

GASLAMP QUARTER ASSOCIATION
Financial Statements
For the Year Ended June 30, 2022
And
Independent Auditors' Report

GASLAMP QUARTER ASSOCIATION
Financial Statements
June 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Gaslamp Quarter Association

Opinion

We have audited the accompanying financial statements of Gaslamp Quarter Association (a Non-Profit Association), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gaslamp Quarter Association of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Gaslamp Quarter Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Gaslamp Quarter Association ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's

report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gaslamp Quarter Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Gaslamp Quarter Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Guerrero, Jimenez, Diaz & Co LLP

Guerrero, Jimenez, Diaz & Co LLP
Certified Public Accountants

San Diego, California
October 12, 2023

GASLAMP QUARTER ASSOCIATION

Statement of Financial Position

June 30, 2022

ASSETS

Current Assets:

| | |
|-------------------------|----------------|
| Cash & Cash Equivalents | \$ (10,424) |
| Accounts Receivable | 565,529 |
| Prepaid Income Taxes | 6,837 |
| Prepaid Expense | 9,802 |
| Total Current Assets | <u>571,744</u> |

Fixed Assets

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

Total Assets \$ 571,744

LIABILITIES AND NET ASSETS

Liabilities

| | |
|--------------------|---------------|
| Accounts Payable | \$ 1,054 |
| Income Tax Payable | <u>69,000</u> |
| Total Liabilities | <u>70,054</u> |

Net Assets

| | |
|---|----------------|
| Without Donor Restrictions - Undesignated | 501,690 |
| Total Net Assets | <u>501,690</u> |

Total Liabilities and Net Assets \$ 571,744

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

GASLAMP QUARTER ASSOCIATION

Statement of Activities

For the Year Ended June 30, 2022

CHANGES IN UNRESTRICTED NET ASSETS:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|------------|
| Revenue: | | | |
| Governmental Funding: | | | |
| B.I.D. | \$ 68,210 | \$ - | \$ 68,210 |
| S.B.E.P. Management Grant | - | 16,555 | 16,555 |
| Parking District Program | 683,870 | - | 683,870 |
| Net Assets Released from Restrictions | 16,555 | (16,555) | - |
| Paycheck Protection Program | - | - | - |
| Total Government Funding | 768,635 | - | 768,635 |
| Special Events: | | | |
| Ticket Revenue | 17,112 | - | 17,112 |
| Product Sales/Auction | - | - | - |
| Vendor/Sponsor | 1,500 | - | 1,500 |
| Shamrock Event | - | - | - |
| Miscellaneous | - | - | - |
| Total Special Events | 18,612 | - | 18,612 |
| Other Revenue: | | | |
| Holiday Lighting / Banner (net) | 152,520 | - | 152,520 |
| Kiosk Advertising | 312,000 | - | 312,000 |
| Web Advertising | 31,400 | - | 31,400 |
| Tech. Assistance | 5,000 | - | 5,000 |
| Associated Membership | 3,644 | - | 3,644 |
| Sunday Market | 151,920 | - | 151,920 |
| Other Income | 48,278 | - | 48,278 |
| Total Other Revenue | 704,762 | - | 704,762 |
| Total Revenue | 1,492,009 | - | 1,492,009 |
| Operating Expenses: | | | |
| Program | 1,072,113 | - | 1,072,113 |
| General & Administrative | 132,430 | - | 132,430 |
| Total Operating Expenses | 1,204,543 | - | 1,204,543 |
| Other Expense: | | | |
| Income Tax Expense | 80,778 | - | 80,778 |
| Increase/(Decrease) in Net Assets | 206,688 | - | 206,688 |
| Net Assets, Beginning of Year | 295,002 | - | 295,002 |
| Net Assets, End of Year | \$ 501,690 | - | \$ 501,690 |

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

GASLAMP QUARTER ASSOCIATION
Schedule of Functional Expenses
For the Year-Ended June 30, 2022

| | Program | General & Administrative | Total |
|--|----------------------------|-----------------------------|----------------------------|
| Accounting | \$ 14,659 | \$ 9,773 | \$ 24,432 |
| Bank Fees | 494 | 329 | 823 |
| Bad Debt | 5,508 | 3,672 | 9,180 |
| Dues/Memberships | 180 | 120 | 300 |
| Employee Benefits | 13,525 | 9,016 | 22,541 |
| Equipment Rent/Repairs/Minor Equipment | 3,817 | 2,545 | 6,362 |
| Insurance | 18,523 | 12,348 | 30,871 |
| Legal & Professional | 47,100 | - | 47,100 |
| Marketing | 313,868 | - | 313,868 |
| Meetings & Workshops | 10,424 | - | 10,424 |
| Miscellaneous | 1,677 | 1,118 | 2,795 |
| Office Supplies/Expense | 1,858 | 1,239 | 3,097 |
| Payroll Taxes & Fees | 8,536 | 5,690 | 14,226 |
| Rent & Utilities | 21,502 | 14,334 | 35,836 |
| Salaries & Wages | 99,209 | 66,140 | 165,349 |
| Special Events | 502,076 | - | 502,076 |
| | 4,584 | 3,056 | 7,640 |
| Telephone | 4,574 | 3,049 | 7,623 |
| Total Expenses | <u>\$ 1,072,113</u> | <u>\$ 132,430</u> | <u>\$ 1,204,543</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, 2022

| | |
|--|---------------------------|
| Cash Flows From Operating Activities: | |
| Increase/(Decrease) in Net Assets | \$ 206,688 |
| Adjustments to Reconcile the Change in Net Assets to Net Cash Provided by Operating Activities: | |
| (Increase)/Decrease in Accounts Receivable | (388,083) |
| Increase/(Decrease) in Accounts Payable | (5,981) |
| Increase/(Decrease) in Income Tax Payable | 30,000 |
| Increase/(Decrease) in Accrued Expenses | <u>(83,500)</u> |
| Total Adjustments | <u>(447,683)</u> |
| Net Cash Provided/(Used) by Operating Activities | <u>(240,995)</u> |
| Cash Flows From Investing Activities | - |
| Cash Flows From Financing Activities | - |
| Net Increase/(Decrease) in Cash | <u>(240,995)</u> |
| Cash at Beginning of Period | <u>230,571</u> |
| Cash at End of Period | <u><u>\$ (10,424)</u></u> |

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

GASLAMP QUARTER ASSOCIATION

Notes to Financial Statements

June 30, 2022

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 Association 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 October 12, 2023, which is the date the financial statements are available for issuance

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 8).

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 the Parking, Business Improvement District ("BID"), 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 – Cash

The cash account has a negative (10,424) at June 30, 2022 due to the fact that checks were written out at fiscal year end and not cashed until the following month. The cash account has a low balance at year end because the City of San Diego had a delay in their grants disbursements due to departmental changes.

NOTE 4 - Accounts Receivable

The total balance in accounts receivable is comprised of:

| | |
|------------------------|--------------|
| Parking District Grant | \$ 490,210 |
| Programs | 72,946 |
| SBEP Receivable | <u>2,373</u> |
| Total | \$565,529 |

Note 5 – Prepaid Expense

As of June 30, 2022, the Association prepaid expense is comprised of \$9,802 prepaid insurance.

Note 6 – Prepaid Income Taxes

As of June 30, 2022, the Association prepaid income taxes is comprised of;

| | |
|--------------------------------|-----------------|
| California State Prepaid Taxes | \$ 6,458 |
| Federal Prepaid Taxes | <u>379</u> |
| | <u>\$ 6,837</u> |

NOTE 7 – Loan Receivable

In January 2017, the Association loaned \$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, 2022, 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 8 – Income Tax Payable

As of June 30, 2022, the Association income tax payable is comprised of;

| | |
|-----------------------------|-----------------|
| Federal Income Tax Payable | \$47,000 |
| CA State Income Tax Payable | <u>22,000</u> |
| | <u>\$69,000</u> |

NOTE 9 – Lease Agreement

The facility at 614 Fifth Avenue, Suite F, San Diego, California 92101 lease was renewed on November 1, 2021 when the Association exercised the option to extend the term for a period of five years through October 31, 2026. At June 30, 2022, the monthly rent was \$2,700. See Note 12 for Lease Commitment.

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

| | |
|--------------------------------------|-------------|
| November 1, 2021 -- October 31, 2022 | \$2,700/mo. |
|--------------------------------------|-------------|

| | |
|-------------------------------------|-------------|
| November 1, 2022 – October 31, 2023 | \$2,750/mo. |
| November 1, 2023 – October 31, 2024 | \$2,800/mo |
| November 1, 2024 – October 31, 2025 | \$2,850/mo. |
| November 1, 2025 – October 31, 2026 | \$2,900/mo. |

NOTE 10 – Income Tax

For the year ended June 30, 2022, the Association was subject to income tax on unrelated business income, as follows:

| | |
|--------------------------------------|------------------|
| Current Year Provision: | |
| Federal Income Tax | \$ 47,000 |
| State Income Tax | <u>22,000</u> |
| | \$69,000 |
| Adjustments to Prior Year Provision: | |
| Federal Income Tax | \$ 9,096 |
| State Income Tax | <u>2,687</u> |
| | 11,783 |
| Income Tax Expense | <u>\$ 80,783</u> |

NOTE 11 – Net Assets without Donor Restrictions

The Association has undesignated Net Assets without donor restrictions of \$575,921 at June 30, 2022.

NOTE 12 – 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 | \$(10,424) |
| Accounts Receivable | <u>565,529</u> |
| Total financial assets available within one year | <u>\$555,105</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>\$ 555,105</u> |

NOTE 13 – Lease Commitment

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

| | |
|-------------------------------------|----------|
| November 1, 2021 – October 31, 2022 | \$32,400 |
|-------------------------------------|----------|

| | |
|--------------------------------------|------------------|
| November 1, 2022 – October 31, 2023 | 33,000 |
| November 1, 2023 – October 31, 2024 | 33,600 |
| November 1, 2024 – October 31, 2025 | 34,200 |
| November 1, 2025 -- October 31, 2026 | <u>34,800</u> |
| | <u>\$168,000</u> |

NOTE 14 – 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 (SDOG) filed a third lawsuit, petition for Writ of Mandate under the California Public Records Act and Other Laws. On April 19, 2018 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. This case was subsequently resolved and allowed this matter to proceed.

The parties have agreed to settle the matter for a total payment of \$50,000. With the City of San Diego taking on a disproportionate share, each BID will pay on average \$2,529. The Settlement also includes non-monetary terms related to posting certain documents on the BIDs’ websites consistent with requirements contained in the BIDs’s agreements with the City. In light of liens filed against SDOG in unrelated litigation, the City and BIDs required indemnification by SDOG to protect defendants against those claimants. The Parties have recently come to a favorable settlement, with the Association paying \$2,529 on March 31, 2022.

In July of 2021, the Association was a defendant of an unsubstantiated wrongful termination lawsuit from a disgruntled employee. The lawsuit was settled out of court in January of 2022 for an amount of \$124,000, of which the insurance company paid \$42,000 and the Association paid \$82,000.