

San Jose Downtown Association

Financial Statements

June 30, 2017



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Revenue and Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 14
Supplementary Information	
Schedule of Management and General Expenses	16



INDEPENDENT AUDITOR'S REPORT

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

We have audited 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, 2017, and the related statements of activities and changes in net assets, functional revenue and expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Downtown Association as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information on page 16 is presented for purposes of additional analysis and is not a required part 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

September 29, 2017

San Jose Downtown Association
Statement of Financial Position
June 30, 2017

ASSETS

Current assets	
Cash	\$ 486,089
Contracts receivable - BID	48,500
Contracts receivable - City of San Jose	28,471
Contracts receivable - PBID	237,949
Accounts receivable	28,548
Prepaid expenses	<u>71,860</u>
Total current assets	901,417
Property and equipment, net	383,930
Due from San Jose Downtown Foundation	<u>692</u>
Total assets	<u><u>\$ 1,286,039</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Note payable	\$ 10,951
Mortgage payable, current portion	10,073
Accounts payable	82,665
Sales tax payable	6,759
Accrued expenses	101,531
Deferred revenue	<u>303,014</u>
Total current liabilities	<u>514,993</u>
Long-term liabilities	
Mortgage payable, net of current portion	<u>188,710</u>
Total long-term liabilities	<u>188,710</u>
Total liabilities	703,703
Unrestricted net assets	<u>582,336</u>
Total liabilities and net assets	<u><u>\$ 1,286,039</u></u>

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

San Jose Downtown Association
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2017

	Total All Funds	Unrestricted		
		San Jose Downtown Association	Business Improvement District	City (OED) Fund
Revenue and support				
BID contract	\$ 732,000	\$ -	\$ 732,000	\$ -
City (OED) contract	350,000	-	-	350,000
Concessions / admissions	1,029,324	1,029,324	-	-
Other contracts	495,449	495,449	-	-
Grants	285,997	285,997	-	-
Sponsorships	428,080	428,080	-	-
City of San Jose contracts	69,960	69,960	-	-
Participant fees	9,990	9,990	-	-
Miscellaneous	37,500	37,500	-	-
Group sales	17,925	17,925	-	-
Administrative income	7,122	7,122	-	-
Total revenue and support	<u>3,463,347</u>	<u>2,381,347</u>	<u>732,000</u>	<u>350,000</u>
Functional expenses				
Program services				
Ice Rink	1,004,758	750,558	100,000	154,200
Farmers' Market	77,699	26,377	38,522	12,800
Downtown Activation	22,050	22,050	-	-
Live and Local	38,460	460	18,000	20,000
Downtown for the Holidays / Holiday Promotions	81,375	61,375	20,000	-
Music in the Park	323,202	203,202	60,000	60,000
Partner Events	148,710	148,710	-	-
Communications	116,275	42,799	73,476	-
Advocacy, Research and Planning	70,148	13,148	57,000	-
District Promotions	23,800	3,576	12,224	8,000
Starlight Cinemas	20,569	20,569	-	-
SoFA Street Markets	40,310	17,310	-	23,000
Equipment Storage	20,825	20,825	-	-
Parking Promotions and Marketing	198,713	85,476	83,237	30,000
Foundation / Membership and Miscellaneous	59,541	-	34,541	25,000
Property Business Improvement District	451,309	451,309	-	-
Pop-Up Retail	35,012	20,012	15,000	-
St. James Park	12,000	-	-	12,000
Dine Downtown	22,180	7,180	10,000	5,000
Total program services	<u>2,766,936</u>	<u>1,894,936</u>	<u>522,000</u>	<u>350,000</u>
Support services				
Management and general	654,414	444,414	210,000	-
Total support services	<u>654,414</u>	<u>444,414</u>	<u>210,000</u>	<u>-</u>
Total functional expenses	<u>3,421,350</u>	<u>2,339,350</u>	<u>732,000</u>	<u>350,000</u>
Change in net assets	41,997	41,997	-	-
Net assets, beginning of year	<u>540,339</u>	<u>540,339</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 582,336</u>	<u>\$ 582,336</u>	<u>\$ -</u>	<u>\$ -</u>

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

San Jose Downtown Association
Statement of Functional Revenue and Expenses
For the Year Ended June 30, 2017

	Ice Rink	Farmers' Market	Downtown Activation	Live and Local	Downtown for the Holidays / Holiday Promotions	Music in the Park	Partner Events	Communications	Advocacy, Research and Planning	District Promotions	Starlight Cinemas	SoFA Street Markets	Equipment Storage	Parking Promotions and Marketing	Foundation / Membership and Miscellaneous	Property Business Improvement District	Pop-Up Retail	St. James Park	Dine Downtown	Management and General	Total
Revenue and support																					
BID contract	\$ 100,000	\$ 38,522	\$ -	\$ 18,000	\$ 20,000	\$ 60,000	\$ -	\$ 73,476	\$ 57,000	\$ 12,224	\$ -	\$ -	\$ -	\$ 83,237	\$ 34,541	\$ -	\$ 15,000	\$ -	\$ 10,000	\$ 210,000	\$ 732,000
City (OED) contract	154,200	12,800	-	20,000	-	60,000	-	-	-	8,000	-	23,000	-	30,000	25,000	-	-	12,000	5,000	-	350,000
Concessions / admissions	683,834	-	-	-	-	215,799	129,691	-	-	-	-	-	-	-	-	-	-	-	-	-	1,029,324
Other contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	495,449
Grants	46,671	-	22,050	-	-	19,100	11,379	9,500	-	-	19,987	17,310	-	-	-	120,000	20,000	-	-	-	285,997
Sponsorships	272,283	27,942	-	-	62,500	55,255	3,600	-	-	-	6,500	-	-	-	-	-	-	-	-	-	428,080
City of San Jose contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	69,960	-	-	-	-	-	-	69,960
Participant fees	-	9,990	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,990
Miscellaneous	466	7,000	-	-	-	-	-	-	-	-	-	-	8,000	-	7,000	1,683	-	-	146	13,205	37,500
Group sales	14,360	-	-	-	-	1,565	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	17,925
Administrative income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,122	7,122
Total revenue and support	<u>1,271,814</u>	<u>96,254</u>	<u>22,050</u>	<u>38,000</u>	<u>82,500</u>	<u>411,719</u>	<u>146,670</u>	<u>82,976</u>	<u>57,000</u>	<u>20,224</u>	<u>26,487</u>	<u>40,310</u>	<u>8,000</u>	<u>183,197</u>	<u>66,541</u>	<u>617,132</u>	<u>35,000</u>	<u>12,000</u>	<u>15,146</u>	<u>230,327</u>	<u>3,463,347</u>
Functional expenses																					
Personnel expenses	80,000	33,500	9,500	31,977	22,000	55,500	9,500	82,000	69,500	22,061	3,000	14,000	-	94,500	56,000	329,487	7,000	12,000	22,000	462,000	1,415,525
Subcontractors	23,500	10,740	11,850	5,425	56,912	10,500	60,545	75	-	-	-	26,310	-	-	-	117,600	16,650	-	-	-	340,107
Technical support	364,828	6,060	-	-	-	21,842	8,823	600	-	-	4,290	-	5,575	-	-	-	-	-	-	-	422,046
Event production	321,828	-	200	-	-	98,322	7,450	-	-	-	110	-	-	-	-	-	10,028	-	-	-	427,910
Marketing	46,368	9,325	-	1,058	2,000	13,213	1,419	33,600	-	1,739	500	-	-	104,213	3,541	-	-	-	180	-	217,156
Supplies and materials	44,193	1,394	-	-	-	47,481	12,621	-	-	-	8,509	-	12,750	-	-	-	-	-	-	-	8,721
Depreciation	58,820	-	-	-	-	-	-	-	-	-	450	-	-	-	-	-	-	-	-	-	135,669
City services	10,958	5,119	-	-	-	25,604	8,369	-	-	-	3,591	-	-	-	-	-	-	-	-	-	69,499
Insurance	42,710	10,540	-	-	-	2,437	1,678	-	-	-	102	-	2,500	-	-	-	934	-	-	-	53,641
Cost of concessions	884	-	-	-	-	37,224	34,830	-	-	-	-	-	-	-	-	-	-	-	-	-	12,974
Other expenses	10,669	1,021	500	-	463	11,079	3,475	-	648	-	17	-	-	-	-	4,222	400	-	-	-	73,875
Total functional expenses	<u>1,004,758</u>	<u>77,699</u>	<u>22,050</u>	<u>38,460</u>	<u>81,375</u>	<u>323,202</u>	<u>148,710</u>	<u>116,275</u>	<u>70,148</u>	<u>23,800</u>	<u>20,569</u>	<u>40,310</u>	<u>20,825</u>	<u>198,713</u>	<u>59,541</u>	<u>451,309</u>	<u>35,012</u>	<u>12,000</u>	<u>22,180</u>	<u>654,414</u>	<u>3,421,350</u>
	<u>\$ 267,056</u>	<u>\$ 18,555</u>	<u>\$ -</u>	<u>\$ (460)</u>	<u>\$ 1,125</u>	<u>\$ 88,517</u>	<u>\$ (2,040)</u>	<u>\$ (33,299)</u>	<u>\$ (13,148)</u>	<u>\$ (3,576)</u>	<u>\$ 5,918</u>	<u>\$ -</u>	<u>\$ (12,825)</u>	<u>\$ (15,516)</u>	<u>\$ 7,000</u>	<u>\$ 165,823</u>	<u>\$ (12)</u>	<u>\$ -</u>	<u>\$ (7,034)</u>	<u>\$ (424,087)</u>	<u>\$ 41,997</u>

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

San Jose Downtown Association
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities	
Change in net assets	\$ 41,997
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	69,499
Changes in operating assets and liabilities	
Contracts receivable	36,391
Accounts receivable	11,652
Prepaid expenses	(49,969)
Due from San Jose Downtown Foundation	(598)
Accounts payable	(37,827)
Sales tax payable	2,973
Accrued expenses	31,749
Deferred revenue	<u>61,358</u>
Net cash provided by operating activities	<u>167,225</u>
Cash flows from investing activities	
Purchase of property and equipment	<u>(10,400)</u>
Net cash used in investing activities	<u>(10,400)</u>
Cash flows from financing activities	
Payments on mortgage payable	(9,451)
Payments on note payable	<u>(21,473)</u>
Net cash used in financing activities	<u>(30,924)</u>
Net increase in cash	125,901
Cash, beginning of year	<u>360,188</u>
Cash, end of year	<u>\$ 486,089</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 10,403
----------------------------------------	-----------

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

San Jose Downtown Association
Notes to Financial Statements
June 30, 2017

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 program 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 with a fiscal year end of June 30.

Basis of presentation

The Association follows standards of accounting and financial reporting as prescribed by the American Institute of Certified Public Accountants. In accordance with accounting principles generally accepted in the United States of America, the Association reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. See Notes 3 to 6 for descriptions of the funds, including restrictions, if any.

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 unrestricted.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with a 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

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 \$1,309,042 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.

Capitalization policy

The Association's policy is to capitalize fixed asset purchases in excess of \$500. 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. Depreciation expense for the year ended June 30, 2017 is \$69,499.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2017

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, 2017, is included in "accrued expenses" in the statement of financial position. The balance as of June 30, 2017 totaled \$61,817.

Revenue recognition

The Association recognizes revenue and support on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" are recognized as revenue in the period in which the service is provided. Revenue from grants which have been classified as "contributed income" are recognized when the grantor makes a pledge to give that is, in substance, an unconditional promise. Grants are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of grantor restrictions and depending on whether the restrictions are met in the current fiscal period. If grantor restrictions were met in the same period as the revenues were recorded, these revenues are classified as unrestricted.

Conditional grants are recognized when the conditions on which they depend are substantially met. In July 2015, the Association was awarded a \$641,000 grant of which \$391,000 has not been recognized as revenue as of June 30, 2017 since the conditions have not been substantially met.

Income tax

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.

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 revenue 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, 2017 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, 2017. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 29, 2017.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2017

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.

In March 1989, the Association entered into an agreement with the City of San Jose to operate and administer the activities within BID. This agreement was amended and restated June 24, 1997.

For the year ended June 30, 2017, a budget of \$777,000 was approved by the City of San Jose. During the year ended June 30, 2017, the City collected \$761,819 of BID assessments. During the year, \$732,000 was expended by the Association of which \$48,500 had not been reimbursed by the City as of June 30, 2017.

There is a balance of funds remaining in the separate City of San Jose BID account as of June 30, 2017 in the amount of \$208,432. The Association is reporting this amount as a current asset with a corresponding offset to deferred revenue as of June 30, 2017 and will be utilized in the year ending June 30, 2017.

A budget of \$793,000 has been approved by the City for the fiscal year ending June 30, 2018.

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 \$420,000 of reimbursements for the year ended June 30, 2017.

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, 2017 was \$582,336.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2017

6. PBID FUND - SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION

On January 28, 2008 the Association entered into an agreement with San Jose Downtown Property Owners' Association ("PBID") to provide management services. The agreement has been extended several times, and continues through January 31, 2022. 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 PBID. The fee is payable semi-annually. For the year ended June 30, 2017, the Association earned revenue from this agreement totaling \$293,449.

The Association also has an arrangement with San Jose Downtown Property Owners' Association in which salaries for two SJDA employees who work directly on PBID projects are paid through SJDA and reimbursed by PBID. For the year ended June 30, 2017, the Association was reimbursed \$202,000 from this arrangement.

Further, the Association has an arrangement with San Jose Downtown Property Owners' Association in which grant money received by SJDA is paid to PBID to operate programs specified in the grant via an exchange transaction. These costs are classified as subcontractor costs in SJDA. For the year ended June 30, 2017, the Association made expenditures to PBID under this arrangement totaling \$117,600.

On January 15, 2013, SJDA on behalf of the PBID, entered into an agreement with Block by Block. The original agreement was for a period of three years and expired January 14, 2016. The agreement was amended and renewed and will expire on January 14, 2018.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Ice rink equipment	\$ 1,119,853
Office condominium	370,612
Office and computer equipment	<u>177,776</u>
	1,668,241
Accumulated depreciation	<u>(1,284,311)</u>
	<u><u>\$ 383,930</u></u>

8. DEFERRED REVENUE

Deferred revenue consists of the following:

BID	\$ 208,432
Other	<u>94,582</u>
	<u><u>\$ 303,014</u></u>

San Jose Downtown Association
Notes to Financial Statements
June 30, 2017

9. CONCENTRATION OF ACTIVITIES

The Association earned \$1,279,491 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.

10. NOTE PAYABLE

On December 3, 2012, the Association entered into a loan agreement with Wells Fargo Bank for \$102,000. The interest rate is a fixed rate loan at 3.450% per annum for the term of the loan, 60 monthly payments are made for \$1,856. The note is secured by personal property of the Association.

Total principal outstanding is \$10,951 at June 30, 2017.

The future maturities of the notes payable are as follows:

Year ending June 30,

2018	\$ <u>10,951</u>
	\$ <u><u>10,951</u></u>

11. 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. The interest rate was a fixed at 4.95% per annum for the term of the loan, 60 monthly payments were made for \$1,357 and a final payment of \$206,175 was expected to be due on January 20, 2017, plus any unpaid principal and interest. On January 20, 2017, the Association refinanced the mortgage payable. 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 December 20, 2031. The note is secured by a deed of trust on 28 North First Street, Suite 1000.

Total principal outstanding is \$198,783 at June 30, 2017.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2017

11. MORTGAGE PAYABLE (continued)

The future maturities of the mortgage payable are as follows:

<u>Year ending June 30,</u>	
2018	\$ 10,073
2019	10,526
2020	10,979
2021	11,494
2022	12,011
Thereafter	<u>143,700</u>
	<u><u>\$ 198,783</u></u>

12. LINE OF CREDIT

The Association has an agreement for a revolving line of credit with Wells Fargo Bank for a maximum amount of \$150,000. Interest is computed at the Bank's prime rate plus 1.5% with a floor rate of 5%, secured by certain assets of the Association. The line of credit has a maturity date of June 18, 2018.

The line of credit was not accessed during the year ended June 30, 2017.

13. 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. Association's management has the right to terminate the Plan at anytime.

The Association's matching contribution for the year ended June 30, 2017 were \$29,236.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2017

14. 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. There were no special assessments during the year ended June 30, 2017. The SJDA Executive Director is a member of the CBOA board.

15. OPERATING LEASE COMMITMENTS

In November 2016, the Association entered into a noncancelable operating lease for a copier which expires in November 2020. Total lease payments related to the operating leases for the year ending June 30, 2017 were \$4,260.

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

<u>Year ending June 30,</u>	
2018	\$ 4,260
2019	4,260
2020	4,260
2021	<u>1,420</u>
	<u>\$ 14,200</u>

SUPPLEMENTARY INFORMATION

San Jose Downtown Association
Schedule of Management and General Expenses
For the Year Ended June 30, 2017

	<u>Total</u>	<u>San Jose Downtown Association Fund</u>	<u>Business Improvement District Fund</u>	<u>City (OED) Fund</u>
Salaries and payroll taxes	\$ 333,202	\$ 153,202	\$ 180,000	\$ -
Employee benefits	128,798	98,798	30,000	-
Building expenses	57,552	57,552	-	-
Professional services	35,917	35,917	-	-
Insurance	12,974	12,974	-	-
Utilities	14,189	14,189	-	-
Miscellaneous	34,430	34,430	-	-
Dues and conferences	9,407	9,407	-	-
Office equipment	8,453	8,453	-	-
Meetings and hospitality	9,134	9,134	-	-
Office supplies and materials	8,721	8,721	-	-
Postage / mailing services	1,637	1,637	-	-
	<u>\$ 654,414</u>	<u>\$ 444,414</u>	<u>\$ 210,000</u>	<u>\$ -</u>

See accompanying independent auditor's report.