

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, 2023

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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

Opinion

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, 2023, 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 Ocean Beach Merchant's Association, Inc., dba Ocean Beach Mainstreet Association as of June 30, 2023, 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. 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 Ocean Beach Merchant's Association, Inc., dba Ocean Beach Mainstreet Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Ocean Beach Merchant's Association, Inc., dba Ocean Beach Mainstreet Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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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 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 judgment 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 design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ocean Beach Merchant's Association, Inc. dba Ocean Beach Mainstreet 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, which raise substantial doubt about Ocean Beach Merchant's Association, Inc. dba Ocean Beach Mainstreet 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.

Bonk, Cushman, Eagle & Garcia

September 14, 2023

OCEAN BEACH MERCHANT'S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023

ASSETS

CURRENT ASSETS:	
Cash	\$ 438,749
Accounts receivable	18,300
Assessment receivable	13,612
Grant receivable	41,471
Prepaid insurance	4,355
Inventories	16,349
Total current assets	532,836
PROPERTY AND EQUIPMENT (at cost):	
Equipment and furniture	39,057
Computer equipment	7,162
Leasehold improvements	10,950
Website	7,250
Accumulated depreciation	(45,430)
Total property and equipment	18,989
OTHER ASSETS: Security deposit	800
TOTAL ASSETS	\$ 552,625

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 48,198
Credit card payable	10,000
Payroll liabilities	2,383
Accrued compensation	14,994
Sales tax payable	1,225
Current portion of long term liability	3,940
Total current liabilities	80,740
LONG TERM LIABILITIES:	
SBA EIDL loan	142,579
TOTAL LIABILITIES	\$ 223,319
NET ASSETS:	
Net assets without donor restriction, non-designated	\$ 329,306
Total net assets	329,306
TOTAL LIABILITIES AND NET ASSETS	\$ 552,625

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
JUNE 30, 2023

	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND OTHER SUPPORT:			
Assessment income - BID	\$ 24,234	\$ -	\$ 24,234
Grant income	76,221	-	76,221
Maintenance Assessment District Agreement	74,742	-	74,742
Contributions	44,393	-	44,393
Special events income	764,709	-	764,709
Membership dues	6,015	-	6,015
Promotional items income	44,176	-	44,176
Interest income	3,444	-	3,444
Net assets placed into restriction:			
Released from restrictions	-	-	-
Total revenues and other support	<u>1,037,934</u>	<u>-</u>	<u>1,037,934</u>
EXPENSES:			
Organization	178,147	-	178,147
Clean & Safe	43,935	-	43,935
Improvements	125,176	-	125,176
Maintenance Assessment District	74,742	-	74,742
Marketing	163,408	-	163,408
Farmer's Market	160,699	-	160,699
Street Fair	224,880	-	224,880
Oktoberfest	56,889	-	56,889
Total expenses	<u>1,027,876</u>	<u>-</u>	<u>1,027,876</u>
Change in net assets	10,058	-	10,058
NET ASSETS - BEGINNING	332,363	-	332,363
PRIOR PERIOD ADJUSTMENT (Note 11)	<u>(13,115)</u>	<u>-</u>	<u>(13,115)</u>
NET ASSETS - ENDING	<u>\$ 329,306</u>	<u>\$ -</u>	<u>\$ 329,306</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
JUNE 30, 2023

	Organization	Clean & Safe	Improvements	MAD	Marketing	Farmer's Market	Street Fair	Oktoberfest	Total
Accounting	\$ 13,751	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,751
Advertising	-	450	200	-	12,030	-	5,633	800	19,113
Annual awards celebration	-	-	-	-	2,040	-	-	-	2,040
Awards and plaques	-	-	100	-	362	-	1,624	-	2,086
Bank charges/merchant fees	1,552	100	837	-	1,410	-	3,990	432	8,321
Banner program	-	-	2,657	-	-	-	-	-	2,657
Contract labor	-	-	-	-	11,000	-	4,750	-	15,750
Depreciation	1,852	-	898	-	-	-	-	-	2,750
Donations	2,250	-	-	-	-	-	-	-	2,250
Dues and subscriptions	7,908	62	40	-	563	-	86	-	8,659
Equipment rentals	3,206	-	13	-	123	-	57,824	1,182	62,348
Event entertainment	-	-	-	-	-	-	12,150	-	12,150
Event/project supplies	212	1,095	1,343	-	4,175	3,889	11,053	3,365	25,132
Event services	-	-	17,660	-	1,930	12,170	35,946	3,286	70,992
Holiday decorations	-	-	7,856	-	-	-	-	-	7,856
Insurance	21,198	-	-	-	-	899	15,646	-	37,743
Interest expense	4,067	-	-	-	-	-	-	-	4,067
Licenses and permits	544	-	-	-	-	2,006	7,075	8,196	17,821
Management fees	-	-	-	-	-	100,400	-	-	100,400
Meetings expense	564	-	1,640	-	372	-	406	-	2,982
Miscellaneous	(15)	-	-	-	119	-	-	-	104
Office expense	7,337	-	-	-	403	524	-	95	8,359
Payroll expense	79,308	30,619	55,843	-	67,296	15,272	36,169	24,753	309,260
Payroll tax expense	6,213	2,409	4,413	-	5,301	1,233	2,840	1,942	24,351
Postage and delivery	981	-	-	-	144	-	-	-	1,125
Printing and reproduction	53	172	112	-	1,547	1,659	1,325	280	5,148
Promotion supplies	-	-	-	-	19,579	-	5,155	156	24,890
Rent	11,760	-	975	-	501	-	3,945	-	17,181
Repair and maintenance	3,788	9,028	30,469	74,045	-	2,884	3,594	-	123,808
Security	-	-	-	-	-	14,306	15,473	11,162	40,941
Telephone and communications	6,397	-	120	-	493	-	-	-	7,010
Trash removal	1,543	-	-	-	-	5,457	196	1,240	8,436
Utilities	2,129	-	-	697	-	-	-	-	2,826
Website - web cam	1,549	-	-	-	34,020	-	-	-	35,569
Total expenses	\$ 178,147	\$ 43,935	\$ 125,176	\$ 74,742	\$ 163,408	\$ 160,699	\$ 224,880	\$ 56,889	\$ 1,027,876

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
JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 10,058
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,750
Prior Period Adjustment	(13,115)
(Increase) decrease in assets:	
Accounts receivable	3,125
Assessment receivable	4,514
Grant receivable	(18,540)
Prepaid insurance	(87)
Inventories	1,071
Increase (decrease) in liabilities:	
Accounts payable	7,139
Credit card payables	401
Payroll liabilities	2,383
Accrued compensation	657
Sales tax payable	158
NET CASH PROVIDED BY OPERATING ACTIVITIES	514
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Equipment purchased	(11,981)
NET CASH (USED) BY INVESTING ACTIVITIES	(11,981)
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal paid on SBA EIDL loan	(3,624)
NET CASH (USED) BY FINANCING ACTIVITIES	(3,624)
 NET (DECREASE) IN CASH	 (15,091)
 CASH AT BEGINNING OF YEAR	 453,840
 CASH AT END OF YEAR	 \$ 438,749

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, 2023

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.

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, 2023

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 \$2,750 for the year ended June 30, 2023.

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, 2023.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

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, 2023.

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, 2023, 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, 2023

Note 3. Accounts, Assessments, and Grants Receivable

The balance in accounts receivable as of June 30, 2023, is as follows:

Membership income receivable	\$ <u>18,300</u>
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The balance in assessment receivable of \$13,612 as of June 30, 2023, 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 \$41,471 as of June 30, 2023, represents unpaid claims submitted to the City of San Diego.

Note 4. Compliance with Agreements with the City of San Diego for the year ended June 30, 2023

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, 2023

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
Carryover from prior year	\$ -	\$ -	\$ -
Assessments collected	24,234	26,500	(2,266)
Expenses: promotion/website	<u>(24,234)</u>	<u>(26,500)</u>	<u>(2,266)</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, 2023

Note 4. Compliance with Agreements with the City of San Diego for the year ended June 30, 2023, 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, 2023, the Association incurred \$74,742 of expenses for contract services (maintenance, landscaping, and trash services) and utilities and submitted \$74,742 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, 2023, accrued compensation was \$14,994.

Note 6. Concentrations

For the year ended June 30, 2023, agreements and grants from the City of San Diego make up approximately 17% of the monies received by the Association.

Agreements and grants from the City of San Diego make up approximately 83% of balances in receivable accounts as of June 30, 2023.

The Association maintains cash in bank deposit and money market accounts. The balances at times may exceed Federal Deposit Insurance Corporation (FDIC) limits. Accounts at each financial institution are insured by the FDIC up to \$250,000. The Association has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk of cash.

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, 2023, was \$1,300.

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, 2023, was \$5,453.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

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 \$965. 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 \$11,760 for the year ended June 30, 2023.

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

<u>Year ending June 30:</u>	
2024	\$ 12,000
2025	<u>3,015</u>
	<u>\$ 15,015</u>

Note 10. Long Term Liabilities – SBA EIDL Loan

Long term liabilities on June 30, 2023, consist of a \$146,519 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.

Principal maturities for long term liabilities are as follows:

<u>Year ending June 30,</u>	
2024	\$ 3,940
2025	3,819
2026	3,925
2027	4,050
2028	4,163
thereafter	<u>126,622</u>
	<u>\$ 146,519</u>

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 11. Prior Period Adjustment

Net assets without donor restrictions at the beginning of the year ended June 30, 2023 have been adjusted to record the cumulative effect of unrecorded accrued payroll liability as of June 30, 2022. Historically the accrued payroll adjustment was not recorded due to immaterial effect on the financial statements taken as a whole. Due to a significant increase in payroll wages in recent years, the cumulative effect of passing on accrued payroll liability has become significant and as such this net asset adjustment is necessary to correct the previous year's immaterial misstatement.

The correction has no effect on the results of the current year's activities; however, the cumulative effect decreases beginning net assets without donor restrictions in the year ended June 30, 2023 by \$13,115

Note 12. 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>06/30/2023</u>
Cash	\$ 438,749
Accounts receivable	18,300
Assessments receivable	13,612
Grant receivable	41,471
Total Financial Assets	512,132

Less those unavailable for general expenditures within one year due to: none

Financial assets available to meet cash needs for general expenditures
within one year \$ 512,132

Note 13. 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, 2023 through September 14, 2023, 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.