Marketing	Foundation / Membership and Miscellaneous	Property Business Improvement District	Dine Downtown	City Dance	Plaza Park Canopy
Revenues, gains and other support								
Concessions / admissions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City (OED) contract	-	-	269,500	107,334	-	32,000	22,930	25,000
Other contracts	-	-	-	-	748,170	-	-	-
BID contract	-	-	72,950	12,500	-	2,200	-	-
Paycheck Protection Program grant	-	-	-	-	-	-	-	-
Grants	11,500	-	-	-	-	-	-	-
Sponsorships	-	-	-	-	-	-	-	-
Participant fees	-	-	-	1,425	-	-	-	-
Miscellaneous	-	-	2,324	11,000	-	-	-	-
Administrative income	-	-	-	-	-	-	-	-
Total revenues, gains and other support	<u>11,500</u>	<u>-</u>	<u>344,774</u>	<u>132,259</u>	<u>748,170</u>	<u>34,200</u>	<u>22,930</u>	<u>25,000</u>
Functional expenses								
Personnel expenses	-	-	177,000	109,500	499,168	12,000	9,000	-
Technical support	-	2,909	-	6,257	-	-	-	-
Event production	-	-	-	-	-	-	-	-
Marketing	-	-	166,179	5,455	-	22,275	14,430	-
Other expenses	-	-	-	-	-	-	-	-
Subcontractors	9,518	-	-	-	-	-	-	26,560
Supplies and materials	-	1,135	-	720	-	-	-	-
Insurance	350	4,500	-	458	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-
Cost of concessions	482	-	-	-	-	-	-	-
City services	-	-	-	-	-	-	-	-
Total functional expenses	<u>10,350</u>	<u>8,544</u>	<u>343,179</u>	<u>122,390</u>	<u>499,168</u>	<u>34,275</u>	<u>23,430</u>	<u>26,560</u>
	<u>\$ 1,150</u>	<u>\$ (8,544)</u>	<u>\$ 1,595</u>	<u>\$ 9,869</u>	<u>\$ 249,002</u>	<u>\$ (75)</u>	<u>\$ (500)</u>	<u>\$ (1,560)</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Functional Revenue and Expenses
For the Year Ended June 30, 2022

	EDA Grant	Albierto City Grant	Sonic Runway	Beautiful Tableau	Downtown Lights	DTSJ by the Numbers	Total Program Services	Management and General	Total
Revenues, gains and other support									
Concessions / admissions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 226,296	\$ -	\$ 226,296
City (OED) contract	-	-	7,070	-	68,440	-	763,454	-	763,454
Other contracts	-	-	-	-	-	-	748,170	-	748,170
BID contract	-	-	-	-	-	-	346,610	210,000	556,610
Paycheck Protection Program grant	-	-	-	-	-	-	-	71,202	71,202
Grants	107,649	149,999	-	140,000	-	70,000	551,151	-	551,151
Sponsorships	-	-	-	-	-	-	207,367	-	207,367
Participant fees	-	-	-	-	-	-	13,276	-	13,276
Miscellaneous	-	-	-	-	-	-	38,325	8,142	46,467
Administrative income	-	-	-	-	-	-	-	1,140	1,140
Total revenues, gains and other support	107,649	149,999	7,070	140,000	68,440	70,000	2,894,649	290,484	3,185,133
Functional expenses									
Personnel expenses	110,000	-	5,000	90,000	10,000	-	1,346,468	488,775	1,835,243
Technical support	-	-	-	-	-	-	47,630	-	47,630
Event production	-	-	-	-	-	-	241,593	-	241,593
Marketing	388	136,363	2,795	48,931	57,250	20,000	560,544	-	560,544
Other expenses	-	-	-	-	-	1,400	2,916	224,409	227,325
Subcontractors	-	-	-	-	-	-	39,678	-	39,678
Supplies and materials	-	-	-	-	-	-	23,218	7,622	30,840
Insurance	-	-	-	-	-	-	24,552	26,672	51,224
Depreciation	-	-	-	-	-	-	27,864	8,080	35,944
Cost of concessions	-	-	-	-	-	-	17,234	-	17,234
City services	-	-	-	-	1,208	-	41,783	-	41,783
Total functional expenses	110,388	136,363	7,795	138,931	68,458	21,400	2,373,480	755,558	3,129,038
	\$ (2,739)	\$ 13,636	\$ (725)	\$ 1,069	\$ (18)	\$ 48,600	\$ 521,169	\$ (465,074)	\$ 56,095

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Cash Flows
For the Year Ended June 30, 2022

Cash flows from operating activities	
Change in net assets	\$ 56,095
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	35,944
Changes in operating assets and liabilities	
Contracts receivable	10,925
Accounts receivable	(176,724)
Prepaid expenses	(29,377)
Accounts payable	28,106
Accrued expenses	131,319
Deferred revenue	3,515
Paycheck Protection Program - refundable advance	<u>(71,202)</u>
Net cash used in operating activities	<u>(11,399)</u>
Cash flows from financing activities	
Principal payments on mortgage payable	<u>(12,011)</u>
Net cash used in financing activities	<u>(12,011)</u>
Net decrease in cash and cash equivalents	(23,410)
Cash and cash equivalents, beginning of year	<u>932,360</u>
Cash and cash equivalents, end of year	<u><u>\$ 908,950</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 6,628
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See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2022

1. NATURE OF OPERATIONS

The San Jose Downtown Association (the "Association") is a corporation organized under the California Nonprofit Mutual Benefit Corporation Law. The Association is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. The primary purposes of the Association are to:

- Encourage, stimulate and improve the business conditions in downtown San Jose for retailers, restaurants, entertainment establishments, service businesses and professionals, property owners and to promote retail and other commercial activities in that area.
- Establish new and improve existing parking facilities in downtown San Jose for the benefit of the area and to encourage the formation of local parking districts.
- Seek out public and private revenues to support its objectives.
- Beautify downtown San Jose.
- Promote public events and to obtain funding and programs for seasonal decorations of public spaces in the area.
- Promote a positive identity for the area through advertising and public relations programs and the sponsorship of public events, promotions and festivals.
- Promote the preservation and renovation of historical structures in downtown San Jose and to preserve the architectural heritage and historical character of the downtown San Jose area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of the Association are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis of presentation

In accordance with US GAAP, the Association reports its financial position and operating activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. See Notes 3, 4 and 5 for descriptions of the funds.

The revenues recorded in the statement of activities regarding the Business Improvement District and City of San Jose (OED) Fund are restricted as to their use per the respective contracts. Since the restrictions were met in the same period as the revenues were recorded, these revenues are classified as without donor restrictions.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Receivables

Receivables represent amount due from grants, contracts and fees that are carried at the original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Receivables are written off when deemed uncollectible and recoveries of receivables previously written off are recorded when received. No allowance for uncollectible receivables has been presented since all amounts are deemed to be collectible.

Prepaid expenses

Prepaid expenses result from advances or deposits on goods or services that will be received in the following year. Direct event expenses are recorded in the year the event takes place.

Deferred revenue

Deferred revenue results from contracts or sponsorship revenue received for a specific event scheduled in the following year. Revenue is recognized in the period that the related expenses are incurred.

Donated materials and services

Donated materials and services, which management estimates at \$282,168 have not been recognized in the accompanying financial statements since the recognition requirements were not met. A number of volunteers have donated significant amounts of their time in the Association program services and administrative support. Also, media and service donations were received as part of event sponsorships.

Property and equipment

The Association's policy is to capitalize fixed asset purchases in excess of \$3,000. Any furniture, equipment or other assets purchased under a grant or a service contract are considered the property of the granting agency and will not be capitalized. Depreciation is computed using straight-line depreciation methods based on the estimated useful lives of the assets, which range from 3 to 46 years. Depreciation expense for the year ended June 30, 2022 totaled \$35,944.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Personal time off

Personal time off, representing vacation and sick days earned, but not taken as of June 30, 2022, is included in "accrued expenses" in the statement of financial position. The balance as of June 30, 2022 totaled \$101,348.

Revenue recognition

The Association recognizes revenue and support on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided. The Association follows the following steps to determine revenue recognition:

- Identifying the contract(s) with a customer,
- Identifying the performance obligations in the contract(s),
- Determining the transaction price,
- Allocating the transaction price to the performance obligations in the contract(s), and
- Recognizing revenue when, or as, the Association satisfies a performance obligation.

Functional expenses

Costs of providing the Association's activities have been allocated between program services and management and general based upon estimates of time and costs incurred by the Association.

Income tax status

San Jose Downtown Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

The Association files information returns in the U.S. federal jurisdiction and state of California. The Association's federal returns for the years ended June 30, 2019 and beyond remain subject to possible examination by the Internal Revenue Service. The Association's California returns for the years ended June 30, 2018 and beyond remain subject to possible examination by the Franchise Tax Board.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and support and expenses during the period. Accordingly, actual results could differ from those estimates.

Subsequent events

Management of the Association has evaluated events and transactions subsequent to June 30, 2022 for potential recognition or disclosure in the financial statements. The Association did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2022. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 30, 2022.

3. BID FUND - DOWNTOWN SAN JOSE BUSINESS IMPROVEMENT DISTRICT

In October 1988, San Jose City Ordinance #22960 established and defined the Downtown San Jose Business Improvement District ("BID"). BID is funded by an assessment levied on the businesses located within its boundaries and approved annually by the San Jose City Council through a public hearing process.

In 1989, the San Jose City Council appointed the Association as the Advisory Board for BID, to advise the Council on the levy of assessments of BID and the expenditure of revenues derived from those assessments.

The BID is required to be reauthorized annually by the City of San Jose through a public hearing process. For the fiscal year ending June 30, 2022, the BID was reauthorized by the City Council on June 29, 2021.

For the year ended June 30, 2022, a budget of \$630,000 was approved by the City of San Jose. During the year ended June 30, 2022, the City collected \$561,780 of BID assessments. During the year, \$556,610 was expended by the Association of which \$84,472 had not been reimbursed by the City as of June 30, 2022.

There is a balance of funds remaining in the Association's BID account as of June 30, 2022 in the amount of \$289,276. The deferred revenue balance will be recognized as revenue in the year ending June 30, 2022.

A budget of \$660,000 has been approved by the City for the year ending June 30, 2023.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2022

4. OED FUND - CITY OF SAN JOSE

The Association received revenues under a service contract with the City of San Jose Office of Economic Development ("OED"). The scope of services include downtown place promotion, office retention and attraction, downtown events, and parking program.

The contract with the City of San Jose (OED) provided up to \$763,454 of reimbursements for the year ended June 30, 2022.

5. SJDA FUND - SAN JOSE DOWNTOWN ASSOCIATION

This fund accounts for resources under the discretionary control of the Association's Board of Directors for use in carrying on the general operations of the Association. The balance in this fund as of June 30, 2022 was \$928,384.

6. SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION

In August 7, 2007, City of San Jose City Resolution No. 73937 established and defined the San Jose Downtown Property-Based Improvement District ("PBID"). The San Jose Downtown Property Owners' Association ("SJDPOA") was incorporated as a California Nonprofit Mutual Benefit Corporation to provide oversight of the District, to contract on behalf of the District, to review and provide leadership and guidance to the members of the District. The District was renewed by City Council on June 14, 2022 for an additional 10 years through December 31, 2032.

On January 28, 2008, the Association entered into an agreement with SJDPOA to provide management services. The agreement has been extended several times, most recently June 27, 2022, and continues through June 27, 2027. The entities have separate boards of directors and operate as separate entities. As compensation for the management services, the Association receives up to and not to exceed 9.9% of the total revenue received by SJDPOA. The fee is payable semi-annually. For the year ended June 30, 2022, the Association earned revenue from this agreement totaling \$365,170.

The Association also has an arrangement with SJDPOA in which salaries for four Association employees who work directly on PBID projects are paid through the Association and reimbursed by SJDPOA. For the year ended June 30, 2022, the Association was reimbursed \$383,000 from this arrangement.

On January 15, 2013, the Association on behalf of the SJDPOA, entered into an Environmental and Maintenance and Supplemental Security Services agreement with Block by Block. The original agreement was for a period of three years and expired January 14, 2016. The amended and renewed agreement was expired on January 14, 2022. The Association's contract with Block By Block was extended through January 14, 2023.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2022

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Ice rink equipment	\$ 1,252,736
Office condominium	370,612
Office and computer equipment	<u>180,943</u>
	1,804,291
Accumulated depreciation	<u>(1,572,234)</u>
	<u><u>\$ 232,057</u></u>

For the year ended June 30, 2022, depreciation expense was \$35,944. On February 21, 2018, the Association entered into a non-cancelable agreement with a third-party contractor to repair and replace certain ice rink equipment at a fixed total cost of \$115,140. The agreement requires seven installment payments through December 2020 at no interest. As of June 30, 2022, all payments were made.

8. DEFERRED REVENUE

Deferred revenue consisted of the following:

Deferred Income - Music in the Park	\$ 33,333
Deferred Income - Farmers' Market	22,000
Deferred Income - Parlet	10,000
Deferred Income - Starlight Cinemas	5,000
Deferred Income - BID	289,276
Deferred Income - city contract	38,466
Deferred Income - CRF	<u>256</u>
	<u><u>\$ 398,331</u></u>

9. CONCENTRATIONS AND RISKS

The Association earned \$1,860,964 through contracts with and grants from the City of San Jose, including its agencies and the BID. Activities of the Association take place in and for the benefit of the downtown San Jose, California geographic area.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has continued to cause business disruption through multiple mandated and voluntary closings of businesses and shelter in place orders over the last fiscal year. In response, the U.S. Government has enacted several financial safety net provisions in both the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and the American Rescue Plan ("ARP").

San Jose Downtown Association
Notes to Financial Statements
June 30, 2022

9. CONCENTRATIONS AND RISKS (continued)

While the Association cannot anticipate all of the ways in which COVID-19 could adversely impact its operations, it did react swiftly during FY2020-21 including utilizing a Knight Foundation grant to create a short-term strategic plan (the Stabilization Plan, published in August 2020) to address pandemic conditions and prepare the Association for recovery. Since COVID-19 shut down all major event productions in the summer, fall and winter of 2020, the Association was unable to produce its annual Music in the Park concerts or the Downtown Ice rink. In FY2021-22, the Association negotiated a one-year agreement with Bietak to produce Downtown Ice and executed an asset purchase agreement with Music in the Park LLC to transfer production of the concert series to the new owners. In its contract services with the City of San Jose, the Association was able to secure one-time CARES Act funding for FY2020-21, and ARP funding for FY2021-22. Notably, once 501(c)(6) nonprofit organizations became eligible for federal Payroll Protection Program (PPP) forgivable loans, the Association received funding of \$284,502 (see Note 17).

10. MORTGAGE PAYABLE

On April 28, 2009, the Association entered into a loan agreement with Wells Fargo Bank for \$250,000. Management refinanced the mortgage payable on January 20, 2012 and then on January 20, 2017. The interest rate is fixed at 4.35% per annum for the term of the loan, 179 payments of principal and interest of \$1,553 are due monthly and a final payment of \$468 is due on December 20, 2031. The note is secured by a deed of trust on 28 North First Street, Suite 1000.

Total principal outstanding is \$143,703 at June 30, 2022.

The future maturities of the mortgage payable are as follows:

<u>Year ending June 30,</u>		
2023	\$	12,552
2024		13,102
2025		13,706
2026		14,323
2027		14,968
Thereafter		<u>75,052</u>
		143,703
Current portion		<u>(12,552)</u>
	\$	<u><u>131,151</u></u>

San Jose Downtown Association
Notes to Financial Statements
June 30, 2022

11. LINE OF CREDIT

On September 18, 2020, the Association entered into agreement for an unsecured revolving line of credit with Wells Fargo Bank for a maximum amount of \$100,000. Interest is computed at the Bank's prime rate plus 6.75% for cash and purchases. The line of credit matures in October 2023. The line of credit was not accessed during the year ended June 30, 2022.

12. EMPLOYEE BENEFIT PLAN

The Association established a defined contribution 401(k) pension plan (the "Plan") effective January 1, 2010. All employees who are at least eighteen years old and have completed one year of service and at least one thousand hours of service are eligible to participate in the Plan. Employees participating in the Plan may elect to defer a percentage of their annual compensation to the Plan subject to applicable limits. The Association matches employee contributions at the rate of 100% not to exceed 3% of compensation plus 50% of salary deferrals between 3% and 5% of employee compensation. The match is 100% vested upon contribution. In addition, the Association may make discretionary matching contributions. Administrative expenses for the Plan are paid by the Association; however there are some management and expense fees based on Plan assets that are deducted from participant assets proportionately. The Association's management has the right to terminate the Plan at anytime.

The Association's matching contribution for the year ended June 30, 2022 totaled \$28,015.

13. OFFICE CONDOMINIUM

The Association, through its ownership of its office condominiums located at 28 North First Street, Suites 1000 and 200, is a member of the Commercial Building Owners' Association ("CBOA"). Members pay monthly dues to CBOA to cover the property management and common area expenses (such as elevator, security, utilities and janitorial expenses). CBOA, on an as needed basis, can request special assessments from members for major improvements or renovations to common areas of the property. No special assessments for the year ending June 30, 2022 were assessed.

14. OPERATING LEASE COMMITMENTS

In November 2020, the Association entered into a non-cancelable operating lease for a copier which expires in November 2025. Total lease payments related to the operating leases for the year ending June 30, 2022 was \$3,360.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2022

14. OPERATING LEASE COMMITMENTS (continued)

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2023	\$ 3,360
2024	3,360
2025	3,360
2026	<u>1,120</u>
	<u><u>\$ 11,200</u></u>

15. LITIGATION DISCLOSURE

In the normal course of operations, the Association is involved in various legal discussions. The Association's management does not expect any of these discussions to lead to legal proceedings resulting in material adverse effect on the Association's financial statements.

16. LIQUIDITY

The following is a quantitative disclosure describing financial assets that are available within one year of June 30, 2022 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 908,950
Contracts receivable - BID	84,472
Contracts receivable - PBID	369,170
Accounts receivable	<u>212,275</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,574,867</u></u>

The Association had \$1,574,867 of financial assets available at June 30, 2022 to meet the needs for general expenditures in the next 12 months and none of them are subject to donor or other contractual restrictions. The Association manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due.

As part of the Association's liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Association expects that receivables from program revenue and City contracts will be collected and available within 60 days of the fiscal year end. As disclosed in Note 11, the Association could also draw upon its available line of credit of \$100,000 in the event of an unanticipated liquidity need.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2022

17. PAYCHECK PROTECTION PROGRAM

On February 23, 2021, the Association received loan proceeds of \$284,502 from Wells Fargo bank under the Paycheck Protection Program ("PPP") which was established under the CARES Act and is administered by the U.S. Small Business Administration ("SBA"). The loan provides small business with the resources needed to maintain their payroll and cover applicable overhead.

The loan is a five-year loan and bears an annual interest rate of 1%. The loan is scheduled to be payable with payments of principal and interest deferred for the first ten months of the loan. The Association applied for loan forgiveness under the provisions of Section 1106 of the CARES Act. Loan forgiveness is subject to the sole approval of the SBA. The Association is eligible for loan forgiveness in an amount equal to payments made during the 24-week period beginning on the loan date.

The Association used loan proceeds to partially subsidize payroll expenses. The Association has met the PPP's eligibility criteria and concluded that the PPP loan represented a grant. As a result, the Association had accounted for the PPP loan in accordance with FASB ASC 958-605 as a conditional contribution. The Association initially recorded the amount received as a refundable advance followed by a reduction in the advance and recognition of revenue as the aforementioned conditions were substantially met. During the year ended June 30, 2022, the Association has used \$71,202 for purposes consistent with the PPP loan, and recognized the same amount as contribution revenue in the statement of activities.

SUPPLEMENTARY INFORMATION

San Jose Downtown Association
Schedule of Management and General Expenses
For the Year Ended June 30, 2022

	<u>Total</u>	<u>San Jose Downtown Association Fund</u>	<u>Business Improvement District Fund</u>
Salaries and payroll taxes	\$ 338,982	\$ 151,482	\$ 187,500
Employee benefits	149,793	127,293	22,500
Professional services	79,802	79,802	-
Building expense	52,623	52,623	-
Utilities	28,108	28,108	-
Insurance	26,672	26,672	-
Office equipment	26,082	26,082	-
Meeting/hospitality	21,028	21,028	-
Dues and conferences	9,030	9,030	-
Depreciation	8,080	8,080	-
Office Supplies	7,622	7,622	-
Miscellaneous	6,768	6,768	-
Postage/mailing service	968	968	-
	<u>\$ 755,558</u>	<u>\$ 545,558</u>	<u>\$ 210,000</u>