

GASLAMP QUARTER ASSOCIATION
Financial Statements
For the Year Ended June 30, 2020
And
Independent Auditors' Report

GASLAMP QUARTER ASSOCIATION
Financial Statements
June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Gaslamp Quarter Association

We have audited the accompanying financial statements of Gaslamp Quarter Association (a Non-Profit Association), which comprise of the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for 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 Gaslamp Quarter Association as of June 30, 2020, and the changes in its net assets, and its cash flows for the year then ended in accordance to accounting principles generally accepted in the United States of America.



Guerrero, Jimenez, Diaz & Co LLP
Certified Public Accountants

San Diego, California
April 7, 2021

GASLAMP QUARTER ASSOCIATION
Statement of Financial Position
June 30, 2020

ASSETS

Current Assets:

Cash & Cash Equivalents	\$	59,102
Accounts Receivable		177,108
Prepaid Income Taxes		15,521
Loan Receivable		33,339
Allowance for Loan Receivable		(33,339)
Prepaid Expense		60,831
Total Current Assets		<u>312,562</u>

Fixed Assets

Office Furniture		21,398
Accumulated Depreciation		<u>(21,398)</u>
Net Fixed Assets		<u>-</u>

Total Assets	\$	<u>312,562</u>
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LIABILITIES AND NET ASSETS

Liabilities

Accounts Payable	\$	5,998
Accrued Expenses		3,677
Income Tax Payable		46,000
Total Liabilities		<u>55,675</u>

Net Assets

Without Donor Restrictions - Undesignated		256,887
With Donor Restrictions		-
Total Net Assets		<u>256,887</u>

Total Liabilities and Net Assets	\$	<u>312,562</u>
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The accompanying notes are an integral part of these financial statements.

GASLAMP QUARTER ASSOCIATION

Statement of Activities

For the Year Ended June 30, 2020

CHANGES IN UNRESTRICTED NET ASSETS:

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Governmental Funding:			
B.I.D.	\$ 68,327	\$ -	\$ 68,327
S.B.E.P. Management Grant	24,617	-	24,617
Parking District Grant	568,232	568,232	1,136,464
Tech. Asst./Accounting Grant	5,000	5,000	10,000
Net Assets Released from Restrictions	573,232	(573,232)	-
Total Government Funding	666,176	-	1,239,408
Special Events:			
Ticket Revenue	9,447	-	9,447
Product Sales/Auction	30,210	-	30,210
Vendor/Sponsor	132,100	-	132,100
Total Special Events	171,756	-	171,756
Other Revenue:			
Holiday Lighting / Banner (net)	50,850	-	50,850
Kiosk Advertising	245,430	-	245,430
Web Advertising	65,343	-	65,343
Public Pay Phone	980	-	980
Associated Membership	10,259	-	10,259
Sunday Market	100,948	-	100,948
Other Income	7,671	-	7,671
Total Other Revenue	481,481	-	481,481
Total Revenue	1,319,413	-	1,892,645
Operating Expenses:			
Program	1,106,212	-	1,106,212
General & Administrative	250,107	-	250,107
Total Operating Expenses	1,356,319	-	1,356,319
Increase/(Decrease) in Net Assets	(36,906)	-	(36,906)
Prior Period Adjustment to A/R	(2,060)	-	(2,060)
Net Assets, Beginning of Year	295,853	-	295,853
Net Assets, End of Year	\$ 256,887	-	\$ 256,887

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

GASLAMP QUARTER ASSOCIATION
Schedule of Functional Expenses
For the Year-Ended June 30, 2020

	Program	General & Administrative	Total
Accounting	\$ 15,182	\$ 10,121	\$ 25,303
Bad Debt	22,361	14,908	37,269
Bank Fees	4,427	2,951	7,378
Commissions	1,545	1,030	2,576
Dues/Memberships	5,730	3,820	9,550
Employee Benefits	31,609	21,073	52,682
Equipment Rent/Repairs/Minor Equipment	5,941	3,961	9,902
Income Tax	23,807	15,872	39,679
Insurance	5,343	3,562	8,905
Marketing	293,615	-	293,615
Meetings & Workshops	2,311	-	2,311
Miscellaneous	1,078	719	1,797
Office Supplies/Expense	1,835	1,223	3,058
Payroll Taxes & Fees	18,244	12,163	30,407
Penalties	342	228	570
Postage	801	534	1,336
Rent & Utilities	20,644	13,762	34,406
Salaries & Wages	213,029	142,019	355,048
Special Events	435,126	-	435,126
Telephone	3,241	2,161	5,402
Total Expenses	<u>\$ 1,106,212</u>	<u>\$ 250,107</u>	<u>\$ 1,356,319</u>

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

GASLAMP QUARTER ASSOCIATION
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash Flows From Operating Activities:	
Increase/(Decrease) in Net Assets	\$ (36,906)
Adjustments to Reconcile the Change in Net Assets to Net Cash Provided by Operating Activities:	
(Increase)/Decrease in Prepaid Income Taxes	(15,521)
(Increase)/Decrease in Accounts Receivable	(82,376)
(Increase)/Decrease in Loans Receivable	(875)
(Increase)/Decrease in Allowance for Loan Receivable	33,339
Increase/(Decrease) in Accounts Payable	5,998
(Increase)/Decrease in Prepaid Expenses	(58,250)
Increase/(Decrease) in Income Tax Payable	16,000
Decrease in Refundable Deposits Received	3,640
Total Adjustments	(98,045)
Net Cash Provided by Operating Activities	(134,951)
Cash Flows From Investing Activities	-
Cash Flows From Financing Activities	
Prior Period Adjustment	(2,060)
Net Increase/(Decrease) in Cash	(137,011)
Cash at Beginning of Period	196,113
Cash at End of Period	\$ 59,102

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

GASLAMP QUARTER ASSOCIATION
Notes to Financial Statements
June 30, 2020

NOTE 1 – Summary of Significant Accounting Policies

Nature of Association

Gaslamp Quarter Association (“the Association”) is a nonprofit consortium of local businesses organized pursuant to City Ordinance 15647 which established and defined a parking and business improvement area known as the Gaslamp Quarter Association under the provisions of the Parking and Business Improvement Area Law of the State of California and enabling ordinances of the City of San Diego for the purpose of promoting and fostering business conditions in the City of San Diego area commonly known as the Gaslamp Quarter located in San Diego's 16 1/2 block National Historic District.

Basis of Presentation

The financial statements of the Association have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require the Association to report information regarding its financial position and activities according for the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activity.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of less than three months to be cash equivalents. Cash and cash equivalents include cash in readily available checking accounts.

Measure of Operations

The statement of activity reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Association’s ongoing programs. Nonoperating activities are limited to resources that generate return from long-term investments and other activities considered to be of a more unusual or nonrecurring nature.

Property and Equipment

Property and equipment are recorded at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets, which are generally from 3 to 5 years. All property and equipment purchased by the Association with funds received from the City of San Diego are considered property of the City. If the agreement with the City of San Diego is terminated for any reason, the Association is required to deliver such assets to the City of San Diego.

Functional Allocation of Expenses

The statement of functional expenses presents expense by function and natural classification. Expenses directly attributable to a specific functional area of the Association are reported as expenses of those functional areas. A portion of costs that benefit multiple functional areas (indirect costs) have been allocated across programs and supporting services based on the full-time employee equivalents of programs or supporting service.

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, ("ASU") Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU amends the current nonprofit reporting model and enhances nonprofit Associations required disclosures. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Association has adjusted the presentation of these statements accordingly.

Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Association recognizes in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after that date and before the financial statements are available to be issued.

The Association has evaluated subsequent events through April 7, 2021, which is the date the financial statements are available for issuance and concluded that there were no events or transactions that needed to be disclosed.

In early 2020, the Association was directly impacted by the coronavirus outbreak (COVID-19). On January 31, 2020, U.S. Health and Human Services Secretary declared a public health emergency for the United States. In March 2020, the Governor of California announced that all nonessential businesses were required to shut down operations for a few weeks, with the exception of take-out and delivery services which were allowed to continue.

In response to the Governor's order, the Association was affected as mentioned in the following:

Events cancelled or postponed, resulting in loss of revenues:

<u>Event</u>	<u>Approximate Loss of Revenues</u>
Artisan Market	\$10,000
Taste of Gaslamp	30,000
Gaslamp Gala	35,000
Pet Parade	2,000
	<u>77,000</u>

Programs & Grants, resulting in loss of revenues:

Banner Program	\$45,000
Kiosk Advertising	26,000
BID Assessments	10,000
	<u>81,000</u>

Staff Layoffs:

On March 23, 2020, the Association had to lay off one staff members to reduce \$52,000 in salaries expense. On January 4, 2021, the Association laid off one staff member to reduce \$80,000 in salaries expense.

Income Taxes

The Association was organized as a non-profit Association under section 501(c)(6) of the Internal Revenue Code and similar California law, and is not subject to income taxes on related business income, however, it is subject to income taxes and unrelated business income (See Note 7).

The Financial Accounting Standards Board (FASB) issued Accounting Standards codification No. 740-10, Accounting for Uncertainties in Income Tax, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The Association has reviewed its positions for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from these estimates.

NOTE 2 - Revenues

The Association is funded in part by the City of San Diego through a Business Improvement District ("BID") and a Parking and Small Business Enhancement Program ("SBEP") grants. For the BID, the City of San Diego receives the funds as a special assessment collected together with business licensing fees from businesses located within the District. In addition, the Association holds special fund raising events to promote the business environment in the area, and also generates income from advertising and public pay phones.

NOTE 3 - Accounts Receivable

The total balance in accounts receivable is comprised of:

Parking District Grant	\$ 127,810
SBEP Receivable	2,606
Customers & Members	<u>46,692</u>
Total	<u>177,108</u>

Note 4 – Prepaid Expense

As of June 30, 2020, the Association prepaid expense is comprised of:

Prepaid Parking – Project Expenses	\$58,250
Prepaid Insurance	<u>2,581</u>
Total	<u>60,831</u>

The Prepaid Parking project expenses represent disbursements made for services/goods to be received during fiscal year ending June 30, 2021 and to be reimbursed with Parking Grant income in fiscal year ending June 30, 2021. During the fiscal year ended on June 30, 2020, there were services/goods received of \$20,232 which will be reimbursed with the Parking Grant income in fiscal year ending on June 30, 2021.

NOTE 5 – Loan Receivable

In January 2017, the Gaslamp Quarter Association loaned \$32,464 plus an IRS Non Profit Fee of \$875 for a total of \$33,339 to the Gaslamp Quarter Alliance, a 501(c)3, nonprofit corporation. The Gaslamp Quarter Alliance agreed to repay the loan within a reasonable amount of time but not to exceed a 3-year term ending January 1, 2020. The Gaslamp Quarter Association will waive any interest on this loan on good faith for an agreement of repayment. The Association and Gaslamp Quarter Alliance has a Executive Director and one Board Member in common. As of June 30, 2020, the loan has not been repaid and the Association management has decided to record an Allowance for Doubtful Collection of the loan receivable since it seems most likely that this loan will not be collected.

NOTE 6 – Lease Agreement

The facility at 614 Fifth Avenue, Suite F, San Diego, California 92101 lease was renewed on November 1, 2018 when the Association exercised the option to extend the term for a period of three years through October 31, 2021. At June 30, 2020, the monthly rent was \$2,550.

The monthly base rents during the extension term are as follows:

July 1, 2020 – June 30, 2021	\$31,600
July 1, 2021 – October 31, 2021	<u>10,600</u>
	<u>\$42,200</u>

NOTE 7 – Income Tax

For the year ended June 30, 2020, the Association was subject to income tax on unrelated business income, as follows:

Current Year Provision:

Federal Income Tax	\$32,000
State Income Tax	<u>14,000</u>
	<u>\$46,000</u>

Adjustments to Prior Year Provision:

Federal Income Tax	\$ (4,750)
State Income Tax	<u>(1,571)</u>
	<u>(6,321)</u>

Income Tax Expense

\$ 39,679

NOTE 8 – Net Assets without Donor Restrictions

The Association has undesignated Net Assets without donor restrictions of \$256,887 at June 30, 2020.

NOTE 9 – Liquidity and Availability of Resources

The Association's financial assets available for general expenditure, that is without donor restrictions limiting their use within one year of the statement of position date, are as follows:

Cash and cash equivalents	\$ 59,102
Accounts Receivable	<u>177,108</u>
Total financial assets available within one year	<u>236,210</u>

Less:

Amounts unavailable for general expenditures within one year due to:	
Restricted by donors with purpose restrictions	-
Amounts unavailable to management without Board of Directors approval:	-
Total financial assets available to management for General expenditure within one year	<u>\$ 236,210</u>

NOTE 10 – Pending Lawsuit

Gaslamp Quarter Association of San Diego, Inc. is one of the nonprofit association named as defendants in three lawsuits filed by San Diegans for Open Government (Plaintiff/Petitioner):

The first one was filed in 2014, an additional lawsuit was filed in 2015 which has been consolidated with the original 2014 lawsuit and is considered one lawsuit.

On June 6, 2018, a second lawsuit was filed to challenge the most recent fiscal year which is nearly exactly the same as the 2014 case. The Municipal Defendants have filed a motion with the court to narrow this case down to a single lawsuit (similar to the first case). The Municipal Defendants also filed a motion to consolidate this lawsuit with the 2014 case as it involves exactly the same issues.

The above lawsuits challenge Municipal Defendants' authorization of a variety of tax levies and collections labeled as "assessments" by Municipal Defendants in order to avoid public scrutiny without first obtaining the requisite approval of the voters of the City of San Diego, and the approval of the illegal tax and related contracts in violation of conflict-of-interest laws. Municipal Defendants deny that the challenged assessments are taxes within the relevant definition and that public approval of them is required.

On February 2018, San Diegans for Open Government filed a third lawsuit, petition for Writ of Mandate under the California Public Records Act and Other Laws. On April 19, 2019 the entire consolidated case was stayed pending before the California Supreme Court. As of October 19, 2018, the date the last status conference was held, this matter is still stayed, pursuant to the Court's agreement to stay the matter. A Case Management Conference was held on November 13, 2020 and the trial date is set for December 3, 2021.