

**San Jose Downtown Association**

Financial Statements  
and Supplementary Information

June 30, 2020



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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, 2020, 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.

### **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.

### **Change in Accounting Principle**

As described in Note 2 to the financial statements, the Association has adopted ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Our conclusion is not modified with respect to that matter.

### **Emphasis of Matter**

As described in Note 9 of the financial statements, 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 ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our conclusion is not modified with respect to that matter.



An independent firm  
associated with Moore  
Global Network Limited

## Supplementary Information

The supplementary information included on page 18 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<sup>LLP</sup>  
San Jose, California

September 29, 2020

San Jose Downtown Association  
Statement of Financial Position  
June 30, 2020

ASSETS

Current assets	
Cash and cash equivalents	\$ 362,535
Contracts receivable - BID	123,011
Contracts receivable - PBID	599,510
Accounts receivable	10,388
Prepaid expenses	<u>17,106</u>
Total current assets	1,112,550
Property and equipment, net	<u>336,537</u>
Total assets	<u><u>\$ 1,449,087</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 31,048
Accrued expenses	154,354
Deferred revenue	264,497
Mortgage payable, current portion	<u>11,494</u>
Total current liabilities	<u>461,393</u>
Long-term liabilities	
Mortgage payable, net of current portion	<u>155,713</u>
Total long-term liabilities	<u>155,713</u>
Total liabilities	<u>617,106</u>
Net assets	
Without donor restrictions	799,899
With donor restrictions	<u>32,082</u>
Total net assets	<u>831,981</u>
Total liabilities and net assets	<u><u>\$ 1,449,087</u></u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association  
Statement of Activities  
For the Year Ended June 30, 2020

	Without Donor Restrictions				Total All Funds
	San Jose Downtown Association Fund	Business Improvement District Fund	City of San Jose (OED) Fund	With Donor Restrictions	
Revenues, gains and other support					
Concessions / admissions	\$ 1,059,613	\$ -	\$ -	\$ -	\$ 1,059,613
City (OED) contract	-	-	628,500	-	628,500
Other contracts	599,510	-	-	-	599,510
BID contract	-	572,600	-	-	572,600
Grants	298,151	-	-	61,500	359,651
Sponsorships	328,085	-	-	-	328,085
Participant fees	16,870	-	-	-	16,870
Miscellaneous	13,739	-	-	-	13,739
Administrative income	7,249	-	-	-	7,249
Group sales	4,110	-	-	-	4,110
Net assets released from restriction	29,418	-	-	(29,418)	-
Total revenues, gains and other support	<u>2,356,745</u>	<u>572,600</u>	<u>628,500</u>	<u>32,082</u>	<u>3,589,927</u>
Functional expenses					
Program services					
Ice Rink	827,031	63,400	191,500	-	1,081,931
Farmers' Market	41,097	10,579	10,000	-	61,676
Downtown Activation	40,398	-	-	-	40,398
Live and Local	-	10,000	13,325	-	23,325
Downtown for the Holidays /					
Holiday Promotions	19,100	20,000	-	-	39,100
Music in the Park	241,464	51,000	40,000	-	332,464
Communications	33,114	77,844	-	-	110,958
Advocacy, Research and Planning	22,742	37,000	-	-	59,742
District Promotions	8,001	16,500	37,496	-	61,997
Starlight Cinemas	21,122	-	-	-	21,122
SoFA Street Markets	26,441	-	-	-	26,441
Equipment Storage	3,900	-	-	-	3,900
Parking Promotions and Marketing	36,729	43,277	191,179	-	271,185
Foundation / Membership and					
Miscellaneous	4,532	30,000	56,000	-	90,532
Property Business Improvement					
District	462,000	-	-	-	462,000
Brews & Bites	9,509	10,000	27,500	-	47,009
St. James Park	-	-	1,500	-	1,500
Dine Downtown	3,688	28,000	5,000	-	36,688
Dia de Los Muertos	16,468	-	-	-	16,468
City Dance	6,216	-	30,000	-	36,216
Plaza Park Canopy	300	-	25,000	-	25,300
COVID-19 Grants	49,418	-	-	-	49,418
Total program services	<u>1,873,270</u>	<u>397,600</u>	<u>628,500</u>	<u>-</u>	<u>2,899,370</u>
Support services					
Management and general	449,712	175,000	-	-	624,712
Total support services	<u>449,712</u>	<u>175,000</u>	<u>-</u>	<u>-</u>	<u>624,712</u>
Total functional expenses	<u>2,322,982</u>	<u>572,600</u>	<u>628,500</u>	<u>-</u>	<u>3,524,082</u>
Change in net assets	33,763	-	-	32,082	65,845
Net assets, beginning of year	<u>766,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>766,136</u>
Net assets, end of year	<u>\$ 799,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,082</u>	<u>\$ 831,981</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, 2020

	Ice Rink	Farmers' Market	Downtown Activation	Live and Local	Downtown for the Holidays / Holiday Promotions	Music in the Park	Communications	Advocacy, Research and Planning	District Promotions	Starlight Cinemas	SoFA Street Markets	Equipment Storage	Parking Promotions and Marketing
Revenues, gains and other support													
Concessions / admissions	\$ 691,180	\$ -	\$ -	\$ -	\$ -	\$ 350,455	\$ -	\$ -	\$ -	\$ -	\$ 10,241	\$ -	\$ -
City (OED) contract	191,500	10,000	-	13,325	-	40,000	-	-	37,496	-	-	-	191,179
Other contracts	-	-	-	-	-	-	-	-	-	-	-	-	-
BID contract	63,400	10,579	-	10,000	20,000	51,000	77,844	37,000	16,500	-	-	-	43,277
Grants	65,000	-	40,857	-	-	16,774	-	-	-	20,000	18,000	-	-
Sponsorships	208,164	40,783	-	-	20,000	54,138	-	-	-	1,500	-	-	-
Participant fees	-	4,265	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	(4,203)	7,000	-	-	-	193	-	-	-	-	65	-	-
Administrative income	-	-	-	-	-	-	-	-	-	-	-	-	-
Group sales	1,995	-	-	-	-	2,115	-	-	-	-	-	-	-
Total revenues, gains and other support	1,217,036	72,627	40,857	23,325	40,000	514,675	77,844	37,000	53,996	21,500	28,306	-	234,456
Functional expenses													
Personnel expenses	81,000	36,750	9,500	15,000	20,000	27,000	80,500	57,000	30,500	2,500	-	-	151,000
Technical support	447,523	4,651	-	-	-	40,778	-	-	25,000	7,404	-	-	-
Event production	332,299	-	10,755	-	-	111,947	-	-	-	1,293	-	-	-
Marketing	59,051	11,625	19,643	6,000	2,973	10,500	28,550	-	6,497	3,259	-	-	120,155
Other expenses	11,716	237	500	-	100	1,174	-	2,742	-	-	-	-	9
Subcontractors	-	-	-	2,325	16,027	8,000	1,882	-	-	-	25,374	-	-
Supplies and materials	33,729	296	-	-	-	59,892	26	-	-	3,469	-	1,400	21
Insurance	37,852	6,535	-	-	-	3,700	-	-	-	700	200	2,500	-
Depreciation	60,735	-	-	-	-	-	-	-	-	-	-	-	-
Cost of concessions	-	-	-	-	-	45,254	-	-	-	-	867	-	-
City services	18,026	1,582	-	-	-	24,219	-	-	-	2,497	-	-	-
Total functional expenses	1,081,931	61,676	40,398	23,325	39,100	332,464	110,958	59,742	61,997	21,122	26,441	3,900	271,185
	<u>\$ 135,105</u>	<u>\$ 10,951</u>	<u>\$ 459</u>	<u>\$ -</u>	<u>\$ 900</u>	<u>\$ 182,211</u>	<u>\$ (33,114)</u>	<u>\$ (22,742)</u>	<u>\$ (8,001)</u>	<u>\$ 378</u>	<u>\$ 1,865</u>	<u>\$ (3,900)</u>	<u>\$ (36,729)</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, 2020

	Foundation / Membership and Miscellaneous	Property Business Improvement District	Brews & Bites	St. James Park	Dine Downtown	Dia de Los Muertos	City Dance	Plaza Park Canopy	COVID-19 Grants	Total Program Services	Management and General	Total
Revenues, gains and other support												
Concessions / admissions	\$ -	\$ -	\$ 2,549	\$ -	\$ -	\$ -	\$ 5,188	\$ -	\$ -	\$ 1,059,613	\$ -	\$ 1,059,613
City (OED) contract	56,000	-	27,500	1,500	5,000	-	30,000	25,000	-	628,500	-	628,500
Other contracts	-	599,510	-	-	-	-	-	-	-	599,510	-	599,510
BID contract	30,000	-	10,000	-	28,000	-	-	-	-	397,600	175,000	572,600
Grants	-	100,000	-	-	-	17,519	-	-	81,501	359,651	-	359,651
Sponsorships	-	-	1,000	-	2,500	-	-	-	-	328,085	-	328,085
Participant fees	-	-	12,605	-	-	-	-	-	-	16,870	-	16,870
Miscellaneous	3,588	-	-	-	88	-	-	-	-	6,731	7,008	13,739
Administrative income	-	-	-	-	-	-	-	-	-	-	7,249	7,249
Group sales	-	-	-	-	-	-	-	-	-	4,110	-	4,110
Total revenues, gains and other support	89,588	699,510	53,654	1,500	35,588	17,519	35,188	25,000	81,501	3,400,670	189,257	3,589,927
Functional expenses												
Personnel expenses	88,000	362,000	3,000	1,500	22,000	-	8,000	1,650	22,800	1,019,700	417,066	1,436,766
Technical support	-	-	1,878	-	-	-	877	-	-	528,111	-	528,111
Event production	-	-	3,448	-	-	-	-	-	-	459,742	-	459,742
Marketing	51	-	9,559	-	14,674	-	15,818	-	25,188	333,543	-	333,543
Other expenses	116	2,000	90	-	-	-	78	-	1,430	20,192	173,877	194,069
Subcontractors	-	98,000	-	-	-	15,768	1,000	23,650	-	192,026	-	192,026
Supplies and materials	-	-	11,508	-	14	-	346	-	-	110,701	6,747	117,448
Insurance	-	-	925	-	-	700	700	-	-	53,812	17,280	71,092
Depreciation	-	-	-	-	-	-	-	-	-	60,735	9,742	70,477
Cost of concessions	-	-	10,972	-	-	-	5,170	-	-	62,263	-	62,263
City services	2,365	-	5,629	-	-	-	4,227	-	-	58,545	-	58,545
Total functional expenses	90,532	462,000	47,009	1,500	36,688	16,468	36,216	25,300	49,418	2,899,370	624,712	3,524,082
	<u>\$ (944)</u>	<u>\$ 237,510</u>	<u>\$ 6,645</u>	<u>\$ -</u>	<u>\$ (1,100)</u>	<u>\$ 1,051</u>	<u>\$ (1,028)</u>	<u>\$ (300)</u>	<u>\$ 32,083</u>	<u>\$ 501,300</u>	<u>\$ (435,455)</u>	<u>\$ 65,845</u>

See accompanying notes and independent accountant's review report.



San Jose Downtown Association  
Statement of Cash Flows  
For the Year Ended June 30, 2020

Cash flows from operating activities	
Change in net assets	\$ 65,845
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	70,477
Changes in operating assets and liabilities	
Contracts receivable	(222,183)
Accounts receivable	39,633
Prepaid expenses	38,475
Accounts payable	(66,849)
Accrued expenses	71,587
Deferred revenue	<u>(156,018)</u>
Net cash used in operating activities	<u>(159,033)</u>
Cash flows from investing activities	
Payments made for purchase of property and equipment	<u>(56,160)</u>
Net cash used in investing activities	<u>(56,160)</u>
Cash flows from financing activities	
Principal payments on mortgage payable	<u>(10,978)</u>
Net cash used in financing activities	<u>(10,978)</u>
Net decrease in cash and cash equivalents	(226,171)
Cash and cash equivalents, beginning of year	<u>588,706</u>
Cash and cash equivalents, end of year	<u>\$ 362,535</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 7,660
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Supplemental schedule of noncash investing and financing activities

Equipment included in accounts payable	\$ 13,845
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See accompanying notes and independent accountant's review report.

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2020

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 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 to 5 and 12 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 without donor restrictions.

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In June 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The Association adopted ASU 2018-08 with a date of the initial application of July 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on Association's financial position, result of operations, or cash flows. The Association has evaluated contributions received and has determined that there is no change as a result of the adoption of the standard.

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.

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated materials and services

Donated materials and services, which management estimates at \$1,229,455 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, 2020 totaled \$70,477.

Personal time off

Personal time off, representing vacation and sick days earned, but not taken as of June 30, 2020, is included in "accrued expenses" in the statement of financial position. The balance as of June 30, 2020 totaled \$75,649.

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 without donor restrictions or with donor restrictions depending on the nature of grantor-imposed 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 without donor restrictions.

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 \$125,000 was recognized in the year ended June 30, 2020. There was no unrecognized conditional grant amount outstanding as of June 30, 2020.

Functional expenses

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

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017 and beyond remain subject to possible examination by the Internal Revenue Service. The Association's California returns for the years ended June 30, 2016 and beyond remain subject to possible examination by the Franchise Tax Board.

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, 2020 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, 2020. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 29, 2020.

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 on June 24, 1997.

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2020

3. BID FUND - DOWNTOWN SAN JOSE BUSINESS IMPROVEMENT DISTRICT (continued)

For the year ended June 30, 2020, a budget of \$770,000 was approved by the City of San Jose. During the year ended June 30, 2020, the City collected \$572,600 of BID assessments. During the year, \$572,600 was expended by the Association of which \$123,011 had not been reimbursed by the City as of June 30, 2020.

There is a balance of funds remaining in the separate City of San Jose BID account as of June 30, 2020 in the amount of \$237,997. The Association is reporting this amount as a current asset with a corresponding offset to deferred revenue as of June 30, 2020 which will be recognized as revenue in the year ending June 30, 2021.

A budget of \$700,000 has been approved by the City for the fiscal year ending June 30, 2021.

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 \$628,500 of reimbursements for the year ended June 30, 2020.

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, 2020 was \$799,899.

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.

On January 28, 2008 the Association entered into an agreement with SJDPOA 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 SJDPOA. The fee is payable semi-annually. For the year ended June 30, 2020, the Association earned revenue from this agreement totaling \$358,510.

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2020

6. SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION (continued)

The Association also has an arrangement with SJDPOA in which salaries for two Association employees who work directly on PBID projects are paid through the Association and reimbursed by SJDPOA. For the year ended June 30, 2020, the Association was reimbursed \$241,000 from this arrangement.

Further, the Association has an arrangement with SJDPOA in which grant money received by the Association is paid to SJDPOA for programs specified in the grant via an exchange transaction. These costs are classified as subcontractor costs in the Association. For the year ended June 30, 2020, the Association made payments to SJDPOA under this arrangement totaling \$98,000.

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 agreement was amended and renewed and will expire on January 14, 2022.

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Ice rink equipment	\$ 1,266,581
Office condominium	370,612
Office and computer equipment	<u>180,943</u>
	1,818,136
Accumulated depreciation	<u>(1,481,599)</u>
	<u><u>\$ 336,537</u></u>

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. As of June 30, 2018, the Association recognized construction in progress for the full amount and the equipment was put in service in October of 2018. The agreement requires seven installment payments through December 2020 at no interest. As of June 30, 2020, the remaining unpaid balance was \$13,845.

8. DEFERRED REVENUE

Deferred revenue consisted of the following:

BID	\$ 237,997
Other	<u>26,500</u>
	<u><u>\$ 264,497</u></u>

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2020

9. CONCENTRATIONS AND RISKS

The Association earned \$1,338,393 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 caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which includes significant provisions to provide relief and assistance to affected organizations.

COVID-19 could adversely affect the economies and financial markets of many countries, namely the United States, resulting in an economic downturn that could affect the Association in a variety of ways. The Association cannot anticipate all of the ways in which COVID-19 could adversely impact its operations. Although the Association is continuing to monitor impact of the COVID-19 outbreak, the CARES Act and other governmental initiatives is highly uncertain and subject to change.

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 \$167,207 at June 30, 2020.

The future maturities of the mortgage payable are as follows:

<u>Year ending June 30,</u>		
2021	\$	11,494
2022		12,011
2023		12,552
2024		13,102
2025		13,706
Thereafter		<u>104,342</u>
	<u>\$</u>	<u>167,207</u>



San Jose Downtown Association  
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June 30, 2020

11. 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 1.11% with a floor rate of 5.75%, secured by certain assets of the Association. The line of credit has a maturity date of August 18, 2020 and has been extended through November 16, 2020 subsequent to the year end. The line of credit was not accessed during the year ended June 30, 2020.

12. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2020, the Association had net assets with donor restrictions totaling \$32,082 and the entire balance is subject to restrictions for purpose of downtown San Jose recovery plan.

Net assets with donor restrictions released from restrictions during the year were as follows:

Downtown San Jose recovery plan	<u>\$ 29,418</u>
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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. The Association's management has the right to terminate the Plan at anytime.

The Association's matching contribution for the year ended June 30, 2020 totaled \$21,961.

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. During the year ended June 30, 2020, the Association paid special assessments totaling \$21,203.

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2020

15. OPERATING LEASE COMMITMENTS

In November 2015, the Association entered into a non-cancelable operating lease for a copier which expires in November 2020. Total lease payments related to the operating leases for the year ending June 30, 2020 was \$4,260.

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

<u>Year ending June 30,</u>	
2021	\$ <u>1,420</u>
	\$ <u><u>1,420</u></u>

16. LIQUIDITY

The following is a quantitative disclosure describing financial assets that are available within one year of June 30, 2020 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 362,535
Contracts receivable - BID	123,011
Contracts receivable - PBID	599,510
Accounts receivable	<u>10,388</u>
	<u>1,095,444</u>
Less: amount unavailable for general expenditure within one year	
Net assets restricted for downtown San Jose recovery plan	<u>(32,082)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,063,362</u></u>

The Association had \$1,063,362 of financial assets available at June 30, 2020 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 \$150,000 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, 2020

	<u>Total</u>	<u>San Jose Downtown Association Fund</u>	<u>Business Improvement District Fund</u>
Salaries and payroll taxes	\$ 291,169	\$ 146,169	\$ 145,000
Employee benefits	125,897	95,897	30,000
Building expenses	91,045	91,045	-
Miscellaneous	25,991	25,991	-
Professional services	25,728	25,728	-
Utilities	18,547	18,547	-
Insurance	17,280	17,280	-
Office equipment	8,083	8,083	-
Office supplies	6,747	6,747	-
Meeting/hospitality	6,471	6,471	-
Dues and conferences	6,296	6,296	-
Postage/ mailing service	1,001	1,001	-
Subcontractors/interns	457	457	-
	<u>\$ 624,712</u>	<u>\$ 449,712</u>	<u>\$ 175,000</u>