

BONK, CUSHMAN, EAGLE & GARCIA
CERTIFIED PUBLIC ACCOUNTANTS

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

REVIEWED FINANCIAL STATEMENTS
JUNE 30, 2025

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying financial statements of Ocean Beach Merchant's Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Ocean Beach Merchant's Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Bonk, Cushman, Eagle & Garcia

October 6, 2025

OCEAN BEACH MERCHANT'S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2025

ASSETS

CURRENT ASSETS:	
Cash	\$ 585,038
Accounts receivable	31,498
Grant receivable	3,728
Prepaid insurance	4,666
Inventories	19,425
Total current assets	644,355
PROPERTY AND EQUIPMENT (at cost):	
Equipment and furniture	44,478
Computer equipment	8,009
Leasehold improvements	7,510
Website	7,250
Accumulated depreciation	(46,179)
Total property and equipment	21,068
OTHER ASSETS:	
Operating lease right-of-use asset (Note 9)	164,129
Security deposit	800
Total other assets	164,929
TOTAL ASSETS	\$ 830,352

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 63,037
Credit card payable	8,594
Deferred revenue	13,233
Payroll liabilities	2,971
Accrued compensation (Note 6)	12,438
Sales tax payable	1,422
Operating lease liability, current portion (Note 9)	36,810
SBA EIDL loan, current portion (Note 10)	3,925
Total current liabilities	142,430
LONG TERM LIABILITIES:	
Operating lease liability, net of current portion (Note 9)	127,319
SBA EIDL loan (Note 10)	134,834
Total long term liabilities	262,153
TOTAL LIABILITIES	\$ 404,583
NET ASSETS:	
Net assets without donor restriction, non-designated	\$ 425,769
Total net assets	425,769
TOTAL LIABILITIES AND NET ASSETS	\$ 830,352

See accompanying notes and independent accountant's review report

OCEAN BEACH MERCHANT'S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
JUNE 30, 2025

	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND OTHER SUPPORT:			
Assessment income - BID	\$ 21,724	\$ -	\$ 21,724
Grant income	93,900	-	93,900
Maintenance Assessment District Agreement	96,664	-	96,664
Contributions	58,926	-	58,926
Special events income	824,119	-	824,119
Membership dues	8,850	-	8,850
Promotional items income	43,558	-	43,558
Interest income	17,814	-	17,814
Net assets placed into restriction:			
Released from restrictions	-	-	-
Total revenues and other support	<u>1,165,555</u>	<u>-</u>	<u>1,165,555</u>
EXPENSES:			
Organization	224,085	-	224,085
Clean & Safe	31,699	-	31,699
Improvements	123,449	-	123,449
Maintenance Assessment District	104,123	-	104,123
Marketing	184,572	-	184,572
Farmer's Market	203,250	-	203,250
Other Events	5,611	-	5,611
Street Fair	250,715	-	250,715
Oktoberfest	44,656	-	44,656
Total expenses	<u>1,172,160</u>	<u>-</u>	<u>1,172,160</u>
Change in net assets	(6,605)	-	(6,605)
NET ASSETS - BEGINNING	<u>432,374</u>	<u>-</u>	<u>432,374</u>
NET ASSETS - ENDING	<u>\$ 425,769</u>	<u>\$ -</u>	<u>\$ 425,769</u>

See accompanying notes and independent accountant's review report

OCEAN BEACH MERCHANT'S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2025

	Organization	Clean & Safe	Improvements	MAD	Marketing	Farmer's Market	Other Events	Street Fair	Oktoberfest	Total
Accounting	\$ 16,896	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,896
Advertising	-	-	600	-	14,029	-	-	9,198	300	24,127
Annual awards celebration	207	-	-	-	5,018	-	-	-	-	5,225
Awards and plaques	-	-	-	-	747	-	-	2,184	-	2,931
Bank charges/merchant fees	1,433	-	1,266	-	2,208	25	-	5,596	38	10,566
Banner program	-	-	5,824	-	-	-	-	-	-	5,824
Conferences/board education	394	-	-	-	-	400	-	-	-	794
Consultants	3,750	-	-	-	6,950	-	-	6,500	1,550	18,750
Depreciation	5,207	-	-	-	-	-	-	-	-	5,207
Donations	2,172	-	-	-	179	-	-	-	-	2,351
Dues and subscriptions	6,505	69	44	-	1,738	133	-	45	-	8,534
Equipment rentals	5,598	-	428	-	1,514	-	2,022	34,731	-	44,293
Event entertainment	-	-	-	-	-	-	-	8,635	-	8,635
Event/project supplies	2,269	15	688	-	1,667	5,033	-	11,442	140	21,254
Event services	340	1,360	17,974	7,800	4,961	19,888	1,632	54,735	1,280	109,970
Holiday decorations	-	-	426	-	-	-	-	-	-	426
Insurance	17,058	-	-	-	-	1,159	-	12,199	-	30,416
Interest expense	3,873	-	-	-	50	-	-	-	-	3,923
Licenses and permits	663	-	-	-	-	2,860	637	7,656	4,652	16,468
Management fees	-	-	-	-	-	118,466	-	-	-	118,466
Meetings expense	2,404	-	2,205	-	843	-	-	141	-	5,593
Miscellaneous	878	-	-	-	2	-	-	-	-	880
Office expense	6,266	-	-	-	649	60	-	-	-	6,975
Payroll expense	83,858	27,981	53,180	-	85,684	18,982	-	48,115	26,071	343,871
Payroll tax expense	6,463	2,242	4,272	-	7,097	1,575	-	3,805	1,966	27,420
Postage and delivery	1,348	-	-	-	21	-	-	(19)	-	1,350
Printing and reproduction	500	32	2,637	-	1,352	801	-	1,171	-	6,493
Promotion supplies	-	-	180	-	13,695	-	-	5,464	-	19,339
Public improvements	-	-	11,412	-	-	-	-	-	-	11,412
Rent	30,015	-	1,195	-	1,000	4,200	-	3,900	-	40,310
Repair and maintenance	11,648	-	21,058	27,369	-	841	-	-	-	60,916
Security	-	-	-	-	-	21,134	1,320	30,358	8,659	61,471
Telephone and communications	6,260	-	60	-	300	360	-	120	-	7,100
Trash removal	2,784	-	-	67,960	-	7,333	-	4,739	-	82,816
Utilities	1,666	-	-	994	-	-	-	-	-	2,660
Website - web cam	3,630	-	-	-	34,868	-	-	-	-	38,498
Total expenses	\$ 224,085	\$ 31,699	\$ 123,449	\$ 104,123	\$ 184,572	\$ 203,250	\$ 5,611	\$ 250,715	\$ 44,656	\$ 1,172,160

See accompanying notes and independent accountant's review report

OCEAN BEACH MERCHANT'S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
STATEMENT OF CASH FLOWS
JUNE 30, 2025

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (6,605)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	5,207
Loss on Disposal	878
(Increase) decrease in assets:	
Accounts receivable	(3,015)
Assessment receivable	22,928
Grant receivable	9,552
Prepaid insurance	(275)
Inventories	(5,660)
Increase (decrease) in liabilities:	
Accounts payable	22,619
Credit card payables	3,968
Deferred revenue	5,233
Payroll liabilities	(10,565)
Accrued compensation	3,653
Sales tax payable	(16)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>47,902</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Equipment sold	250
Equipment purchased	(6,545)
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(6,295)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal paid on SBA EIDL loan	(3,819)
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(3,819)</u>
NET INCREASE IN CASH	37,788
CASH AT BEGINNING OF YEAR	<u>547,250</u>
CASH AT END OF YEAR	<u><u>\$ 585,038</u></u>

See accompanying notes and independent accountant's review report

OCEAN BEACH MERCHANT’S ASSOCIATION, INC.
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

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, 2025

Note 2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents: The Association has defined cash and cash equivalents as cash in banks, treasury bills, 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 \$5,207 for the year ended June 30, 2025.

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, 2025.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

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 from. 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, 2025.

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. Management has considered all significant tax positions. 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, 2025, 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, 2025

Note 3. Accounts and Grants Receivable

The balance in accounts receivable as of June 30, 2025, is as follows:

Membership income receivable	\$ <u>31,498</u>
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The balance in grants receivable of \$3,728 as of June 30, 2025, represents unpaid claims submitted to the City of San Diego.

Note 4. 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 5. Compliance with Agreements with the City of San Diego for the year ended June 30, 2025

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, 2025

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
Carryover from prior year	\$ -	\$ -	\$ -
Assessments collected	21,724	23,724	(2,000)
Expenses: promotion/website	<u>(21,724)</u>	<u>(23,724)</u>	<u>(2,000)</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, 2025

Note 5. Compliance with Agreements with the City of San Diego for the year ended June 30, 2025, 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, 2025, the Association incurred \$104,123 of expenses for contract services (maintenance, landscaping, and trash services) and utilities and submitted \$104,123 for reimbursement under the terms of the agreement.

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

Note 6. 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, 2025, accrued compensation was \$12,438.

Note 7. Concentrations

For the year ended June 30, 2025, agreements and grants from the City of San Diego make up approximately 16% of the monies received by the Association.

Agreements and grants from the City of San Diego make up approximately 12% of balances in receivable accounts as of June 30, 2025.

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 8. 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, 2025, was \$5,850.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

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>06/30/2025</u>
Cash	\$ 585,038
Accounts receivable	31,498
Grant receivable	3,728
Total Financial Assets	620,264

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 \$ 620,264

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, 2025 through October 6, 2025, 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.

Note 13. Accounting Pronouncements Adopted

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance in *Topic 840, Leases*. The FASB subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; ASU 2019-01, *Leases (Topic 842): Codification Improvements*; ASU 2020-05, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*. Topic 842 amends both lessor and lessee accounting with the most significant change being the requirement to lessees to recognize right-of-use (ROU) assets and liabilities on the statement of financial position for operating leases.

OCEAN BEACH MERCHANT'S ASSOCIATION
dba OCEAN BEACH MAINSTREET ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

Note 13. Accounting Pronouncements Adopted, continued

The Association adopted the leasing standards effective July 1, 2024, using the modified retrospective approach with October 1, 2024 as the initial date of application to align with the extension of its office lease as disclosed on Note 9. The Association elected to use all available practical expedients provided in the transition guidance. These allowed the Association to not reassess the identification, classification and initial direct costs of lessor agreements and to use hindsight in lessee and lessor agreements for determining lease term and right-of-use asset impairment. As of July 1, 2024, adoption of Topic 842 did not result in any material adjustments to statement of financial position accounts related to lessor accounting.

Please refer to Note 9 – Operating Lease Obligation, for further information related to the Association's leasing activities.