

San Jose Downtown Association

Financial Statements
and Supplementary Information

June 30, 2019



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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, 2019, 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 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 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our conclusion is not modified with respect to that matter.

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.

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, 2019

San Jose Downtown Association
Statement of Financial Position
June 30, 2019

ASSETS

Current assets	
Cash and cash equivalents	\$ 588,706
Contracts receivable - BID	181,490
Contracts receivable - City of San Jose	31,889
Contracts receivable - PBID	286,959
Accounts receivable	50,021
Prepaid expenses	<u>55,581</u>
Total current assets	1,194,646
Property and equipment, net	<u>388,603</u>
Total assets	<u><u>\$ 1,583,249</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 121,801
Sales tax payable	2,726
Accrued expenses	80,041
Deferred revenue	420,515
Mortgage payable, current portion	<u>10,979</u>
Total current liabilities	<u>636,062</u>
Long-term liabilities	
Long-term accounts payable	13,845
Mortgage payable, net of current portion	<u>167,206</u>
Total long-term liabilities	<u>181,051</u>
Total liabilities	<u>817,113</u>
Net assets	
Without donor restrictions	<u>766,136</u>
Total net assets	<u>766,136</u>
Total liabilities and net assets	<u><u>\$ 1,583,249</u></u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions			Total All Funds
	San Jose Downtown Association Fund	Business Improvement District Fund	City of San Jose (OED) Fund	
Revenues, gains and other support				
Concessions / admissions	\$ 1,001,881	\$ -	\$ -	\$ 1,001,881
BID contract	-	719,000	-	719,000
Other contracts	576,959	-	-	576,959
City (OED) contract	-	-	490,350	490,350
Sponsorships	434,108	-	-	434,108
Grants	235,021	-	-	235,021
City of San Jose contracts	86,478	-	-	86,478
Miscellaneous	48,639	-	-	48,639
Administrative income	12,404	-	-	12,404
Group sales	10,075	-	-	10,075
Participant fees	7,549	-	-	7,549
Total revenues, gains and other support	<u>2,413,114</u>	<u>719,000</u>	<u>490,350</u>	<u>3,622,464</u>
Functional expenses				
Program services				
Ice Rink	919,385	100,000	144,000	1,163,385
Farmers' Market	20,484	35,324	14,500	70,308
Downtown Activation	18,150	-	-	18,150
Live and Local	2,484	9,000	19,000	30,484
Downtown for the Holidays / Holiday				
Promotions	21,850	20,000	-	41,850
Music in the Park	309,264	60,000	60,000	429,264
Partner Events	44,231	-	-	44,231
Communications	47,474	75,955	-	123,429
Advocacy, Research and Planning	31,016	57,000	-	88,016
District Promotions	1,377	12,000	9,000	22,377
Starlight Cinemas	17,987	-	-	17,987
SoFA Street Markets	-	-	18,500	18,500
Equipment Storage	2,500	-	-	2,500
Parking Promotions and Marketing	67,863	81,935	105,000	254,798
Foundation / Membership and Miscellaneous	9,000	35,805	37,000	81,805
Property Business Improvement District	432,734	-	-	432,734
Pop-Up Retail	1,711	-	-	1,711
St. James Park	-	-	25,000	25,000
Dine Downtown	10	21,981	5,000	26,991
City Dance	7,232	-	30,000	37,232
Plaza Park Canopy	-	-	23,350	23,350
Total program services	<u>1,954,752</u>	<u>509,000</u>	<u>490,350</u>	<u>2,954,102</u>
Support services				
Management and general	484,195	210,000	-	694,195
Total support services	<u>484,195</u>	<u>210,000</u>	<u>-</u>	<u>694,195</u>
Total functional expenses	<u>2,438,947</u>	<u>719,000</u>	<u>490,350</u>	<u>3,648,297</u>
Change in net assets	(25,833)	-	-	(25,833)
Net assets, beginning of year	791,969	-	-	791,969
Net assets, end of year	<u>\$ 766,136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 766,136</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, 2019

	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
Revenues, gains and other support												
Concessions / admissions	\$ 726,650	\$ -	\$ -	\$ -	\$ -	\$ 250,835	\$ 19,787	\$ -	\$ -	\$ -	\$ -	\$ -
BID contract	100,000	35,325	-	9,000	20,000	60,000	-	75,954	57,000	12,000	-	-
Other contracts	-	-	-	-	-	-	-	-	-	-	-	-
City (OED) contract	144,000	14,500	-	19,000	-	60,000	-	-	-	9,000	-	18,500
Sponsorships	293,360	28,313	-	-	25,000	79,810	-	-	-	-	2,625	-
Grants	51,444	-	18,150	-	-	26,101	24,328	-	-	-	14,998	-
City of San Jose contracts	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	8,869	7,000	-	-	-	5,074	2,048	-	600	-	-	-
Administrative income	-	-	-	-	-	-	-	-	-	-	-	-
Group sales	8,815	-	-	-	-	1,260	-	-	-	-	-	-
Participant fees	-	7,549	-	-	-	-	-	-	-	-	-	-
Total revenues, gains and other support	<u>1,333,138</u>	<u>92,687</u>	<u>18,150</u>	<u>28,000</u>	<u>45,000</u>	<u>483,080</u>	<u>46,163</u>	<u>75,954</u>	<u>57,600</u>	<u>21,000</u>	<u>17,623</u>	<u>18,500</u>
Functional expenses												
Personnel expenses	94,000	36,500	9,500	16,000	20,000	70,500	-	93,800	78,500	17,044	4,500	18,500
Technical support	483,494	5,911	-	-	-	41,917	-	60	-	-	4,845	-
Event production	322,642	75	5,250	-	-	125,598	-	-	-	-	406	-
Marketing	83,147	12,817	-	8,259	8,170	10,164	-	25,930	-	4,790	1,850	-
Other expenses	13,234	165	500	-	100	16,154	-	-	9,516	108	87	-
Subcontractors	-	3,710	2,500	6,225	13,580	15,700	39,860	3,639	-	-	-	-
Supplies and materials	44,490	878	400	-	-	80,161	-	-	-	435	2,589	-
Depreciation	64,591	-	-	-	-	-	-	-	-	-	-	-
Insurance	41,125	6,400	-	-	-	3,400	648	-	-	-	500	-
City services	16,662	3,852	-	-	-	22,744	2,048	-	-	-	3,210	-
Cost of concessions	-	-	-	-	-	42,926	1,675	-	-	-	-	-
Total functional expenses	<u>1,163,385</u>	<u>70,308</u>	<u>18,150</u>	<u>30,484</u>	<u>41,850</u>	<u>429,264</u>	<u>44,231</u>	<u>123,429</u>	<u>88,016</u>	<u>22,377</u>	<u>17,987</u>	<u>18,500</u>
	<u>\$ 169,753</u>	<u>\$ 22,379</u>	<u>\$ -</u>	<u>\$ (2,484)</u>	<u>\$ 3,150</u>	<u>\$ 53,816</u>	<u>\$ 1,932</u>	<u>\$ (47,475)</u>	<u>\$ (30,416)</u>	<u>\$ (1,377)</u>	<u>\$ (364)</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, 2019

	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	Total Program Services	Management and General	Total
Revenues, gains and other support												
Concessions / admissions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,609	\$ -	\$ 1,001,881	\$ -	\$ 1,001,881
BID contract	-	81,935	35,804	-	-	-	21,982	-	-	509,000	210,000	719,000
Other contracts	-	-	-	576,959	-	-	-	-	-	576,959	-	576,959
City (OED) contract	-	105,000	37,000	-	-	25,000	5,000	30,000	23,350	490,350	-	490,350
Sponsorships	-	-	-	-	-	-	5,000	-	-	434,108	-	434,108
Grants	-	-	-	100,000	-	-	-	-	-	235,021	-	235,021
City of San Jose contracts	-	86,478	-	-	-	-	-	-	-	86,478	-	86,478
Miscellaneous	-	-	7,000	-	1,711	-	50	81	-	32,433	16,206	48,639
Administrative income	-	-	-	-	-	-	-	-	-	-	12,404	12,404
Group sales	-	-	-	-	-	-	-	-	-	10,075	-	10,075
Participant fees	-	-	-	-	-	-	-	-	-	7,549	-	7,549
Total revenues, gains and other support	-	273,413	79,804	676,959	1,711	25,000	32,032	34,690	23,350	3,383,854	238,610	3,622,464
Functional expenses												
Personnel expenses	-	139,439	81,000	332,540	-	25,000	12,000	8,000	-	1,056,823	475,949	1,532,772
Technical support	-	-	-	-	-	-	-	802	-	537,029	-	537,029
Event production	-	-	-	-	-	-	-	-	-	453,971	-	453,971
Marketing	-	115,359	805	-	-	-	14,984	15,903	-	302,178	-	302,178
Other expenses	-	-	-	2,194	-	-	-	51	-	42,109	183,062	225,171
Subcontractors	-	-	-	98,000	-	-	-	1,000	23,350	207,564	-	207,564
Supplies and materials	-	-	-	-	-	-	7	-	-	128,960	7,459	136,419
Depreciation	-	-	-	-	-	-	-	-	-	64,591	10,468	75,059
Insurance	2,500	-	-	-	1,711	-	-	500	-	56,784	17,257	74,041
City services	-	-	-	-	-	-	-	6,210	-	54,726	-	54,726
Cost of concessions	-	-	-	-	-	-	-	4,766	-	49,367	-	49,367
Total functional expenses	2,500	254,798	81,805	432,734	1,711	25,000	26,991	37,232	23,350	2,954,102	694,195	3,648,297
	<u>\$ (2,500)</u>	<u>\$ 18,615</u>	<u>\$ (2,001)</u>	<u>\$ 244,225</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,041</u>	<u>\$ (2,542)</u>	<u>\$ -</u>	<u>\$ 429,752</u>	<u>\$ (455,585)</u>	<u>\$ (25,833)</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities	
Change in net assets	\$ (25,833)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	75,059
Changes in operating assets and liabilities	
Contracts receivable	(68,888)
Accounts receivable	37,501
Prepaid expenses	(1,516)
Accounts payable	(24,684)
Sales tax payable	(2,964)
Accrued expenses	(25,219)
Deferred revenue	<u>39,337</u>
Net cash provided by operating activities	<u>2,793</u>
Cash flows from investing activities	
Payments made for purchase of property and equipment	<u>(48,964)</u>
Net cash used in investing activities	<u>(48,964)</u>
Cash flows from financing activities	
Principal payments on mortgage payable	<u>(10,526)</u>
Net cash used in financing activities	<u>(10,526)</u>
Net decrease in cash and cash equivalents	(56,697)
Cash and cash equivalents, beginning of year	<u>645,403</u>
Cash and cash equivalents, end of year	<u><u>\$ 588,706</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 8,113
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Supplemental schedule of noncash investing and financing activities

Equipment included in accounts payable	\$ 51,594
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See accompanying notes and independent accountant's review report.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2019

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. There are currently no net assets with donor restrictions. 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 without donor restrictions.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, Presentation of Financial Statements of Not-for-Profit ("NFP") Entities. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two: net assets with donor restrictions and net assets without donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the Association, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses.

The amendment in this ASU is effective for organizations with fiscal years beginning after December 15, 2017 and must be applied on a retrospective basis. The Association adopted the ASU effective July 1, 2018. The adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

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.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated materials and services

Donated materials and services, which management estimates at \$1,448,255 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, 2019 totaled \$75,059.

Personal time off

Personal time off, representing vacation and sick days earned, but not taken as of June 30, 2019, is included in "accrued expenses" in the statement of financial position. The balance as of June 30, 2019 totaled \$57,016.

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 has not been recognized as revenue as of June 30, 2019 since the conditions have not been substantially met.

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, 2019

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, 2016 and beyond remain subject to possible examination by the Internal Revenue Service. The Association's California returns for the years ended June 30, 2015 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, 2019 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, 2019. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 27, 2019.

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, 2019

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

For the year ended June 30, 2019, a budget of \$760,000 was approved by the City of San Jose. During the year ended June 30, 2019, the City collected \$726,072 of BID assessments. During the year, \$719,000 was expended by the Association of which \$181,490 had not been reimbursed by the City as of June 30, 2019.

There is a balance of funds remaining in the separate City of San Jose BID account as of June 30, 2019 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, 2019 which will be recognized as revenue in the year ending June 30, 2020.

A budget of \$770,000 has been approved by the City for the fiscal year ending June 30, 2020.

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 \$560,350 of reimbursements for the year ended June 30, 2019.

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, 2019 was \$766,136.

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, 2019, the Association earned revenue from this agreement totaling \$343,959.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2019

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, 2019, the Association was reimbursed \$233,000 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, 2019, 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	\$ 1,248,170
Office condominium	370,612
Office and computer equipment	<u>180,943</u>
	1,799,725
Accumulated depreciation	<u>(1,411,122)</u>
	<u>\$ 388,603</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, 2019, the Association has made four installment payments totaling \$63,546 (see Note 10).

8. DEFERRED REVENUE

Deferred revenue consisted of the following:

BID	\$ 237,997
Other	<u>182,518</u>
	<u>\$ 420,515</u>

San Jose Downtown Association
Notes to Financial Statements
June 30, 2019

9. CONCENTRATION OF ACTIVITIES

The Association earned \$1,412,700 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, 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, 2019, the remaining unpaid balance was \$51,594.

The future installments are due as follows:

<u>Year ending June 30,</u>	
2020	\$ 37,749
2021	<u>13,845</u>
	<u>\$ 51,594</u>

11. MORTGAGE PAYABLE

On April 28, 2009, the Association entered into a loan agreement with Wells Fargo Bank for \$250,000. Management refinanced the mortgage payable on January 20, 2012 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 \$178,185 at June 30, 2019.

The future maturities of the mortgage payable are as follows:

<u>Year ending June 30,</u>	
2020	\$ 10,979
2021	11,494
2022	12,011
2023	12,552
2024	13,102
Thereafter	<u>118,047</u>
	<u>\$ 178,185</u>

San Jose Downtown Association
Notes to Financial Statements
June 30, 2019

12. LINE OF CREDIT

The Association has an agreement for a revolving line of credit with Wells Fargo Bank for a maximum amount of \$150,000. Interest is computed at the Bank's prime rate plus 1.11% 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.

The line of credit was not accessed during the year ended June 30, 2019.

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, 2019 totaled \$28,228.

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, 2019, the Association paid a special assessment in the amount of \$10,803 on March 10, 2019. The SJDA Executive Director is a member of the CBOA board.

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, 2019 totaled \$4,260.

San Jose Downtown Association
Notes to Financial Statements
June 30, 2019

15. OPERATING LEASE COMMITMENTS (continued)

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

<u>Year ending June 30,</u>	
2020	\$ 4,260
2021	<u>1,420</u>
	<u><u>\$ 5,680</u></u>

16. LIQUIDITY

The following is a quantitative disclosure describing financial assets that are available within one year of June 30, 2019 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 588,706
Accounts receivable	50,021
Contracts receivable - BID	181,490
Contracts receivable - City of San Jose	31,889
Contracts receivable - PBID	<u>286,959</u>
	<u><u>\$ 1,139,065</u></u>

The Association had \$1,139,065 of financial assets available at June 30, 2019 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 12, 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, 2019

	<u>Total</u>	<u>San Jose Downtown Association Fund</u>	<u>Business Improvement District Fund</u>
Salaries and payroll taxes	\$ 344,881	\$ 164,881	\$ 180,000
Employee benefits	131,068	101,068	30,000
Building expenses	77,273	77,273	-
Professional services	45,428	45,428	-
Miscellaneous	20,417	20,417	-
Insurance	17,257	17,257	-
Utilities	15,118	15,118	-
Office equipment	12,746	12,746	-
Dues and conferences	11,262	11,262	-
Meeting/hospitality	9,778	9,778	-
Office supplies	7,459	7,459	-
Postage/ mailing service	1,508	1,508	-
	<u>\$ 694,195</u>	<u>\$ 484,195</u>	<u>\$ 210,000</u>