

**GASLAMP QUARTER ASSOCIATION**  
Financial Statements  
For the Year Ended June 30, 2021  
And  
Independent Auditors' Report

**GASLAMP QUARTER ASSOCIATION**  
Financial Statements  
June 30, 2021

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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, 2021, 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, 2021, 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*

Guerrero, Jimenez, Diaz & Co LLP  
Certified Public Accountants

San Diego, California  
March 22, 2022

**GASLAMP QUARTER ASSOCIATION**  
Statement of Financial Position  
June 30, 2021

**ASSETS**

**Current Assets:**

Cash & Cash Equivalents	\$	230,571
Accounts Receivable		177,446
Prepaid Income Taxes		3,453
Loan Receivable		33,339
Allowance for Loan Receivable		(33,339)
Prepaid Expense		13,067
Total Current Assets		424,537

**Fixed Assets**

Office Furniture		21,398
Accumulated Depreciation		(21,398)
Net Fixed Assets		-

<b>Total Assets</b>	<b>\$</b>	<b>424,537</b>
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**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts Payable	\$	7,035
Accrued Expenses		83,500
Income Tax Payable		39,000
Total Liabilities		129,535

**Net Assets**

Without Donor Restrictions - Undesignated		295,002
With Donor Restrictions		-
Total Net Assets		295,002

<b>Total Liabilities and Net Assets</b>	<b>\$</b>	<b>424,537</b>
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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, 2021

**CHANGES IN UNRESTRICTED NET ASSETS:**

<b>Revenue:</b>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Governmental Funding:			
B.I.D.	\$ 70,500	\$ -	\$ 70,500
S.B.E.P. Management Grant	16,456	-	16,456
Parking District Program	698,873	-	698,873
Paycheck Protection Program	64,522	-	64,522
Total Government Funding	<u>850,351</u>	<u>-</u>	<u>850,351</u>
Special Events:			
Ticket Revenue	1,942	-	1,942
Product Sales/Auction	-	-	-
Vendor/Sponsor	(6,700)	-	(6,700)
Total Special Events	<u>(4,758)</u>	<u>-</u>	<u>(4,758)</u>
Other Revenue:			
Holiday Lighting / Banner (net)	66,485	-	66,485
Kiosk Advertising	245,000	-	245,000
Web Advertising	76,088	-	76,088
Public Pay Phone	463	-	463
Associated Membership	6,641	-	6,641
Sunday Market	38,125	-	38,125
Other Income	4,624	-	4,624
Total Other Revenue	<u>437,426</u>	<u>-</u>	<u>437,426</u>
Total Revenue	<u>1,283,019</u>	<u>-</u>	<u>1,283,019</u>
<b>Operating Expenses:</b>			
Program	1,070,082	-	1,070,082
General & Administrative	174,822	-	174,822
Total Operating Expenses	<u>1,244,904</u>	<u>-</u>	<u>1,244,904</u>
<b>Increase/(Decrease) in Net Assets</b>	38,115	-	38,115
<b>Net Assets, Beginning of Year</b>	<u>256,887</u>	<u>-</u>	<u>256,887</u>
<b>Net Assets, End of Year</b>	<u>\$ 295,002</u>	<u>-</u>	<u>\$ 295,002</u>

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

**GASLAMP QUARTER ASSOCIATION**  
Schedule of Functional Expenses  
For the Year-Ended June 30, 2021

	<u>Program</u>	<u>General &amp; Administrative</u>	<u>Total</u>
Accounting	\$ 13,950	\$ 9,300	\$ 23,250
Bank Fees	1,196	798	1,994
Dues/Memberships	315	210	525
Employee Benefits	21,183	14,122	35,305
Equipment Rent/Repairs/Minor Equipment	4,251	2,834	7,085
Income Tax	3,575	2,384	5,959
Insurance	16,685	11,123	27,808
Lawsuit Settlement Accrual (Note 6)	82,000	-	82,000
Marketing	213,486	-	213,486
Meetings & Workshops	324	-	324
Miscellaneous	1,123	749	1,872
Office Supplies/Expense	994	662	1,656
Payroll Taxes & Fees	13,355	8,904	22,259
Postage	743	496	1,239
Rent & Utilities	20,701	13,801	34,502
Salaries & Wages	159,925	106,617	266,542
Special Events	512,039	-	512,039
Telephone	4,235	2,824	7,059
<b>Total Expenses</b>	<u>\$ 1,070,082</u>	<u>\$ 174,822</u>	<u>\$ 1,244,904</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, 2021

<b>Cash Flows From Operating Activities:</b>	
Increase/(Decrease) in Net Assets	\$ 38,115
Adjustments to Reconcile the Change in Net Assets to Net Cash Provided by Operating Activities:	
(Increase)/Decrease in Prepaid Income Taxes	12,068
(Increase)/Decrease in Accounts Receivable	(338)
Increase/(Decrease) in Accounts Payable	1,037
(Increase)/Decrease in Prepaid Expenses	47,764
Increase/(Decrease) in Income Tax Payable	(7,000)
Increase/(Decrease) in Accrued Expenses	79,823
Total Adjustments	<u>133,354</u>
<b>Net Cash Provided by Operating Activities</b>	<u>171,469</u>
<b>Cash Flows From Investing Activities</b>	-
<b>Cash Flows From Financing Activities</b>	-
<b>Net Increase/(Decrease) in Cash</b>	<u>171,469</u>
<b>Cash at Beginning of Period</b>	<u>59,102</u>
<b>Cash at End of Period</b>	<u><u>\$ 230,571</u></u>

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



## **GASLAMP QUARTER ASSOCIATION**

Notes to Financial Statements

June 30, 2021

### **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 March 22, 2022, which is the date the financial statements are available for issuance. In July 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 2022 for an amount of \$124,000, of which the insurance company paid \$42,000 and the Association paid \$82,000. (See Note 6 – Accrued Expenses).

### **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 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	\$ 175,478
SBEP Receivable	<u>1,968</u>
Total	<u>177,446</u>

**Note 4 – Prepaid Expense**

As of June 30, 2021, the Association prepaid expense is comprised of \$13,067 prepaid insurance.

**NOTE 5 – 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, 2021. 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, 2021, 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 – Accrued Expenses**

The Accrued Expenses balance of \$83,500 as of June 30, 2021, is comprised of \$1,500 tax preparation fee and \$82,000 lawsuit settlement (See Note 1 – Subsequent Events).

**NOTE 7 – 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, 2021, the monthly rent was \$2,650.

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.

See Note 11 for Lease Commitment.

**NOTE 8 – Income Tax**

For the year ended June 30, 2021, the Association was subject to income tax on unrelated business income, as follows:

Current Year Provision:

Federal Income Tax	\$27,000
State Income Tax	<u>12,000</u>
	<u>\$39,000</u>

Adjustments to Prior Year Provision:	
Federal Income Tax	\$(23,352)
State Income Tax	<u>(9,689)</u>
	<u>(33,041)</u>
Income Tax Expense	<u>\$ 5,959</u>

**NOTE 9 – Net Assets without Donor Restrictions**

The Association has undesignated Net Assets without donor restrictions of \$295,002 at June 30, 2021.

**NOTE 10 – 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	\$230,571
Accounts Receivable	<u>177,446</u>
Total financial assets available within one year	<u>408,017</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>\$ 408,017</u>

**NOTE 11 – 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 13 – 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 an estimated \$5,000. The Settlement Agreement is now being circulated for final approval and signature.

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. (See Note 6 – Accrued Expenses).

#### **Note 14 – COVID19 Outbreak**

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 with lesser restrictions at June 30, 2021.

In response to the Governor's order, the Association cancelled all of its special events resulting in loss of revenue of approximately \$175,000. The Association was able to offset this loss with increase in the Parking District grant of \$100,000 and the Paycheck Protection Program loan of \$64,522.