

San Jose Downtown Association

Financial Statements

June 30, 2018



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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, 2018, and the related statements of activities, functional 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 entity 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.

Supplementary Information

The supplementary information included on page 16 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, accordingly, do not express an opinion on such information.

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 27, 2018

San Jose Downtown Association
Statement of Financial Position
June 30, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 645,403
Contracts receivable - BID	118,012
Contracts receivable - City of San Jose	14,500
Contracts receivable - PBID	298,938
Accounts receivable	87,522
Prepaid expenses	<u>54,065</u>
Total current assets	1,218,440
Property and equipment, net	<u>452,447</u>
Total assets	<u><u>\$ 1,670,887</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 146,485
Sales tax payable	5,690
Accrued expenses	105,260
Deferred revenue	381,178
Mortgage payable, current portion	<u>10,526</u>
Total current liabilities	<u>649,139</u>
Long-term liabilities	
Long-term accounts payable	51,594
Mortgage payable, net of current portion	<u>178,185</u>
Total long-term liabilities	<u>229,779</u>
Total liabilities	878,918
Unrestricted net assets	<u>791,969</u>
Total liabilities and net assets	<u><u>\$ 1,670,887</u></u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Activities
For the Year Ended June 30, 2018

	Total All Funds	Unrestricted		
		San Jose Downtown Association Fund	Business Improvement District Fund	City (OED) Fund
Revenue and support				
Concessions / admissions	\$ 1,308,621	\$ 1,308,621	\$ -	\$ -
BID contract	701,000	-	701,000	-
Other contracts	587,055	587,055	-	-
City (OED) contract	405,150	-	-	405,150
Sponsorships	351,158	351,158	-	-
Grants	324,651	324,651	-	-
City of San Jose contracts	52,315	52,315	-	-
Miscellaneous	31,260	31,260	-	-
Group sales	19,303	19,303	-	-
Participant fees	10,814	10,814	-	-
Administrative income	8,400	8,400	-	-
Total revenue and support	<u>3,799,727</u>	<u>2,693,577</u>	<u>701,000</u>	<u>405,150</u>
Functional expenses				
Program services				
Ice Rink	1,060,180	820,680	86,000	153,500
Farmers' Market	75,210	28,115	32,595	14,500
Downtown Activation	22,527	22,527	-	-
Live and Local	37,136	1,636	20,000	15,500
Downtown for the Holidays / Holiday Promotions	38,208	18,208	20,000	-
Music in the Park	467,903	354,403	50,000	63,500
Partner Events	38,455	38,455	-	-
Communications	118,067	42,067	76,000	-
Advocacy, Research and Planning	81,907	24,907	57,000	-
District Promotions	27,889	3,389	12,000	12,500
Starlight Cinemas	29,800	29,800	-	-
SoFA Street Markets	18,500	-	-	18,500
Equipment Storage	3,300	3,300	-	-
Parking Promotions and Marketing	184,800	76,285	78,515	30,000
Foundation / Membership and Miscellaneous	59,890	-	34,890	25,000
Property Business Improvement District	566,563	566,563	-	-
Pop-Up Retail	1,711	1,711	-	-
St. James Park	12,000	-	-	12,000
Dine Downtown	36,271	7,271	24,000	5,000
City Dance	41,820	11,820	-	30,000
Plaza Park Canopy	25,150	-	-	25,150
Total program services	<u>2,947,287</u>	<u>2,051,137</u>	<u>491,000</u>	<u>405,150</u>
Support services				
Management and general	642,807	432,807	210,000	-
Total support services	<u>642,807</u>	<u>432,807</u>	<u>210,000</u>	<u>-</u>
Total functional expenses	<u>3,590,094</u>	<u>2,483,944</u>	<u>701,000</u>	<u>405,150</u>
Change in net assets	209,633	209,633	-	-
Net assets, beginning of year	<u>582,336</u>	<u>582,336</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 791,969</u>	<u>\$ 791,969</u>	<u>\$ -</u>	<u>\$ -</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, 2018**

	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	City Dance	Plaza Park Canopy	Management and General	Total
Revenue and support																							
Concessions / admissions	\$ 824,944	\$ -	\$ -	\$ -	\$ -	\$ 451,647	\$ 28,951	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,079	\$ -	\$ -	\$ 1,308,621
BID contract	86,000	32,595	-	20,000	20,000	50,000	-	76,000	57,000	12,000	-	-	-	78,515	34,890	-	-	-	24,000	-	-	210,000	701,000
Other contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	587,055	-	-	-	-	-	-	587,055
City (OED) contract	153,500	14,500	-	15,500	-	63,500	-	-	-	12,500	-	18,500	-	30,000	25,000	-	-	12,000	5,000	30,000	25,150	-	405,150
Sponsorships	251,461	27,285	-	-	17,500	40,854	-	-	-	-	8,158	40,854	-	-	-	-	-	5,000	900	-	-	-	351,158
Grants	48,673	-	22,527	-	-	20,022	10,571	-	-	-	24,858	-	-	-	-	198,000	-	-	-	-	-	-	324,651
City of San Jose contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	52,315	-	-	-	-	-	-	-	-	52,315
Miscellaneous	880	7,000	-	-	-	-	-	-	-	-	-	5,000	-	-	7,000	-	1,711	99	-	-	-	9,570	31,260
Group sales	11,979	-	-	-	-	7,324	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,303
Participant fees	-	9,213	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,601	-	-	-	-	10,814
Administrative income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,400	8,400
Total revenue and support	<u>1,377,437</u>	<u>90,593</u>	<u>22,527</u>	<u>35,500</u>	<u>37,500</u>	<u>633,347</u>	<u>39,522</u>	<u>76,000</u>	<u>57,000</u>	<u>24,500</u>	<u>33,016</u>	<u>18,500</u>	<u>5,000</u>	<u>160,830</u>	<u>66,890</u>	<u>785,055</u>	<u>1,711</u>	<u>12,000</u>	<u>35,700</u>	<u>33,979</u>	<u>25,150</u>	<u>227,970</u>	<u>3,799,727</u>
Functional expenses																							
Personnel expenses	85,000	36,500	9,500	25,000	22,000	70,500	-	88,800	81,000	21,031	8,000	14,000	-	96,000	59,000	368,353	-	12,000	19,000	8,000	2,000	462,000	1,487,684
Technical support	414,686	5,590	140	-	-	32,235	-	-	-	-	8,533	-	-	-	-	-	-	-	880	-	-	-	462,064
Event production	332,098	-	1,500	-	-	126,060	-	-	-	-	606	-	-	-	-	-	-	-	-	-	-	-	460,264
Subcontractors	18,500	7,600	10,500	7,095	13,921	12,000	35,763	-	-	-	-	4,500	-	-	-	196,000	-	-	-	750	23,150	-	332,494
Marketing	53,683	13,164	-	5,041	2,187	18,175	-	26,542	-	6,858	5,249	-	-	88,757	890	-	-	17,251	18,298	-	-	-	256,095
Other expenses	13,245	628	500	-	100	35,821	-	-	907	-	50	-	-	-	-	2,210	-	15	25	-	-	149,430	202,931
Supplies and materials	35,139	790	387	-	-	63,797	-	10	-	-	4,231	-	800	43	-	-	-	5	3,462	-	-	7,614	116,278
Cost of concessions	112	-	-	-	-	69,535	2,452	-	-	-	-	-	-	-	-	-	-	-	-	4,966	-	-	77,065
Insurance	39,846	7,088	-	-	-	2,298	240	-	-	-	489	-	2,500	-	-	-	-	-	-	391	-	13,790	68,353
Depreciation	54,806	-	-	-	-	-	-	-	-	-	75	-	-	-	-	-	-	1,711	-	-	-	9,973	64,854
City services	13,065	3,850	-	-	-	37,482	-	-	-	-	2,567	-	-	-	-	-	-	-	-	5,048	-	-	62,012
Total functional expenses	<u>1,060,180</u>	<u>75,210</u>	<u>22,527</u>	<u>37,136</u>	<u>38,208</u>	<u>467,903</u>	<u>38,455</u>	<u>118,067</u>	<u>81,907</u>	<u>27,889</u>	<u>29,800</u>	<u>18,500</u>	<u>3,300</u>	<u>184,800</u>	<u>59,890</u>	<u>566,563</u>	<u>1,711</u>	<u>12,000</u>	<u>36,271</u>	<u>41,820</u>	<u>25,150</u>	<u>642,807</u>	<u>3,590,094</u>
	<u>\$ 317,257</u>	<u>\$ 15,383</u>	<u>\$ -</u>	<u>\$ (1,636)</u>	<u>\$ (708)</u>	<u>\$ 165,444</u>	<u>\$ 1,067</u>	<u>\$ (42,067)</u>	<u>\$ (24,907)</u>	<u>\$ (3,389)</u>	<u>\$ 3,216</u>	<u>\$ -</u>	<u>\$ 1,700</u>	<u>\$ (23,970)</u>	<u>\$ 7,000</u>	<u>\$ 218,492</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (571)</u>	<u>\$ (7,841)</u>	<u>\$ -</u>	<u>\$ (414,837)</u>	<u>\$ 209,633</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities	
Change in net assets	\$ 209,633
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	64,854
Changes in operating assets and liabilities	
Contracts receivable	(116,530)
Accounts receivable	(58,974)
Prepaid expenses	17,795
Due from San Jose Downtown Foundation	692
Accounts payable	26,071
Sales tax payable	(1,069)
Accrued expenses	3,729
Deferred revenue	<u>78,164</u>
Net cash provided by operating activities	<u>224,365</u>
Cash flows from investing activities	
Purchase of property and equipment	<u>(44,028)</u>
Net cash used in investing activities	<u>(44,028)</u>
Cash flows from financing activities	
Principal payments on mortgage payable	(10,072)
Principal payments on note payable	<u>(10,951)</u>
Net cash used in financing activities	<u>(21,023)</u>
Net increase in cash and cash equivalents	159,314
Cash and cash equivalents, beginning of year	<u>486,089</u>
Cash and cash equivalents, end of year	<u>\$ 645,403</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 8,678
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Supplemental schedule of noncash investing and financing activities

Construction in progress included in accounts payable	\$ 89,343
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See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2018

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.

Basis of presentation

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. There are currently no temporarily restricted or permanently restricted net assets. See Notes 3 to 5 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, 2018

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

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 \$1,336,759 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, 2018 totaled \$64,854.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2018

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, 2018, is included in "accrued expenses" in the statement of financial position. The balance as of June 30, 2018 totaled \$70,257.

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 \$258,000 has not been recognized as revenue as of June 30, 2018 since the conditions have not been substantially met.

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, 2015 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2014 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.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Management of the Association has evaluated events and transactions subsequent to June 30, 2018 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, 2018. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 27, 2018.

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.

For the year ended June 30, 2018, a budget of \$793,000 was approved by the City of San Jose. During the year ended June 30, 2018, the City collected \$751,744 of BID assessments. During the year, \$701,000 was expended by the Association of which \$118,012 had not been reimbursed by the City as of June 30, 2018.

There is a balance of funds remaining in the separate City of San Jose BID account as of June 30, 2018 in the amount of \$259,176. The Association is reporting this amount as a current asset with a corresponding offset to deferred revenue as of June 30, 2018 which will be recognized as revenue in the year ending June 30, 2019.

A budget of \$760,000 has been approved by the City for the fiscal year ending June 30, 2019.

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 \$475,150 of reimbursements for the year ended June 30, 2018.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2018

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, 2018 was \$791,969.

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, 2018, the Association earned revenue from this agreement totaling \$359,055.

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, 2018, the Association was reimbursed \$228,000 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, 2018, the Association made payments to SJDPOA under this arrangement totaling \$147,000.

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, 2019.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2018

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Ice rink equipment	\$ 1,121,815
Office condominium	370,612
Office and computer equipment	180,943
Construction in progress (Ice rink equipment)	<u>115,140</u>
	1,788,510
Accumulated depreciation	<u>(1,336,063)</u>
	<u><u>\$ 452,447</u></u>

On February 21, 2018, the Association entered into a non-cancellable 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 Organization recognized construction in progress for the full amount and the equipment will not be put back in service until October 2018. The agreement requires seven installment payments through December 2020 at no interest. During the year ended June 30, 2018, the Organization made two installment payments totaling \$25,797 (see Note 10).

8. DEFERRED REVENUE

Deferred revenue consisted of the following:

BID	\$ 259,176
Other	<u>122,002</u>
	<u><u>\$ 381,178</u></u>

9. CONCENTRATION OF ACTIVITIES

The Association earned \$1,360,589 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. LONG-TERM ACCOUNTS PAYABLE

On February 21, 2018, the Association entered into an agreement with a third party contractor to repair and replace certain ice rink equipment at a fixed total cost of \$115,140. The agreement requires seven installment payments at no interest with the first payment due on March 1, 2018 and the last payment due on December 15, 2020. As of June 30, 2018, the remaining unpaid balance was \$89,343.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2018

10. LONG-TERM ACCOUNTS PAYABLE (continued)

The future installments are due as follows:

<u>Year ending June 30,</u>	
2019	\$ 37,749
2020	37,749
2021	<u>13,845</u>
	<u>\$ 89,343</u>

11. NOTE PAYABLE

On December 3, 2012, the Association entered into a loan agreement with Wells Fargo Bank for \$102,000. The term of the loan requires 60 monthly payments at \$1,856 and the interest rate is fixed at 3.450% per annum. The note is secured by personal property of the Association. Total principal outstanding was \$10,951 at June 30, 2017 and the note was fully paid off as of June 30, 2018.

12. 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 December 20, 2031. The note is secured by a deed of trust on 28 North First Street, Suite 1000.

Total principal outstanding is \$188,711 at June 30, 2018.

The future maturities of the mortgage payable are as follows:

<u>Year ending June 30,</u>	
2019	\$ 10,526
2020	10,979
2021	11,494
2022	12,011
2023	12,552
Thereafter	<u>131,149</u>
	<u>\$ 188,711</u>

San Jose Downtown Association
Notes to Financial Statements
June 30, 2018

13. 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 1.35% with a floor rate of 5.75%, secured by certain assets of the Association. The line of credit has a maturity date of June 18, 2019.

The line of credit was not accessed during the year ended June 30, 2018.

14. 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, 2018 totaled \$30,356.

15. 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, 2018. The SJDA Executive Director is a member of the CBOA board.

16. 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, 2018 totaled \$4,260.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2018

16. OPERATING LEASE COMMITMENTS (continued)

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

<u>Year ending June 30,</u>	
2019	\$ 4,260
2020	4,260
2021	<u>1,420</u>
	<u>\$ 9,940</u>

SUPPLEMENTARY INFORMATION

San Jose Downtown Association
Schedule of Management and General Expenses
For the Year Ended June 30, 2018

	<u>Total</u>	<u>San Jose Downtown Association Fund</u>	<u>Business Improvement District Fund</u>
Salaries and payroll taxes	\$ 332,658	\$ 152,658	\$ 180,000
Employee benefits	129,342	99,342	30,000
Building expenses	62,685	62,685	-
Miscellaneous	33,313	33,313	-
Professional services	21,498	21,498	-
Utilities	16,014	16,014	-
Insurance	13,790	13,790	-
Meetings and hospitality	10,244	10,244	-
Office equipment	7,987	7,987	-
Supplies and materials	7,614	7,614	-
Dues and conferences	6,434	6,434	-
Postage / mailing services	1,228	1,228	-
	<u>\$ 642,807</u>	<u>\$ 432,807</u>	<u>\$ 210,000</u>

See accompanying independent accountant's review report.