

BONK, CUSHMAN, EAGLE & GARCIA

CERTIFIED PUBLIC ACCOUNTANTS

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AN ACCOUNTANCY CORPORATION

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OCEAN BEACH MERCHANT'S ASSOCIATION INC. dba OCEAN BEACH MAINSTREET ASSOCIATION

AUDITED FINANCIAL STATEMENTS JUNE 30, 2021

	<u>Page</u>
TABLE OF CONTENTS	
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7-15

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Ocean Beach Merchant's Association, Inc. dba Ocean Beach Mainstreet Association

We have audited the accompanying financial statements of Ocean Beach Merchant's Association, Inc., dba Ocean Beach Mainstreet Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, 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.

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 Ocean Beach Merchant's Association, Inc., dba Ocean Beach Mainstreet 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.

Bonk, Cushman, Eagle & Garcia

Bonk, Cushman, Eagle & Garcia

September 28, 2021

OCEAN BEACH MERCHANT'S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS

CURRENT ASSETS:	
Cash	\$ 335,603
Accounts receivable	40,390
Assessment receivable	12,459
Grant receivable	5,650
Prepaid insurance	3,702
Inventories	15,712
Total current assets	413,516
 PROPERTY AND EQUIPMENT (at cost):	
Equipment and furniture	25,584
Computer equipment	6,460
Leasehold improvements	10,950
Website	7,250
Accumulated depreciation	(40,188)
Total property and equipment	10,056
OTHER ASSETS: Security deposit	800
TOTAL ASSETS	\$ 424,372

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 4,712
Credit card payable	2,400
Accrued compensation	14,852
Sales tax payable	683
Deferred revenue	12,398
Total current liabilities	35,045
 LONG TERM LIABILITIES:	
SBA EIDL & PPP loans	195,530
TOTAL LIABILITIES	\$ 230,575
 NET ASSETS:	
Net assets with donor restrictions	\$ 2,775
Net assets without donor restriction, non-designated	191,022
Total net assets	193,797
TOTAL LIABILITIES AND NET ASSETS	\$ 424,372

The Accompanying Notes are an Integral Part of the Financial Statements

OCEAN BEACH MERCHANT'S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2021

	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND OTHER SUPPORT:			
Assessment income - BID	\$ 26,253	\$ -	\$ 26,253
Grant income	71,538	-	71,538
Maintenance Assessment District Agreement	70,663	-	70,663
Contributions	13,072	2,775	15,847
Special events income	353,258	-	353,258
Membership dues	8,135	-	8,135
Promotional items income	49,089	-	49,089
Interest income	106	-	106
Placed into program restrictions	-	-	-
Total revenues and other support	<u>592,114</u>	<u>2,775</u>	<u>594,889</u>
EXPENSES:			
Organization	113,072	-	113,072
Clean & Safe	24,044	-	24,044
Improvements	41,169	-	41,169
Maintenance Assessment District	70,663	-	70,663
Marketing	113,676	-	113,676
Farmer's Market	117,642	-	117,642
Street Fair	39,982	-	39,982
Oktoberfest	168	-	168
Total expenses	<u>520,416</u>	<u>-</u>	<u>520,416</u>
Change in net assets	71,698	2,775	74,473
NET ASSETS - BEGINNING	<u>119,324</u>	<u>-</u>	<u>119,324</u>
NET ASSETS - ENDING	<u>\$ 191,022</u>	<u>\$ 2,775</u>	<u>\$ 193,797</u>

The Accompanying Notes are an Integral Part of the Financial Statements

OCEAN BEACH MERCHANT'S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Organization	Clean & Safe	Improvements	MAD	Marketing	Farmer's Market	Street Fair	Oktoberfest	Total
Accounting	\$ 10,631	\$ 367	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,998
Advertising	-	35	-	-	5,213	-	1,554	-	6,802
Annual awards celebration	-	-	-	-	96	-	-	-	96
Awards and plaques	1,841	-	-	-	-	-	223	-	2,064
Bad debt	135	300	100	-	136	-	-	-	671
Bank charges/merchant fees	304	325	1,520	-	2,389	40	220	-	4,798
Banner program	-	-	4,784	-	-	-	-	-	4,784
Contract labor	-	1,000	5,941	-	8,000	-	3,000	-	17,941
Depreciation	3,837	-	-	-	-	-	-	-	3,837
Donations	500	-	-	-	-	-	-	-	500
Dues and subscriptions	4,465	201	37	-	539	-	127	-	5,369
Equipment rentals	3,092	-	-	-	-	459	2,880	-	6,431
Event entertainment	-	-	-	-	-	-	1,745	-	1,745
Event/project supplies	12	385	385	-	342	1,677	1,372	-	4,173
Event services	11	-	1,200	-	2,344	9,896	4,180	-	17,631
Holiday decorations	-	-	1,543	-	-	-	-	-	1,543
Landscaping	-	-	-	9,900	-	-	-	-	9,900
Insurance	14,468	-	839	-	-	3,647	-	-	18,954
Interest expense	4,311	-	-	-	-	-	-	-	4,311
Licenses and permits	762	-	-	-	-	1,696	2,035	-	4,493
Management fees	-	-	-	-	-	51,530	-	-	51,530
Meetings expense	16	-	-	-	-	-	-	-	16
Miscellaneous	312	-	-	-	(48)	-	-	-	264
Office expense	1,906	63	44	-	201	156	23	-	2,393
Payroll expense	40,992	15,182	12,944	10,075	48,105	36,278	11,048	156	174,780
Payroll tax expense	2,736	1,211	1,767	56	3,828	2,784	1,024	12	13,418
Postage and delivery	375	-	-	-	960	-	-	-	1,335
Printing and reproduction	112	132	54	-	217	425	266	-	1,206
Promotion supplies	-	40	-	-	13,601	-	1,272	-	14,913
Rent	11,280	-	-	-	-	-	2,160	-	13,440
Repair and maintenance	620	900	9,588	25,173	-	-	80	-	36,361
Security	-	3,150	-	2,395	-	8,923	4,860	-	19,328
Telephone and communications	5,638	-	360	-	360	-	-	-	6,358
Trash removal	1,115	63	63	22,400	-	69	1,913	-	25,623
Utilities	1,471	-	-	664	-	62	-	-	2,197
Website - web cam	2,130	690	-	-	27,393	-	-	-	30,213
Total expenses	\$ 113,072	\$ 24,044	\$ 41,169	\$ 70,663	\$ 113,676	\$ 117,642	\$ 39,982	\$ 168	\$ 520,416

The Accompanying Notes are an Integral Part of the Financial Statements

OCEAN BEACH MERCHANT'S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 74,473
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,837
(Increase) decrease in assets:	
Accounts receivable	(39,487)
Assessment receivable	1,091
Grant receivable	3,350
Prepaid insurance	2,864
Prepaid expense	609
Inventories	(3,923)
Increase (decrease) in liabilities:	
Accounts payable	4,562
Insurance payable	(3,661)
Credit card payables	1,252
Accrued compensation	4,558
Sales tax payable	550
Deferred revenue	(5,491)
NET CASH PROVIDED BY OPERATING ACTIVITIES	44,584
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Website improvements capitalized	(1,950)
NET CASH (USED) BY INVESTING ACTIVITIES	(1,950)
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from SBA EIDL & PPP loans	45,530
NET CASH PROVIDED BY FINANCING ACTIVITIES	45,530
 NET INCREASE IN CASH	 88,164
 CASH AT BEGINNING OF YEAR	 247,439
 CASH AT END OF YEAR	 \$ 335,603

The Accompanying Notes are an Integral Part of the Financial Statements

OCEAN BEACH MERCHANT'S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 1. Nature of Organization

The Ocean Beach Merchant's Association, Inc. dba Ocean Beach Mainstreet Association (the Association) is a nonprofit association that manages the Business Improvement District which is comprised of local businesses in the community of San Diego known as Ocean Beach. The purpose of the Association is to promote economic development in the community by providing a platform for area businesses to develop marketing campaigns, enhance public improvements, beautification projects, and area maintenance.

Currently, the Association administers the Ocean Beach Business Improvement District and the Newport Avenue Maintenance Assessment District funds, overseen by the City of San Diego. These Districts include over 700 businesses and property owners in San Diego. The Association's Board of Directors includes owners of businesses or property located within the Improvement or Maintenance Assessment Districts as well as Associate members.

The Association's committees include promotion, economic vitality, design, and organization. Association members receive monthly newsletters, an annual report, and participation in the online business directory. Various promotional materials are available to members and the general public as well as visitors. In addition, the Association oversees the maintenance including landscaping, litter control, illegal dump removal, graffiti control, sidewalk safety hazard monitoring, and lighting services for Newport Avenue mostly through the Maintenance Assessment District. Many of these services are provided under contract with Naturescape, Inc.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting: The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Accounting Pronouncements Adopted: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which entities expect to be entitled in exchange for those goods or services. The update also requires additional disclosure to enable readers of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Association adopted this update, along with all subsequent amendments (collectively, "ASC 606") in the year ending June 30, 2021, under the modified retrospective method. Additionally, the Association applied the practical expedient (i) to account for revenues with similar characteristics as a collective group rather than individually, (ii) to not adjust the transaction price for the effects of significant financing components (if any), and (iii) to not disclose the transaction price allocated to unsatisfied or partially unsatisfied performance obligations as of the end of the reporting period when the performance obligations related to contracts with an expected duration of less than one year. The effect of the Association's adoption of ASC 606 is outlined below.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 2. Summary of Significant Accounting Policies, continued

Accounting Pronouncements Adopted, continued: In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarified and improved current guidance by providing criteria for determining whether a nonprofit is receiving commensurate value in return for the resources transferred. The outcome of the analysis determines whether the contract or grant constitutes either a contribution or an exchange transaction (i.e., ASC 606). The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The Association adopted this update on a prospective basis and the effects of the adoption are outlined below.

The effect of ASC 606 and ASU 2018-08 on the Association's financial statements were examined in conjunction with one another. The Association's revenue-producing arrangements do not meet the definition of a contract under ASC 606, as the arrangement does not have commercial substance and does not meet the definition of an exchange transaction under the clarified guidance in ASU 2018-08. The Association reassessed the nature of its revenue-producing arrangements to ensure alignment with the definition of a contract under ASC 606 and exchange transaction under ASU 2018-08. The following changes in accounting policies occurred during the year ended June 30, 2021, as a result of the implementation of the ASC 606 and ASU 2018-08.

- Contribution and government grant and contract revenue were accounted for under ASC 958-605, *Not-For-Profit Entities, Revenue Recognition*, before the implementation of the new standards. With the clarifications outlined in ASU 2018-08, Association management reviewed existing agreements as of the effective date, as well as new agreements in 2021, and concluded that there are no material changes in revenue related to contributions and grants.

Basis of Presentation: The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and with the provisions of the FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: net assets without donor restrictions are the net assets that are neither invested in perpetuity, nor purpose or time restricted by donor-imposed stipulations.

Net assets with donor restrictions: net assets with donor-imposed restrictions are the net assets that are contributions subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature that either expire by the passage of time or can be fulfilled and removed by action of the Association pursuant to these stipulations. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents: The Association has defined cash and cash equivalents as cash in banks and money market accounts with an initial maturity of three months or less.

Receivables: Accounts, assessments, and grants receivable are stated at the amount management expects to collect from outstanding balances. The majority of the Association's receivables is comprised of agreements, or grants with the City of San Diego and is deemed fully collectable. No allowance for doubtful accounts is considered necessary.

Inventories: Inventories of merchandise purchased for resale are stated at lower of cost or market determined by the first-in, first-out (FIFO) method.

Property and Equipment: The cost of the Association's website, computer equipment, furniture and office equipment, and leasehold improvements greater than \$500 are capitalized and depreciated using the straight-line method over 3, 5, and 7 years, respectively. Expenditures for major renewals and betterments that extend the useful lives of property are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense totaled \$3,837 for the year ended June 30, 2021.

Use of Estimates: The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Revenue: The Association provides several events for the community which helps to further the Association's purpose by increasing the visibility of the Ocean Beach Community throughout the San Diego region. Special events include a weekly Farmers Market, an annual Street Fair, and several other events. The Association also sells Ocean Beach promotional items on the website which highlight the best aspects of Ocean Beach.

Additional revenues are received from grants and agreements with the City and County of San Diego, including an agreement with the Landscape Maintenance District of the City of San Diego whereby the Association provides sidewalk cleaning, trash collection, other landscape maintenance and repair, graffiti control, and lighting services within the Newport Avenue Maintenance Assessment District. As a Business Improvement District, the Association receives some of its revenue from assessments levied on businesses within the district pursuant to the Parking and Business Improvement Area Law of 1979. While the Association solicits funds in the form of donations and sponsorships from local business, the Association does not conduct fund raising campaigns aimed at the general public. Funds from the Friends of Ocean Beach campaign through The Peninsula Alliance, a 501(c)(3), are received and used for additional cleaning, trash pick-up, maintenance, holiday decorations and street banners for the Ocean Beach commercial districts.

Donated Materials and Services: Donated materials and services are recognized as contributions if the materials or services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Association. A number of unpaid volunteers have made contributions of their time to develop and support the Association's programs. The value of the contributed time is not reflected in the financial statements, as it is not susceptible to objective measurement or valuation. No donated services were recorded as of June 30, 2021.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 2. Summary of Significant Accounting Policies, continued

Functional Allocation of Expenses: Expenses consist of costs related to promoting economic development in the community by developing marketing campaigns, enhancing public improvements, performing beautification projects, providing area maintenance, and event production. These costs have been summarized on a functional basis in the Statement of Functional Expenses. Costs are directly charged to the functions they benefit. Facility related expenses are minimal and as such the Association does not allocate facility related expenses.

Income Taxes: The Association is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code and Section 23701(e) of the California Revenue and Taxation Code. In addition, the Internal Revenue Service determined that the Association is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Association may be subject to income taxes on any unrelated business income over \$1,000. There was no unrelated business income for the year ended June 30, 2021.

The Association follows the guidance of ASC 740, *Accounting for Income Taxes*, related to tax positions taken or expected to be taken on a tax return. All significant tax positions have been considered by management. It has been determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities. Accordingly, no provision for income taxes has been recorded. The Association's tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are filed and a period of four years for California taxing authorities.

Fair Value Measurements and Financial Instruments

The Fair Value Measurements and Disclosure Topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The Fair Value Measurement and Disclosure Topic establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. These three general valuation techniques that may be used to measure fair value are as follows: Market approach (Level 1) – which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sales transactions, market trades, or other sources; Cost approach (Level 2) – which is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and the Income approach (Level 3) – which uses valuation techniques to convert future amounts to a single present amount based on current market expectations about future amounts (including present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

The carrying value of cash, accounts receivable, assessments receivable, grants receivable, accrued liabilities, and deferred revenue are stated at carrying cost as of June 30, 2021, which approximates fair value due to the relatively short maturity of these instruments.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 3. Accounts, Assessments, and Grants Receivable

The balance in accounts receivable as of June 30, 2021, is as follows:

Employee Retention Tax Credit receivable	\$ 40,030
Membership income receivable	<u>360</u>
	<u>\$ 40,390</u>

The balance in assessment receivable of \$12,459 as of June 30, 2021, represents unpaid claims submitted to the City of San Diego under the Landscape and Maintenance District and the Business Improvement District agreements.

The balance in grants receivable of \$5,650 as of June 30, 2021, represents unpaid claims submitted to the BID Alliance and the City of San Diego under the Community Projects, Programs, and Services (CPPS) program.

Note 4. Compliance with Agreements with the City of San Diego for the year ended June 30, 2021

Business Improvement District (BID)

The Association has entered into a Management Agreement with the City of San Diego (City) whereby the Association is to provide management of the Ocean Beach Business Improvement District (OBBID) in return for reimbursement of costs associated with the management of OBBID. Cost shall not exceed the budget amount, calculated as a percentage of total assessments collected from businesses located within the OBBID. The City has required specific compliance to be maintained as terms of the agreement. In the event of non-compliance, the BID funds previously reimbursed may be required to be returned and the agreement may not be renewed for future years.

The Association is in compliance with the terms of the agreement.

STATEMENT OF EXPENDITURES FOR THE CITY OF SAN DIEGO BID AGREEMENT
FOR THE YEAR ENDED JUNE 30, 2021

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
Carryover from prior year	\$ 795	\$ 1,000	\$ (205)
Assessments collected	25,458	26,555	(1,097)
Expenses: promotion/website	<u>(26,253)</u>	<u>(27,555)</u>	<u>1,302</u>
Change in fund balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 4. Compliance with Agreements with the City of San Diego for the year ended June 30, 2021, continued

Maintenance Assessment District (MAD)

The Association has entered into a Maintenance Agreement with the City of San Diego (City) whereby the Association is to provide administration of maintenance services to the Newport Avenue Maintenance Assessment District (District) in return for reimbursement of funds by the City. The City has required specific compliance to be maintained as terms of the agreement. In the event of non-compliance, the MAD funds previously reimbursed may be required to be returned and the agreement may not be renewed for future years.

For the year ended June 30, 2021, the Association incurred \$70,663 of expenses for contract services (maintenance, landscaping, and trash services) and utilities and submitted \$70,663 for reimbursement under the terms of the agreement.

The Association is in compliance with the terms of the agreement.

Note 5. Accrued Compensation

The Association calculates accrued compensation based on vested but unused vacation for each employee at their current rate of pay. For the year ended June 30, 2021, accrued compensation was \$14,852.

Note 6. Concentrations

For the year ended June 30, 2021, agreements and grants from the City of San Diego make up approximately 20% of the monies received by the Association.

Agreements and grants from the City of San Diego make up approximately 29% of balances in receivable accounts as of June 30, 2021.

Note 7. Related Party Transactions

The Association uses AJ Knox, an independent contractor who is related to the Executive Director of the Association, for design services. The total amount paid in the year ended June 30, 2021, was \$3,350.

The Association uses Sign Diego, a print company owned by a board member of the Association, for printing banners and miscellaneous signage. The total amount paid in the year ended June 30, 2021, was \$4,475.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 8. Commitments and Contingencies

The Association's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Association has no provisions for the possible disallowance of program costs on its financial statements.

Note 9. Operating Lease Obligation

The Association leases office space at 1868 Bacon Street, San Diego, California, currently at a monthly rate of \$945. The Association entered into a lease agreement to occupy the property for a term commencing October 1, 2014 through October 1, 2019. This lease was renewed for another five-year period commencing October 1, 2019 and ending on October 1, 2024. Total lease payments under this lease were \$11,280 for the year ended June 30, 2021.

Future minimum lease payments, by year and in the aggregate, under this lease consist of the following:

<u>Year ending June 30:</u>	
2022	\$ 11,520
2023	11,760
2024	12,000
2025	<u>3,015</u>
	<u>\$ 38,295</u>

Note 10. Long Term Liabilities – SBA EIDL & PPP Loans

Long term liabilities on June 30, 2021, consist of a \$153,670 loan payable to the U.S. Small Business Administration (SBA), secured by the assets of the Association, monthly payments of \$641 began June 2021, including principal and interest at 2.75%, due May 28, 2050. This amount consists of the initial \$150,000 loan received in the previous year and \$3,670 of interest accrued through June 30, 2021.

The Association received a loan from U.S. Bank for the Paycheck Protection Program 2 (PPP2) to help the Association through the COVID-19 pandemic. On February 16, 2021, the Association received a loan in the amount of \$41,860 with a fixed annual interest rate of 1%. This loan has the potential to be forgiven at either an 8- or 24-week period depending on when these funds are used up on qualified expenses. To the extent it is not forgiven, the loan will bear interest at 1% payable in 18 installments beginning at a date to be determined subsequent to the SBA's forgiveness decision. No payments will be due on the loan from the date of the first disbursement until the forgiveness decision date, however, interest continues to accrue during the deferment period. Payments of principal and interest are then due monthly thereafter. The Association has yet to submit their forgiveness application as of the date of this report.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 10. Long Term Liabilities – SBA EIDL & PPP Loans, continued

Principal maturities for long term liabilities are as follows:

<u>Year ending June 30,</u>	
2022	\$ 7,450
2023	11,698
2024	11,877
2025	12,060
2026	12,245
thereafter	<u>140,200</u>
	<u>\$ 195,530</u>

Note 11. Liquidity and Availability of Financial Assets

The Association's working capital and cash flows are relatively consistent throughout the year due to monthly assessments from BID and MAD programs, and a weekly Farmers Market. For months in which special events occur the Association receives grants, contributions and sponsorships for the events corresponding to the timing of the event. To manage liquidity the Association maintains adequate cash balances.

The following reflects the Association's financial assets as of the Statement of Financial Position date, reduced by amounts not available for general use within one year of the Statement of Financial Position date because of contractual, donor-imposed restrictions or internal designations.

	<u>06/30/2021</u>
Cash	\$ 335,603
Accounts receivable	40,390
Assessments receivable	12,459
Grant receivable	<u>5,650</u>
Total Financial Assets	394,102
Less those unavailable for general expenditures within one year due to:	
Donor restricted for Veterans Plaza	<u>(2,775)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 391,327</u>

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Note 12. Subsequent Events

The management of the Association have reviewed the results of operations and evaluated subsequent events for the period of time from its year end June 30, 2021 through September 28, 2021, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

COVID-19

On January 30, 2020, the World Health Organization declared the novel coronavirus outbreak a public health emergency. In many countries, businesses are forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

On March 11, 2020, the economy shut down in an effort to stop COVID-19 from spreading. The Association suffered financial losses and specific disruptions because of the pandemic which include cancelling the OB 4th of July 2020 Fireworks show and cessation of networking meetings with the membership. The Association had mitigated the effects of the pandemic by furloughing four employees for over 3 months, reducing payroll hours from 25% to 40% for the remaining employees, reduction of non-essential expenses, obtaining financing (SBA EIDL & PPP loans – see Note 10), and applying for grants. This helped minimize the Association's losses during the pandemic.

Given the dynamic nature of these circumstances, it is too early to tell what effect these changes will have on the business in the short term. The Association will continue to monitor the situation closely, but given the uncertainty about the situation, the Association cannot estimate the impact of the Association's financial statements.