

San Jose Downtown Association

Financial Statements
and Supplementary Information

June 30, 2023



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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, 2023, 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.

Supplementary Information

The supplementary information included on page 21 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 28, 2023

San Jose Downtown Association
Statement of Financial Position
June 30, 2023

ASSETS

Current assets	
Cash and cash equivalents	\$ 326,604
Contracts receivable - BID	41,918
Contracts receivable - PBID	703,000
Accounts receivable	292,789
Prepaid expenses and other current assets	44,114
Total current assets	<u>1,408,425</u>
Property and equipment, net	<u>205,249</u>
Other assets	
Right-of-use assets	<u>7,594</u>
Total other assets	<u>7,594</u>
Total assets	<u><u>\$ 1,621,268</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 99,334
Accrued expenses	139,440
Deferred revenue	330,210
Mortgage payable, current portion	13,102
Operating lease liabilities, current portion	<u>3,193</u>
Total current liabilities	<u>585,279</u>
Long-term liabilities	
Mortgage payable, net of current portion	118,050
Operating lease liabilities, net of current portion	<u>4,401</u>
Total long-term liabilities	<u>122,451</u>
Total liabilities	<u>707,730</u>
Net assets	
Without donor restrictions	<u>913,538</u>
Total net assets	<u>913,538</u>
Total liabilities and net assets	<u><u>\$ 1,621,268</u></u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Activities
For the Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>			<u>With Donor Restrictions</u>	<u>Total All Funds</u>
	<u>San Jose Downtown Association Fund</u>	<u>Business Improvement District Fund</u>	<u>City of San Jose (OED) Fund</u>		
Revenues and support					
City (OED) contract	\$ -	\$ -	\$ 851,355	\$ -	\$ 851,355
Other contracts	1,075,288	-	-	-	1,075,288
BID contract	-	512,129	-	-	512,129
Grants	622,158	-	-	-	622,158
Concessions / admissions	20,862	-	-	-	20,862
Sponsorships	118,283	-	-	-	118,283
Miscellaneous	12,480	-	-	-	12,480
Participant fees	3,890	-	-	-	3,890
Administrative income	19,853	-	-	-	19,853
Total revenues, gains and other support	<u>1,872,814</u>	<u>512,129</u>	<u>851,355</u>	<u>-</u>	<u>3,236,298</u>
Functional expenses					
Program services					
Property Business Improvement District	580,702	-	-	-	580,702
Parking Promotions and Marketing	1,883	55,595	243,179	-	300,657
Communications	173,929	90,655	-	-	264,584
Ice Rink	28,036	15,000	200,000	-	243,036
Foundation / Membership and Miscellaneous	47,421	15,000	115,000	-	177,421
Beautiful Tableau	156,826	-	-	-	156,826
Abierto City	150,000	-	-	-	150,000
EDA Grant	96,700	-	-	-	96,700
Advocacy, Research, and Planning	178	93,546	-	-	93,724
Downtown Lights	2,908	-	64,000	-	66,908
Starlight Cinemas	13,970	-	31,882	-	45,852
Dine Downtown	928	-	39,548	-	40,476
Plaza Park Canopy	-	-	38,955	-	38,955
Farmers' Market	-	6,349	31,898	-	38,247
Music in the Park	15,983	10,724	5,000	-	31,707
Night Market	-	15,260	14,886	-	30,146
DTSJ Campaign	17,857	-	5,474	-	23,331
City Dance	2,815	-	20,478	-	23,293
Downtown for the Holidays	500	-	20,055	-	20,555
District Promotions	-	-	16,000	-	16,000
Dia San Jose	14,933	-	-	-	14,933
Sonic Runway	-	-	5,000	-	5,000
Equipment Storage	1,649	-	-	-	1,649
Total program services	<u>1,307,218</u>	<u>302,129</u>	<u>851,355</u>	<u>-</u>	<u>2,460,702</u>
Support services					
Management and general	580,442	210,000	-	-	790,442
Total support services	<u>580,442</u>	<u>210,000</u>	<u>-</u>	<u>-</u>	<u>790,442</u>
Total functional expenses	<u>1,887,660</u>	<u>512,129</u>	<u>851,355</u>	<u>-</u>	<u>3,251,144</u>
Change in net assets	(14,846)	-	-	-	(14,846)
Net assets, beginning of year	928,384	-	-	-	928,384
Net assets, end of year	<u>\$ 913,538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 913,538</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, 2023

	Ice Rink	Farmers' Market	Downtown for the Holidays	Music in the Park	Communications	Advocacy, Research and Planning	District Promotions	Starlight Cinemas
Revenues, gains and other support								
Concessions / admissions	\$ 20,862	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City (OED) contract	200,000	31,898	20,055	5,000	-	-	16,000	31,882
Other contracts	-	-	-	-	-	-	-	-
BID contract	15,000	6,349	-	10,724	90,655	93,546	-	-
Grants	40,000	-	-	14,933	-	-	-	20,004
Sponsorships	27,950	22,000	-	58,333	-	-	-	10,000
Participant fees	-	3,890	-	-	-	-	-	-
Miscellaneous	-	-	-	1,440	-	-	-	-
Administrative income	-	-	-	3,360	-	-	-	-
Total revenues, gains and other support	<u>303,812</u>	<u>64,137</u>	<u>20,055</u>	<u>93,790</u>	<u>90,655</u>	<u>93,546</u>	<u>16,000</u>	<u>61,886</u>
Functional expenses								
Personnel expenses	65,000	22,170	-	15,000	234,764	47,000	14,376	15,136
Technical support	1,810	-	-	-	-	-	-	4,652
Event production	150,000	1,192	-	6,130	-	-	-	4,376
Marketing	-	6,401	20,211	-	1,320	-	1,600	14,701
Other expenses	3,104	7,192	344	10,577	28,500	46,724	24	6,712
Subcontractors	-	-	-	-	-	-	-	-
Supplies and materials	2,998	1,292	-	-	-	-	-	275
Insurance	-	-	-	-	-	-	-	-
Depreciation	20,124	-	-	-	-	-	-	-
City services	-	-	-	-	-	-	-	-
Total functional expenses	<u>243,036</u>	<u>38,247</u>	<u>20,555</u>	<u>31,707</u>	<u>264,584</u>	<u>93,724</u>	<u>16,000</u>	<u>45,852</u>
Change in net assets	<u>\$ 60,776</u>	<u>\$ 25,890</u>	<u>\$ (500)</u>	<u>\$ 62,083</u>	<u>\$ (173,929)</u>	<u>\$ (178)</u>	<u>\$ -</u>	<u>\$ 16,034</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, 2023

	SoFA Street Markets	Equipment Storage	Parking Promotions and Marketing	Foundation / Membership and Miscellaneous	Property Business Improvement District	Dine Downtown	Plaza Park Canopy	EDA Grant	City Dance
Revenues, gains and other support									
Concessions / admissions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City (OED) contract	-	-	243,179	115,000	-	39,548	38,955	-	20,478
Other contracts	-	-	10,000	-	1,023,000	-	-	-	-
BID contract	-	-	55,595	15,000	-	-	-	-	-
Grants	7,822	-	-	-	-	-	-	127,641	-
Sponsorships	-	-	-	-	-	-	-	-	-
Participant fees	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	3,456	-	-	-	-	-
Administrative income	-	-	-	-	-	-	-	-	-
Total revenues, gains and other support	<u>7,822</u>	<u>-</u>	<u>308,774</u>	<u>133,456</u>	<u>1,023,000</u>	<u>39,548</u>	<u>38,955</u>	<u>127,641</u>	<u>20,478</u>
Functional expenses									
Personnel expenses	-	-	271,171	183,981	579,355	16,714	-	96,700	7,476
Technical support	-	-	-	-	-	-	-	-	-
Event production	-	-	-	-	-	-	-	-	-
Marketing	-	-	22,838	-	-	20,688	-	-	13,459
Other expenses	-	1,649	6,648	(6,560)	1,312	3,074	-	-	2,358
Subcontractors	-	-	-	-	-	-	38,955	-	-
Supplies and materials	-	-	-	-	35	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-
City services	-	-	-	-	-	-	-	-	-
Total functional expenses	<u>-</u>	<u>1,649</u>	<u>300,657</u>	<u>177,421</u>	<u>580,702</u>	<u>40,476</u>	<u>38,955</u>	<u>96,700</u>	<u>23,293</u>
Change in net assets	<u>\$ 7,822</u>	<u>\$ (1,649)</u>	<u>\$ 8,117</u>	<u>\$ (43,965)</u>	<u>\$ 442,298</u>	<u>\$ (928)</u>	<u>\$ -</u>	<u>\$ 30,941</u>	<u>\$ (2,815)</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, 2023

	Abierto City	Sonic Runway	Beautiful Tableau	Downtown Lights	DTSJ Campaign	Dia San Jose	Night Market	Total Program Services	Management and General	Total
Revenues, gains and other support										
Concessions / admissions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,862	\$ -	\$ 20,862
City (OED) contract	-	5,000	-	64,000	5,474	-	14,886	851,355	-	851,355
Other contracts	-	-	-	-	-	-	-	1,033,000	42,288	1,075,288
BID contract	-	-	-	-	-	-	15,260	302,129	210,000	512,129
Grants	150,000	-	156,825	-	-	14,933	-	532,158	90,000	622,158
Sponsorships	-	-	-	-	-	-	-	118,283	-	118,283
Participant fees	-	-	-	-	-	-	-	3,890	-	3,890
Miscellaneous	-	-	-	-	-	-	-	4,896	7,584	12,480
Administrative income	-	-	-	-	-	-	-	3,360	16,493	19,853
Total revenues, gains and other support	<u>150,000</u>	<u>5,000</u>	<u>156,825</u>	<u>64,000</u>	<u>5,474</u>	<u>14,933</u>	<u>30,146</u>	<u>2,869,933</u>	<u>366,365</u>	<u>3,236,298</u>
Functional expenses										
Personnel expenses	-	4,204	65,000	13,351	-	-	15,000	1,666,398	385,810	2,052,208
Technical support	-	-	-	-	-	-	-	6,462	-	6,462
Event production	-	-	-	-	-	-	10,000	171,698	-	171,698
Marketing	135,000	235	28,913	12,020	23,331	13,440	3,963	318,120	54,866	372,986
Other expenses	15,000	561	62,913	671	-	1,493	890	193,186	249,752	442,938
Subcontractors	-	-	-	40,063	-	-	-	79,018	(25)	78,993
Supplies and materials	-	-	-	-	-	-	33	4,633	-	4,633
Insurance	-	-	-	-	-	-	260	260	82,413	82,673
Depreciation	-	-	-	-	-	-	-	20,124	17,626	37,750
City services	-	-	-	803	-	-	-	803	-	803
Total functional expenses	<u>150,000</u>	<u>5,000</u>	<u>156,826</u>	<u>66,908</u>	<u>23,331</u>	<u>14,933</u>	<u>30,146</u>	<u>2,460,702</u>	<u>790,442</u>	<u>3,251,144</u>
Change in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ (2,908)</u>	<u>\$ (17,857)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 409,231</u>	<u>\$ (424,077)</u>	<u>\$ (14,846)</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities	
Change in net assets	\$ (14,846)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	37,750
Reduction in carrying amount of right-of-use assets	3,103
Changes in operating assets and liabilities	
Contracts receivable	(286,716)
Accounts receivable	(85,074)
Prepaid expenses and other current assets	5,498
Accounts payable	3,064
Accrued expenses	(150,408)
Deferred revenue	(68,121)
Operating lease liabilities	<u>(3,103)</u>
Net cash used in operating activities	<u>(558,853)</u>
Cash flows from investing activities	
Purchase of property and equipment	<u>(10,942)</u>
Net cash used in investing activities	<u>(10,942)</u>
Cash flows from financing activities	
Principal payments on mortgage payable	<u>(12,551)</u>
Net cash used in financing activities	<u>(12,551)</u>
Net decrease in cash and cash equivalents	(582,346)
Cash and cash equivalents, beginning of year	<u>908,950</u>
Cash and cash equivalents, end of year	<u>\$ 326,604</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 6,088
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Supplemental schedule of noncash investing and financing activities

Right-of-use assets obtained in exchange of lease obligations	\$ 10,697
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See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2023

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 ("BID") 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, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*, Accounting Standards Codification ("ASC") Topic 842 ("ASC 842"). ASC 842 is the comprehensive lease standard that supersedes the previous authoritative lease accounting guidance contained in ASC 840 *Leases*. ASC 842 requires a lessee to recognize assets and liabilities related to long-term leases that were classified in its balance sheet as operating leases under previous guidance. A leased asset, referred to as a right-of-use asset, is to be recognized related to the right to use the underlying asset and a lease related liability is to be recognized related to the lease payment obligations over the term of the lease, and includes options to extend that management reasonably expects to exercise. ASC 842 also requires expanded disclosures surrounding leases.

The Association adopted ASC 842, with an initial application date of July 1, 2022, by applying the modified retrospective transition approach and using the additional and optional transition method provided by ASU No. 2018-11, *Leases* (Topic 842): *Targeted Improvements*. The Association did not restate prior periods as presented under ASC 840 and, instead, evaluated whether a cumulative impact adjustment to net assets as of June 30, 2022, was necessary for the cumulative impact of adoption of ASC 842. Management determined no cumulative effect adjustment to net assets as of June 30, 2022, was necessary.

As part of the allowable transition method, the Association elected to apply the following practical expedients:

- Election not to reassess whether any expired or existing contracts are, or contain, leases.
- Election not to reassess the lease classification for any expired or existing leases.
- Election not to reassess initial direct costs on any existing leases.
- Election to use the risk-free interest rate as the discount rate.
- Election whereby leases under common control follow the written terms and conditions.

The Association evaluates whether new contracts are a lease at the contract inception or for a modified contract at the modification date. When the implicit rate of the leases is not determinable, the Association uses a risk-free rate based on the information available at the lease commencement date in determining the present value of lease payments. In calculating the present value of the right-of-use assets and liabilities the Association includes lease renewals and or termination options. If it is reasonably certain that a renewal or termination option will be exercised, the exercise of the option is considered in calculating the term of the lease.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2023

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 \$164,778 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, 2023 totaled \$37,750.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2023

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, 2023, is included in "accrued expenses" in the statement of financial position. The balance as of June 30, 2023 totaled \$84,495.

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, 2020 and beyond remain subject to possible examination by the Internal Revenue Service. The Association's California returns for the years ended June 30, 2019 and beyond remain subject to possible examination by the Franchise Tax Board.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2023

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, 2023 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, 2023. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 28, 2023.

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, 2023, the BID was reauthorized by the City Council on June 7, 2022.

For the year ended June 30, 2023, a budget of \$635,000 was approved by the City of San Jose. During the year ended June 30, 2023, the City collected \$538,064 of BID assessments, \$41,918 of which had not been reimbursed by the City as of June 30, 2023. During the year, \$512,129 was expended by the Association.

There is a balance of funds remaining in the Association's BID account as of June 30, 2023 in the amount of \$315,210. The deferred revenue balance will be recognized as revenue in the year ending June 30, 2023.

A budget of \$630,000 has been approved by the City for the year ending June 30, 2024.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2023

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 \$851,355 of reimbursements for the year ended June 30, 2023.

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, 2023 was \$913,538.

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 a fee determined by PBID. The fee is payable semi-annually. Including the management fee, the Association was reimbursed a total of \$668,824 in relation to this arrangement for the year ended June 30, 2023.

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, 2023, the Association was reimbursed \$354,176 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 expired on January 14, 2023. The Association's contract with Block By Block was extended through January 14, 2024.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2023

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Office condominium	\$ 370,612
Office and computer equipment	175,723
Machinery and equipment	10,942
Furniture and fixtures	5,220
Ice rink equipment	<u>1,255,639</u>
	1,818,136
Accumulated depreciation	<u>(1,612,887)</u>
	<u><u>\$ 205,249</u></u>

For the year ended June 30, 2023, depreciation expense was \$37,750.

8. DEFERRED REVENUE

Deferred revenue consisted of the following:

Deferred Income - BID	\$ 315,210
Deferred Income - Night Market	5,000
Deferred Income - Dine Downtown	<u>10,000</u>
	<u><u>\$ 330,210</u></u>

9. CONCENTRATIONS AND RISKS

The Association earned \$1,975,642 through contracts with and grants from the City of San Jose, including its agencies and the BID, which represented approximately 61% of the total revenues. Activities of the Association take place in and for the benefit of the downtown San Jose, California geographic area.

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 \$131,152 at June 30, 2023.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2023

10. MORTGAGE PAYABLE (continued)

The future maturities of the mortgage payable are as follows:

<u>Year ending June 30,</u>		
2024	\$	13,102
2025		13,706
2026		14,323
2027		14,968
2028		15,634
Thereafter		<u>59,419</u>
		131,152
Current portion		<u>(13,102)</u>
	<u>\$</u>	<u>118,050</u>

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, 2023.

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, 2023 totaled \$25,313.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2023

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, 2023 were assessed.

14. RIGHT-OF-USE ASSETS AND OPERATING LEASE LIABILITIES

In July 2022, the Association adopted the new lease accounting guidance under ASC 842. The most significant change requires lessees to record the present value of the operating lease payments as right-of-use assets and lease liabilities on the statement of financial position. The new guidance continues to require lessees to classify leases between operating and financing (formerly "capital leases"). The Association has no financing leases as at year end.

The Association has a copier that was previously recognized under the prior standard, ASC 840, and was appropriately recognized as operating lease as of June 30, 2022. Upon adoption of ASC 842, this lease has been recognized as right-of-use asset on the accompanying the statement of financial position as of June 30, 2023. The lease has a maturity date of October 2025. The adoption of ASC 842 resulted in the recognition of right-of-use assets and operating lease liabilities totaling \$10,697.

Lease costs consisted of the following for the fiscal year ended June 30, 2023:

Right-of-use assets	<u>\$ 7,594</u>
Operating lease liabilities as of June 30, 2023:	
Operating lease liabilities, current portion	\$ 3,193
Operating lease liabilities, net of current portion	<u>4,401</u>
	<u>\$ 7,594</u>

Weighted average lease terms and discount rates related to the operating leases for the year ended June 30, 2023 were as follows:

	<u>2023</u>
Weighted-average discount rate - operating lease	2.86 %
Weighted average remaining lease term	2.33 years

San Jose Downtown Association
Notes to Financial Statements
June 30, 2023

14. RIGHT-OF-USE ASSETS AND OPERATING LEASE LIABILITIES (continued)

The following table sets forth the future minimum lease payments under operating lease liabilities as of June 30, 2023:

<u>Year ending June 30,</u>	
2024	\$ 3,360
2025	3,360
2026	<u>1,120</u>
	7,840
Less: imputed interest	<u>(246)</u>
Lease liability, net of imputed interest	7,594
Current portion	<u>(3,193)</u>
	<u><u>\$ 4,401</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, 2023 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 326,604
Contracts receivable - BID	41,918
Contracts receivable - PBID	703,000
Accounts receivable	<u>292,789</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,364,311</u></u>

The Association had \$1,364,311 of financial assets available at June 30, 2023 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.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2023

16. LIQUIDITY (continued)

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.

SUPPLEMENTARY INFORMATION

San Jose Downtown Association
Schedule of Management and General Expenses
For the Year Ended June 30, 2023

	<u>Total</u>	<u>San Jose Downtown Association Fund</u>	<u>Business Improvement District Fund</u>
Salaries and payroll taxes	\$ 251,941	\$ 41,941	\$ 210,000
Employee benefits	128,505	128,505	-
Professional services	125,368	125,368	-
Insurance	82,413	82,413	-
Subcontractors/interns	54,841	54,841	-
Building expense	48,897	48,897	-
Office equipment	19,981	19,981	-
Meeting/hospitality	19,272	19,272	-
Depreciation	17,626	17,626	-
Dues and conferences	14,200	14,200	-
Utilities	13,861	13,861	-
Office supplies	6,412	6,412	-
Miscellaneous	6,243	6,243	-
Postage/mailing service	<u>882</u>	<u>882</u>	<u>-</u>
	<u>\$ 790,442</u>	<u>\$ 580,442</u>	<u>\$ 210,000</u>