

**San Jose Downtown Association**

Financial Statements  
and Supplementary Information

June 30, 2021



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## 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, 2021, 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.

### **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, 2021, 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.

### **Change in Accounting Principle**

As described in Note 2 to the financial statements, the Association has adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to that matter.



An independent firm  
associated with Moore  
Global Network Limited

**Emphasis of Matter**

As discussed in Note 9 to 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 opinion is not modified with respect to that matter.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information on page 20 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.



Armanino<sup>LLP</sup>  
San Jose, California

September 30, 2021

San Jose Downtown Association  
Statement of Financial Position  
June 30, 2021

ASSETS

Current assets	
Cash and cash equivalents	\$ 932,360
Contracts receivable - BID	60,163
Contracts receivable - City of San Jose	49,000
Contracts receivable - PBID	355,404
Accounts receivable	35,550
Prepaid expenses	<u>20,235</u>
Total current assets	1,452,712
Property and equipment, net	<u>281,846</u>
Total assets	<u><u>\$ 1,734,558</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 82,008
Accrued expenses	158,529
Deferred revenue	394,816
Mortgage payable, current portion	10,979
Paycheck Protection Program - refundable advance	<u>71,202</u>
Total current liabilities	<u>717,534</u>
Long-term liabilities	
Mortgage payable, net of current portion	<u>144,735</u>
Total long-term liabilities	<u>144,735</u>
Total liabilities	<u>862,269</u>
Net assets	
Without donor restrictions	<u>872,289</u>
Total net assets	<u>872,289</u>
Total liabilities and net assets	<u><u>\$ 1,734,558</u></u>

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

San Jose Downtown Association  
Statement of Activities  
For the Year Ended June 30, 2021

	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					
City (OED) contract	\$ -	\$ -	\$ 575,157	\$ -	\$ 575,157
Other contracts	718,404	-	-	-	718,404
BID contract	-	527,760	-	-	527,760
Paycheck Protection Program grant	213,300	-	-	-	213,300
Grants	41,350	-	-	-	41,350
Sponsorships	114,500	-	-	-	114,500
Participant fees	6,520	-	-	-	6,520
Miscellaneous	34,128	-	-	-	34,128
Administrative income	2,601	-	-	-	2,601
Group sales	(592)	-	-	-	(592)
Net assets released from restriction	32,082	-	-	(32,082)	-
Total revenues, gains and other support	1,162,293	527,760	575,157	(32,082)	2,233,128
Functional expenses					
Program services					
Ice Rink	50,339	22,660	-	-	72,999
Farmers' Market	19,734	39,000	16,000	-	74,734
Downtown for the Holidays / Holiday Promotions	48,515	7,000	7,700	-	63,215
Music in the Park	(605)	-	-	-	(605)
Communications	19,532	115,575	-	-	135,107
Advocacy, Research and Planning	240	30,000	-	-	30,240
District Promotions	-	-	62,557	-	62,557
Starlight Cinemas	3	5,670	45,500	-	51,173
Equipment Storage	8,293	2,340	-	-	10,633
Parking Promotions and Marketing Foundation / Membership and Miscellaneous	76	81,530	204,500	-	286,106
	1	885	101,900	-	102,786
Property Business Improvement District	433,119	-	-	-	433,119
Dine Downtown	231	12,000	28,000	-	40,231
COVID-19 Grants	32,081	-	-	-	32,081
Downtown Lights	236	1,100	109,000	-	110,336
DTSJ by the Numbers	30,600	-	-	-	30,600
Total program services	642,395	317,760	575,157	-	1,535,312
Support services					
Management and general	447,508	210,000	-	-	657,508
Total support services	447,508	210,000	-	-	657,508
Total functional expenses	1,089,903	527,760	575,157	-	2,192,820
Change in net assets	72,390	-	-	(32,082)	40,308
Net assets, beginning of year	799,899	-	-	32,082	831,981
Net assets, end of year	\$ 872,289	\$ -	\$ -	\$ -	\$ 872,289

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, 2021

	Ice Rink	Farmers' Market	Downtown for the Holidays / Promotions	Music in the Park	Communications	Advocacy, Research and Planning	District Promotions	Starlight Cinemas	Equipment Storage	Parking Promotions and Marketing
Revenues, gains and other support										
City (OED) contract	\$ -	\$ 16,000	\$ 7,700	\$ -	\$ -	\$ -	\$ 62,557	\$ 45,500	\$ -	\$ 204,500
Other contracts	-	-	-	-	-	-	-	-	-	-
BID contract	22,660	39,000	7,000	-	115,575	30,000	-	5,670	2,340	81,530
Paycheck Protection Program grant	-	-	13,500	-	18,000	-	-	-	-	-
Grants	-	-	9,850	-	1,500	-	-	-	-	-
Sponsorships	-	2,000	25,000	-	-	-	-	25,000	-	-
Participant fees	-	6,520	-	-	-	-	-	-	-	-
Miscellaneous	124	3,500	-	-	-	-	-	-	-	-
Administrative income	-	-	-	-	-	-	-	-	-	-
Group sales	(592)	-	-	-	-	-	-	-	-	-
Total revenues, gains and other support	<u>22,192</u>	<u>67,020</u>	<u>63,050</u>	<u>-</u>	<u>135,075</u>	<u>30,000</u>	<u>62,557</u>	<u>76,170</u>	<u>2,340</u>	<u>286,030</u>
Functional expenses										
Personnel expenses	5,000	32,300	14,900	-	108,500	30,000	16,500	12,000	-	241,300
Technical support	1,885	4,685	-	-	-	-	16,750	-	2,921	-
Event production	-	4,140	10,800	-	-	-	-	35,500	-	-
Marketing	118	15,949	-	(325)	26,577	-	9,307	3,673	-	44,806
Other expenses	-	423	-	-	30	240	-	-	-	-
Subcontractors	600	-	37,515	-	-	-	-	-	-	-
Supplies and materials	14,928	1,284	-	-	-	-	20,000	-	3,212	-
Insurance	4,458	8,449	-	-	-	-	-	-	4,500	-
Depreciation	46,010	-	-	-	-	-	-	-	-	-
Cost of concessions	-	-	-	(53)	-	-	-	-	-	-
City services	-	7,504	-	(227)	-	-	-	-	-	-
Total functional expenses	<u>72,999</u>	<u>74,734</u>	<u>63,215</u>	<u>(605)</u>	<u>135,107</u>	<u>30,240</u>	<u>62,557</u>	<u>51,173</u>	<u>10,633</u>	<u>286,106</u>
	<u>\$ (50,807)</u>	<u>\$ (7,714)</u>	<u>\$ (165)</u>	<u>\$ 605</u>	<u>\$ (32)</u>	<u>\$ (240)</u>	<u>\$ -</u>	<u>\$ 24,997</u>	<u>\$ (8,293)</u>	<u>\$ (76)</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, 2021

	Foundation / Membership and Miscellaneous	Property Business Improvement District	Dine Downtown	COVID-19 Grants	Downtown Lights	DTSJ by the Numbers	Total Program Services	Management and General	Total
Revenues, gains and other support									
City (OED) contract	\$ 101,900	\$ -	\$ 28,000	\$ -	\$ 109,000	\$ -	\$ 575,157	\$ -	\$ 575,157
Other contracts	-	718,404	-	-	-	-	718,404	-	718,404
BID contract	885	-	12,000	-	1,100	-	317,760	210,000	527,760
Paycheck Protection Program grant	-	-	-	-	-	-	31,500	181,800	213,300
Grants	-	-	-	-	-	30,000	41,350	-	41,350
Sponsorships	-	-	-	-	62,500	-	114,500	-	114,500
Participant fees	-	-	-	-	-	-	6,520	-	6,520
Miscellaneous	18,000	-	-	-	-	-	21,624	12,504	34,128
Administrative income	-	-	-	-	-	-	-	2,600	2,601
Group sales	-	-	-	-	-	-	(592)	-	(592)
Total revenues, gains and other support	120,785	718,404	40,000	-	172,600	30,000	1,826,223	406,904	2,233,128
Functional expenses									
Personnel expenses	91,800	433,119	20,000	17,000	39,000	-	1,061,419	458,590	1,520,009
Technical support	-	-	-	-	43,740	-	69,981	-	69,981
Event production	8,000	-	-	-	7,627	-	66,067	-	66,067
Marketing	2,486	-	20,231	14,831	1,232	30,000	168,885	-	168,885
Other expenses	500	-	-	-	520	600	2,313	162,558	164,871
Subcontractors	-	-	-	-	-	-	38,115	-	38,115
Supplies and materials	-	-	-	250	15,797	-	55,471	4,128	59,599
Insurance	-	-	-	-	-	-	17,407	23,551	40,958
Depreciation	-	-	-	-	-	-	46,010	8,681	54,691
Cost of concessions	-	-	-	-	-	-	(53)	-	(53)
City services	-	-	-	-	2,420	-	9,697	-	9,697
Total functional expenses	102,786	433,119	40,231	32,081	110,336	30,600	1,535,312	657,508	2,192,820
	<u>\$ 17,999</u>	<u>\$ 285,285</u>	<u>\$ (231)</u>	<u>\$ (32,081)</u>	<u>\$ 62,264</u>	<u>\$ (600)</u>	<u>\$ 290,911</u>	<u>\$ (250,604)</u>	<u>\$ 40,308</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, 2021

Cash flows from operating activities	
Change in net assets	\$ 40,308
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	54,691
Changes in operating assets and liabilities	
Contracts receivable	257,954
Accounts receivable	(25,162)
Prepaid expenses	(3,129)
Accounts payable	50,961
Accrued expenses	4,174
Deferred revenue	130,319
Paycheck Protection Program - refundable advance	<u>71,202</u>
Net cash provided by operating activities	<u>581,318</u>
Cash flows from financing activities	
Principal payments on mortgage payable	<u>(11,493)</u>
Net cash used in financing activities	<u>(11,493)</u>
Net increase in cash and cash equivalents	569,825
Cash and cash equivalents, beginning of year	<u>362,535</u>
Cash and cash equivalents, end of year	<u><u>\$ 932,360</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 7,146
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Supplemental schedule of noncash investing and financing activities

Equipment included in accounts payable	\$ 13,845
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The accompanying notes are an integral part of these financial statements.

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2021

1. NATURE OF OPERATIONS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

Basis of presentation

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

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

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Association adopted ASU 2014-09 with a date of the initial application of July 1, 2020, using the full retrospective method. The adoption of ASU 2014-09 did not have a significant impact on the Association's financial position, result of operations, or cash flows. No changes were required to previously reported revenue as a result of the adoption of this 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, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated materials and services

Donated materials and services, which management estimates at \$207,460 have not been recognized in the accompanying financial statements since the recognition requirements were not met. A number of volunteers have donated significant amounts of their time in the Association program services and administrative support. Also, media and service donations were received as part of event sponsorships.

Property and equipment

The Association's policy is to capitalize fixed asset purchases in excess of \$3,000. Any furniture, equipment or other assets purchased under a grant or a service contract are considered the property of the granting agency and will not be capitalized. Depreciation is computed using straight-line depreciation methods based on the estimated useful lives of the assets, which range from 3 to 46 years. Depreciation expense for the year ended June 30, 2021 totaled \$54,691.

Personal time off

Personal time off, representing vacation and sick days earned, but not taken as of June 30, 2021, is included in "accrued expenses" in the statement of financial position. The balance as of June 30, 2021 totaled \$99,064.

Revenue recognition

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

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

Functional expenses

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

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2021

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, 2018 and beyond remain subject to possible examination by the Internal Revenue Service. The Association's California returns for the years ended June 30, 2017 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 revenues and support and expenses during the period. Accordingly, actual results could differ from those estimates.

Subsequent events

Management of the Association has evaluated events and transactions subsequent to June 30, 2021 for potential recognition or disclosure in the financial statements. The Association has subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2021. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 30, 2021.

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, 2021

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

For the year ended June 30, 2021, a budget of \$700,000 was approved by the City of San Jose. During the year ended June 30, 2021, the City collected \$605,528 of BID assessments. During the year, \$527,760 was expended by the Association of which \$60,163 had not been reimbursed by the City as of June 30, 2021.

There is a balance of funds remaining in the Association's BID account as of June 30, 2021 in the amount of \$284,106. Out of this amount, the Association is reporting an amount of \$60,163 as a current asset with a corresponding offset to deferred revenue as of June 30, 2021. The deferred revenue balance will be recognized as revenue in the year ending June 30, 2022.

A budget of \$630,000 has been approved by the City for the year ending June 30, 2022.

4. OED FUND - CITY OF SAN JOSE

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

The contract with the City of San Jose (OED) provided up to \$575,157 of reimbursements for the year ended June 30, 2021.

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, 2021 was \$872,288.

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, 2021, the Association earned revenue from this agreement totaling \$355,404.

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2021

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

The Association also has an arrangement with SJDPOA in which salaries for four Association employees who work directly on PBID projects are paid through the Association and reimbursed by SJDPOA. For the year ended June 30, 2021, the Association was reimbursed \$363,000 from this arrangement.

On January 15, 2013, the Association on behalf of the SJDPOA, entered into an Environmental and Maintenance and Supplemental Security Services agreement with Block by Block. The original agreement was for a period of three years and expired January 14, 2016. The 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>(1,536,290)</u>
	<u><u>\$ 281,846</u></u>

For the year ended June 30, 2021, depreciation expense was \$54,691. On February 21, 2018, the Association entered into a non-cancelable agreement with a third-party contractor to repair and replace certain ice rink equipment at a fixed total cost of \$115,140. The agreement requires seven installment payments through December 2020 at no interest. As of June 30, 2021, there was a remaining unpaid balance of \$13,845 related the ice rink equipment included in accounts payable.

8. DEFERRED REVENUE

Deferred revenue consisted of the following:

Deferred Income - BID	\$ 284,106
Deferred Income - city contract	36,000
Deferred Income - farmers market	34,000
Deferred Income - starlight cinema	20,000
Deferred Income - holiday sponsorship	15,000
Deferred Income - CRF	<u>5,710</u>
	<u><u>\$ 394,816</u></u>

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2021

9. CONCENTRATIONS AND RISKS

The Association earned \$1,102,917 through contracts with and grants from the City of San Jose, including its agencies and the BID. Activities of the Association take place in and for the benefit of the downtown San Jose, California geographic area.

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

While the Association cannot anticipate all of the ways in which COVID19 could adversely impact its operations, it did react swiftly during FY2020-21 including utilizing a Knight Foundation grant to create a short-term strategic plan (the Stabilization Plan, published in August 2020) to address pandemic conditions and prepare the Association for recovery. Since COVID-19 shut down all major event productions in the summer, fall and winter of 2020, the Association was unable to produce its annual Music in the Park concerts or the Downtown Ice rink. In its contract services with the City of San Jose, the Association was able to secure one-time CARES Act funding for FY2020-21, and ARP funding for FY2021-22. Notably, once 501(c)(6) nonprofit organizations became eligible for federal Payroll Protection Program (PPP) forgivable loans, the Association received funding of \$284,502 (see Note 17).

10. MORTGAGE PAYABLE

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

Total principal outstanding is \$155,714 at June 30, 2021.



San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2021

10. MORTGAGE PAYABLE (continued)

The future maturities of the mortgage payable are as follows:

<u>Year ending June 30,</u>		
2022	\$	12,011
2023		12,552
2024		13,102
2025		13,706
2026		14,323
Thereafter		<u>90,020</u>
		155,714
Current portion		<u>(10,979)</u>
		<u><u>\$ 144,735</u></u>

11. LINE OF CREDIT

On September 18, 2020, the Association entered into agreement for an unsecured revolving line of credit with Wells Fargo Bank for a maximum amount of \$100,000. Interest is computed at the Bank's prime rate plus 6.75% for cash and purchases. The line of credit matures in October 2023. The line of credit was not accessed during the year ended June 30, 2021.

12. EMPLOYEE BENEFIT PLAN

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

The Association's matching contribution for the year ended June 30, 2021 totaled \$24,130.

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2021

13. OFFICE CONDOMINIUM

The Association, through its ownership of its office condominiums located at 28 North First Street, Suites 1000 and 200, is a member of the Commercial Building Owners' Association ("CBOA"). Members pay monthly dues to CBOA to cover the property management and common area expenses (such as elevator, security, utilities and janitorial expenses). CBOA, on an as needed basis, can request special assessments from members for major improvements or renovations to common areas of the property.

14. OPERATING LEASE COMMITMENTS

In November 2020, the Association entered into a non-cancelable operating lease for a copier which expires in November 2025. Total lease payments related to the operating leases for the year ending June 30, 2021 was \$3,660.

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

<u>Year ending June 30,</u>	
2022	\$ 3,360
2023	3,360
2024	3,360
2025	3,360
2026	<u>1,120</u>
	<u>\$ 14,560</u>

15. LITIGATION DISCLOSURE

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

16. LIQUIDITY

The following is a quantitative disclosure describing financial assets that are available within one year of June 30, 2021 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 932,360
Contracts receivable - BID	60,163
Contracts receivable - City of San Jose	49,000
Contracts receivable - PBID	355,404
Accounts receivable	<u>35,550</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,432,477</u>

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2021

16. LIQUIDITY (continued)

The Association had \$1,432,477 of financial assets available at June 30, 2021 to meet the needs for general expenditures in the next 12 months and none of them are subject to donor or other contractual restrictions. The Association manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due.

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

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

17. PAYCHECK PROTECTION PROGRAM

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

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

The Association used loan proceeds to partially subsidize payroll expenses. The Association expects to meet the PPP's eligibility criteria and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven. As a result, the Association has accounted for the PPP loan in accordance with FASB ASC 958-605 as a conditional contribution. The Association initially recorded the amount received as a refundable advance followed by a reduction in the advance and recognition of revenue as the aforementioned conditions are substantially met. During the year ended June 30, 2021, the Association has used \$213,300 for purposes consistent with the PPP loan, and recognized the same amount as contribution revenue in the statement of activities. As of June 30, 2021, the outstanding amount of \$71,202 is presented as refundable advance in the statement of financial position.

18. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through September 30, 2021, the date the financial statements were available to be issued.

San Jose Downtown Association  
Notes to Financial Statements  
June 30, 2021

18. SUBSEQUENT EVENTS (continued)

In July 2021, the Association entered an agreement and transferred the operations and management of Downtown Ice 2021-22 to Bietak Productions, Inc.

In September 2021, the Association was in the process to finalize an agreement with a 5-year grant in the total amount of \$1 million.

SUPPLEMENTARY INFORMATION

San Jose Downtown Association  
Schedule of Management and General Expenses  
For the Year Ended June 30, 2021

	<u>Total</u>	<u>San Jose Downtown Association Fund</u>	<u>Business Improvement District Fund</u>
Salaries and payroll taxes	\$ 340,206	\$ 160,206	\$ 180,000
Employee benefits	118,383	88,383	30,000
Building expenses	65,364	65,364	-
Miscellaneous	26,128	26,128	-
Professional services	38,876	38,876	-
Utilities	20,552	20,552	-
Insurance	23,551	23,551	-
Office equipment	12,816	12,816	-
Office supplies	4,128	4,128	-
Meeting/hospitality	390	390	-
Dues and conferences	6,376	6,376	-
Postage/mailing service	738	738	-
	<u>\$ 657,508</u>	<u>\$ 447,508</u>	<u>\$ 210,000</u>