

BONK, CUSHMAN, EAGLE & GARCIA

CERTIFIED PUBLIC ACCOUNTANTS

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AN ACCOUNTANCY CORPORATION

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DIAMOND BUSINESS ASSOCIATION, INC. AUDITED FINANCIAL STATEMENTS JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Diamond Business Association, Inc.

We have audited the accompanying financial statements of Diamond Business Association, Inc., (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 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 Diamond Business Association, Inc. 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

January 7, 2022

DIAMOND BUSINESS ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS:

Cash and Cash Equivalents	\$ 32,082
Grants Receivable	9,016
Prepaid Expenses & Deposits	<u>1,750</u>

TOTAL ASSETS	\$ <u>42,848</u>
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LIABILITIES:	\$ <u>-</u>
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NET ASSETS:

Without Donor Restrictions	<u>42,848</u>
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TOTAL NET ASSETS	<u>42,848</u>
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TOTAL LIABILITIES AND NET ASSETS	\$ <u>42,848</u>
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The Accompanying Notes are an Integral Part of the Financial Statements

DIAMOND BUSINESS ASSOCIATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2021

Revenue and Support:

City of San Diego - Business Improvement District	\$ 51,120
City of San Diego - Small Business Enhancement Program	16,847
Contributions and Grants	69,025
Program Income: Banners and Membership Dues	7,286
Special Events	4,000
Total Revenue and Support	<u>148,278</u>

Expenses:

Program Services	
Outreach and Promotion	726
Total Program Services	<u>726</u>

Supporting Services:

Personnel	
Salaries	61,098
Payroll Taxes	5,477
Total Personnel	<u>66,575</u>

Operating

Accounting and Audit	10,802
Consultants	3,827
Dues and Subscriptions	300
Equipment	1,349
Insurance	3,559
Occupancy	12,394
Office	3,729
Postage and Printing	502
Telephone	6,173
Total Operating	<u>42,635</u>

Total Supporting Services	<u>109,210</u>
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Total Expenses	<u>109,936</u>
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Change in Net Assets	38,342
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Net Assets, Beginning of Year	<u>4,506</u>
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Net Assets, End of Year	<u><u>\$ 42,848</u></u>
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The Accompanying Notes are an Integral Part of the Financial Statements

DIAMOND BUSINESS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 38,342
Decrease (Increase) in:	
Grants Receivable	(9,016)
Prepaid Expenses and Deposits	650
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>29,976</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on Line of Credit	<u>(2,109)</u>
CASH FLOWS (USED) BY FINANCING ACTIVITIES	<u>(2,109)</u>

Net Increase in Cash	27,867
Cash & Cash Equivalents, Beginning of Year	<u>4,215</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 32,082</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements

DIAMOND BUSINESS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Note 1. Nature of Organization

The Diamond Business Association, Inc. (Diamond), dba Southeastern Diamond Business District (SDBD), is a nonprofit business organization founded by local entrepreneurs interested in improving the physical conditions of the business district and their impact on the local businesses.

Diamond works to enhance the growth and development of the Diamond Business District (Diamond BID) and the surrounding community of Southeastern San Diego as an international marketplace. Diamond's mission is to create partnerships between businesses, property owners and the public and private entities that promote economic revitalization in the neighborhoods served by Diamond.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting: The accompanying financial statements are prepared on the accrual basis of accounting and accordingly reflect all significant accounts receivable, payable, and other liabilities.

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, and subsections as amended by ASU 2016-14.

Net assets, revenues, gains, and losses are classified 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 not subject to donor-imposed restrictions.

Net assets with donor restrictions: net assets subject to donor-imposed stipulations.

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

Grants Receivable: Grants receivables are from the City of San Diego and other government agencies. An allowance for doubtful accounts is based on an analysis of expected collection rates determined from past history. No allowance for doubtful accounts was considered necessary as of June 30, 2021.

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 Organization. Volunteers provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Use of Estimates: The preparation of the financial statements in conformity with 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.

DIAMOND BUSINESS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Note 3. Income Tax Status

The Organization is a California Not-For-Profit corporation exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(6) and California State Tax Code 23701(e), respectively, whereby only unrelated business income, as defined by Section 509(a)(1) of the Internal Revenue Code is subject to federal income tax. The Organization currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded.

U.S. generally accepted accounting principles require Organization management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken uncertain tax positions that more-likely-than-not would not be sustained upon examination by applicable taxing authorities. Management has analyzed tax positions taken by the Organization and has concluded that, as of June 30, 2021, there are not uncertain tax positions taken, or expected to be taken, that would require recognition of a liability or that would require disclosure in the financial statements.

The Organization is subject to routine audits by taxing jurisdictions. However, currently no audits for any tax periods are in progress.

Effective July 1, 2021, Diamond changed its income tax status from Section 501(c)(6) to Section 501(c)(3) of the Internal Revenue Code.

Note 4. Commitments and Contingencies

Diamond'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, Diamond has no provisions for the possible disallowance of program costs on its financial statements.

Note 5. Related Party Transaction

Diamond purchases insurance coverage from a company that is owned by a member of the Organization's board of directors. Insurance coverage was obtained through a competitive award process and, in the opinion of management the coverage obtained was the most favorable to Diamond. During the fiscal year ended June 30, 2021, Diamond paid the insurance agency \$2,165 for directors and officers insurance coverage.

Note 6. Compensated Absences

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. Diamond's policy is to recognize these costs when actually paid.

DIAMOND BUSINESS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Note 7. Liquidity and Availability of Financial Assets

Diamond's working capital and cash flows are relatively consistent throughout the year due to monthly invoicing on City of San Diego contracts and receipt of grants year-round. To manage liquidity Diamond maintains adequate cash balances.

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>06/30/2021</u>
Financial assets at year-end	\$ 41,098
Less those unavailable for general expenditures within one year due to:	<u>none</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 41,098</u>

Note 8. Subsequent Events

The management of the Organization have reviewed the results of operations and evaluated subsequent events for the period of time from its year end June 30, 2021 through January 7, 2022, 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 9. Accounting Pronouncements Adopted

In May 2014, the FASB issued 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. Diamond adopted this update, along with all subsequent amendments (collectively, "ASC 606") in fiscal year ending June 30, 2021, under the modified retrospective method. Additionally, Diamond 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 Diamond's adoption of ASC 606 is outlined below.

DIAMOND BUSINESS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Note 9. Accounting Pronouncements Adopted, continued

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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., Revenue from Contracts with Customers, Topic 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. Diamond 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 Diamond's financial statements were examined in conjunction with one another. Diamond'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. Diamond reassessed the nature of its revenue-producing arrangements to ensure alignment with the definition of a contract under ASC 606 and exchange transactions 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.

- Grant and contribution revenues 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, Diamond management reviewed existing agreements as of the effective date, as well as new agreements for 2021, and concluded that there are no material changes in revenue related to grant and contribution revenues.
- Government (City of San Diego) contracts: Under ASU 2018-08, these arrangements constitute contributions since the customer does not receive commensurate value for the consideration received by Diamond, rather, the purpose of the arrangement is for the benefit of the general public. Therefore, Diamond management concluded that the agreements are conditional due to rights of return/release and barriers to entitlement of funds. Revenue is recognized when the condition is satisfied. Because the nature of conditions is either based on incurring qualifying expenses or satisfying a milestone or other deliverable, the pattern of revenue recognition remained consistent with previous years. Therefore, under the prospective approach, there was no material change in the revenue recognition for government contracts.