

SIKH GURDWARA - SAN JOSE
AUDITED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2022

(With summarized comparative totals as of and
for the year ended December 31, 2021)

HARSHWAL[®] 
& COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

SIKH GURDWARA - SAN JOSE
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sikh Gurdwara - San Jose
San Jose, California

Opinion

We have audited the accompanying financial statements of Sikh Gurdwara - San Jose (the "Gurdwara"), (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, 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 the Gurdwara as of December 31, 2022, 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 the Gurdwara 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 the Gurdwara's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 the Gurdwara'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, that raise substantial doubt about the Gurdwara'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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Computation of Debt Service Coverage Ratio and Liquidity Maintenance Ratio on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We had previously audited the Gurdwara's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 01, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harshmal & Company LLP

Oakland, California
July 12, 2023

BASIC FINANCIAL STATEMENTS

SIKH GURDWARA - SAN JOSE
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2022
 (With summarized comparative totals as of December 31, 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 1,374,285	\$ 1,240,464
Investments	1,538,672	1,949,733
ERC refund receivable	-	125,745
Deposit and advances	29,000	-
Property and equipment, net	24,758,999	25,578,581
Deferred rent receivable	<u>25,521</u>	<u>-</u>
Total assets	<u>27,726,477</u>	<u>28,894,523</u>
LIABILITIES		
Accounts payable	67,231	-
Accrued liabilities	35,465	3,378
Notes payable	<u>9,856,123</u>	<u>10,141,494</u>
Total liabilities	<u>9,958,819</u>	<u>10,144,872</u>
NET ASSETS		
Without donor restrictions	<u>17,767,658</u>	<u>18,749,651</u>
Total net assets	<u>17,767,658</u>	<u>18,749,651</u>
Total liabilities and net assets	<u><u>\$ 27,726,477</u></u>	<u><u>\$ 28,894,523</u></u>

The accompanying notes are an integral part of these financial statements

SIKH GURDWARA - SAN JOSE
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022
(With summarized comparative totals for the year ended December 31, 2021)

	<u>2022</u>	<u>2021</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
OPERATING REVENUES		
Contributions of cash and other financial assets	\$ 3,060,546	\$ 2,815,163
ARPA grant	-	4,000
Rent income	71,126	45,604
PPP loan forgiveness income	-	247,299
ERC payroll tax refund	-	312,168
Other interest income	<u>5,574</u>	<u>-</u>
Total revenues and other support	<u>3,137,246</u>	<u>3,424,234</u>
OPERATING EXPENSES		
Program services	1,212,494	1,065,475
General and administrative	<u>2,568,502</u>	<u>2,245,755</u>
Total expenses	<u>3,780,996</u>	<u>3,311,230</u>
Changes in net assets from operating activities	<u>(643,750)</u>	<u>113,004</u>
NONOPERATING REVENUES		
Investment income, net	<u>(338,243)</u>	<u>247,991</u>
Total nonoperating activities	<u>(338,243)</u>	<u>247,991</u>
Change in net assets - without donor restrictions	<u>(981,993)</u>	<u>360,995</u>
Net assets - without donor restrictions, beginning of year	18,749,651	18,394,533
<i>Restatement</i>	<u>-</u>	<u>(5,877)</u>
Net assets - without donor restrictions, beginning of year - <i>Restated</i>	<u>18,749,651</u>	<u>18,388,656</u>
Net assets - without donor restrictions, end of year	<u>\$ 17,767,658</u>	<u>\$ 18,749,651</u>

The accompanying notes are an integral part of these financial statements

SIKH GURDWARA - SAN JOSE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
(With summarized comparative totals for the year ended December 31, 2021)

	Program Services						Total Expenses	
	Path, Kirtan and Katha	Khalsa School	Community Kitchen (Langar)	Special Events	Total Program Services	General and Administrative	2022	2021
Salaries and wages	\$ 685,867	\$ 12,572	\$ -	\$ -	\$ 698,439	\$ -	\$ 698,439	\$ 615,83
Payroll taxes	52,470	961	-	-	53,431	-	53,431	47,11
Religious services	236,318	-	-	38,672	274,990	-	274,990	164,92
Contract services	2,471	-	-	-	2,471	17,500	19,971	21,78
Equipment costs	-	-	-	-	-	1,617	1,617	-
School activities	-	77,160	-	40,000	117,160	-	117,160	49,60
Advertising	-	-	-	-	-	78,704	78,704	52,23
Repair and maintenance	-	-	-	-	-	113,847	113,847	115,04
Bank charges	-	-	-	-	-	8,651	8,651	7,96
Insurance	-	-	-	-	-	56,692	56,692	47,22
Printing and reproduction	-	-	-	-	-	521	521	77
Supplies	-	-	47,273	-	47,273	-	47,273	36,53
Telephone	-	-	-	-	-	22,854	22,854	19,09
Rent	-	-	-	-	-	3,405	3,405	-
Travel	-	-	-	-	-	560	560	85
Utilities	-	-	-	-	-	357,847	357,847	79,09
Property taxes	-	-	-	-	-	46,381	46,381	45,35
Janitorial services	-	-	-	-	-	159,037	159,037	119,64
Landscaping	-	-	-	-	-	21,595	21,595	19,55
Legal	-	-	-	-	-	35,776	35,776	77,15
Security expenses	-	-	-	-	-	19,604	19,604	19,46
Depreciation	-	-	-	-	-	1,066,013	1,066,013	1,237,81
Interest expenses	-	-	-	-	-	553,731	553,731	383,81
Covid19 expenses	-	-	-	-	-	-	-	106,48
Youth sports	-	-	-	8,719	8,719	-	8,719	-
Miscellaneous expenses	-	-	6,105	3,906	10,011	4,167	14,178	43,88
Total expenses 2022	\$ 977,126	\$ 90,693	\$ 53,378	\$ 91,297	\$ 1,212,494	\$ 2,568,502	\$ 3,780,996	
Total expenses 2021	\$ 815,950	\$ 61,522	\$ 36,531	\$ 151,472	\$ 1,065,475	\$ 2,245,755		\$ 3,311,23

The accompanying notes are an integral part of these financial statements

SIKH GURDWARA - SAN JOSE
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(With summarized comparative totals as of December 31, 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (643,750)	\$ 113,004
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Depreciation	1,066,013	1,237,811
PPP loan forgiveness income	-	(247,299)
Change in operating assets and liabilities:		
Deposit and advances	(29,000)	16,700
ERC refund receivable	125,745	(125,745)
Deferred rent receivable	(25,521)	-
Accounts payable	67,231	-
Accrued liabilities	<u>32,087</u>	<u>3,378</u>
Net cash provided by operating activities	<u>592,805</u>	<u>997,849</u>
Cash Flows from Investing Activities		
Sale/purchase of investments	72,818	(214,230)
Purchase of equipment	<u>(246,431)</u>	<u>(105,425)</u>
Net cash used in investing activities	<u>(173,613)</u>	<u>(319,655)</u>
Cash Flows from Financing Activities		
Payments on notes payable	(285,371)	(181,836)
Proceeds from PPP loan	<u>-</u>	<u>123,650</u>
Net cash used in financing activities	<u>(285,371)</u>	<u>(58,186)</u>
Net change in cash and cash equivalents	133,821	620,008
Cash and cash equivalents, beginning of year	<u>1,240,464</u>	<u>620,456</u>
Cash and cash equivalents, end of year	<u>\$ 1,374,285</u>	<u>\$ 1,240,464</u>
Supplemental disclosures:		
Interest paid	<u>\$ 535,352</u>	<u>\$ 383,817</u>

The accompanying notes are an integral part of these financial statements

SIKH GURDWARA - SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 - GENERAL INFORMATION

Sikh Gurdwara - San Jose (the "Gurdwara") is a California nonprofit organization which was founded and started its operation in 1984. The Gurdwara provides religious, educational, and cultural services to the residents of San Jose and surrounding cities.

A. Path, Kirtan, and Katha

The Gurdwara provides religious services such as reading sermons and singing devotional music (Path, Kirtan, and Katha) on a regular basis. Spiritual leaders and priests from around the world provide these services.

B. Khalsa School

The Gurdwara provides educational services to young children. Children are taught Punjabi language, principal of Sikh religion, and devotional music.

C. Community Kitchen (Langar)

The Gurdwara provides hot meals to devotees and visitors everyday. Community Kitchen (Langar) is generally funded by followers who bring food supplies and prepare food at the Gurdwara.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the Gurdwara have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Gurdwara to report information regarding its financial position and activities according to 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 Gurdwara. These net assets may be used at the discretion of the Gurdwara's management and the board of directors. Also, contributions that are restricted by the donor are reported as increases in Without Donor Restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

Net assets with Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. 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. The Gurdwara had no net assets with donor restrictions at December 31, 2022 and 2021.

B. Cash & Cash Equivalents

The Gurdwara considers all unrestricted highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents.

SIKH GURDWARA - SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

C. Investments

Investments in marketable securities with readily determinable fair values are reported in the accompanying statements of financial position at their fair values based on quoted market prices. Unrealized gains and losses are included in the changes in net assets in the accompanying statements of activities. Investment income and gains restricted by donors are reported as increases in net assets with donor restrictions if the restrictions are met in the reporting period in which the income and gains are recognized.

D. Donated Services

Donated services are recognized as contributions in accordance with generally accepted accounting principles, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would typically need to be purchased if not provided by donation. No amounts have been recognized in the accompanying financial statements for donated services because the criteria for recognition of such volunteer effort under generally accepted accounting principles have not been satisfied.

E. Property and Equipment

Expenses for property and equipment greater than or equal to \$2,500 are capitalized at cost and depreciated over their estimated useful lives using the straight-line method. Estimated useful lives of assets are as follows:

<u>Asset class</u>	<u>Useful lives</u>
Buildings	40 years
Building and improvements	10 years
Furniture and equipment	5 years
Vehicles	5 years

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

F. Fair Value Measurements

The Gurdwara reports its fair value measurements using a three level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by generally accepted accounting standards, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1 - Quoted prices for identical assets or liabilities in active markets to which the Organization has access at the measurement date.

Level 2 - Inputs other than quoted prices included in level 1 that are observable for assets or liabilities, either directly or indirectly. Level 2 inputs include quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full terms of the assets or liabilities.

Level 3 - Unobservable inputs for assets or liabilities. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

SIKH GURDWARA - SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

G. Expense Allocation

The costs of providing various program and supporting services have been summarized on a functional basis in the statements of activities and statement of functional expenses. These statements report certain expense categories that are attributable to more than one program or supporting function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied.

The expenses that are allocated include salaries and wages, payroll taxes which are allocated on the basis of estimates of time and effort, as well as school activities, religious services, supplies, special event cost which are allocated on their respective function/ program. All remaining expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization considered general administrative expenses.

H. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

I. Grants and Contributions

Grants and contributions, including unconditional promises to give, are recorded as made. All grants and contributions are available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Revenue Recognition

Per Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of goods at a point in time based on shipping terms and transfer of title. Revenue is measured as the amount of consideration expect to be received in exchange for transferring goods. Sales, value add, and other taxes collected concurrent with revenue-producing activities are excluded from revenue.

J. Income Tax Status

The Gurdwara is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from California franchise taxes under Section 23701d of the Revenue and Taxation Code. It is the opinion of management that all income earned has been related to the Gurdwara's tax-exempt status and there has been no unrelated business income.

The accounting standard requires that a tax position be recognized or derecognized based on a "more-likely-than-not" threshold. Based on the management's analysis of the Gurdwara's tax positions, the accounting for any uncertainty in the Gurdwara's tax positions is not expected to have a material impact on the financial statements.

SIKH GURDWARA - SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

K. Current Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02 one year, making it effective for annual reporting periods beginning after December 15, 2021.

The Gurdwara has implemented lease accounting as per ASC 842 from this current year 2022.

L. Comparative Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Gurdwara's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

NOTE 3 - CASH AND CASH EQUIVALENTS

At December 31, 2022, and 2021, the Gurdwara's cash consisted of the following:

	<u>2022</u>	<u>2021</u>
Checking/Savings account	\$ 976,307	\$ 940,010
Cash and sweep balances	<u>397,978</u>	<u>300,454</u>
Total	<u><u>\$ 1,374,285</u></u>	<u><u>\$ 1,240,464</u></u>

At year-end, the carrying amount of the Gurdwara's cash & cash equivalent was \$976,307 and the bank balance was \$1,017,729. The difference between the bank balance and the carrying amount represents outstanding checks.

Credit Risk: Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Gurdwara maintains its cash in bank deposit accounts that at times may exceed insured limits. The Gurdwara has not experienced any losses in such accounts. At December 31, 2022 and 2021, the Gurdwara had \$550,344 and \$464,125 in excess of insured limits.

SIKH GURDWARA - SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 4 - INVESTMENTS

Investments are stated at fair value as of December 31, 2022 and 2021, and consist of the following:

	<u>2022</u>	<u>2021</u>
Mutual Funds	\$ 381,566	\$ 18,055
Equity Securities	1,003,231	1,931,678
Fixed Income Securities	<u>153,875</u>	<u>-</u>
Total	<u>\$ 1,538,672</u>	<u>\$ 1,949,733</u>

FAIR VALUE MEASUREMENTS

Information related to the investment measured at fair value on a recurring basis at December 31, 2022 is as follows:

Description	Fair Value	Fair Value Measurement Using		
		(Level 1)	(Level 2)	(Level 3)
Mutual Fund	\$ 381,566	\$ 381,566	\$ -	\$ -
Equity Securities	1,003,231	1,003,231	-	-
Fixed Income Securities	<u>153,875</u>	<u>153,875</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 1,538,672</u>	<u>\$ 1,538,672</u>	<u>\$ -</u>	<u>\$ -</u>

The following schedule summarizes investment returns on investments, reported in the statements of activities for the year ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest Income	\$ 619	\$ 185
Dividend Income	36,098	26,179
Net Realized Gain/(Loss) on Investments	(16,738)	17,426
Unrealized Gain/(Loss) on Investments	(343,243)	218,104
Investment Fees	<u>(14,979)</u>	<u>(13,903)</u>
Total	<u>\$ (338,243)</u>	<u>\$ 247,991</u>

SIKH GURDWARA - SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 2,200,000	\$ 2,200,000
Construction in progress	283,452	216,096
Buildings	34,424,815	34,424,815
Buildings and improvements	929,568	913,751
Furniture and equipment	1,880,750	1,717,492
Vehicles	<u>32,000</u>	<u>32,000</u>
Total property and equipment	39,750,585	39,504,154
Less: accumulated depreciation	<u>14,991,586</u>	<u>13,925,573</u>
Property and equipment, net	<u>\$ 24,758,999</u>	<u>\$ 25,578,581</u>

Depreciation expense for the years ended December 31, 2022 and 2021 were \$1,066,013 and \$1,237,811.

NOTE 6 - LEASE

On May 28, 2010, the Gurdwara entered into lease agreement with T-Mobile West Tower LLC for the purpose of installing, operating, repairing and maintaining Antenna Facilities in the Gurdwara's premises for five years with monthly receipts of \$1,985. Lessor and lessee entered into an amendment to the lease wherein the term of the lease had been modified to include an additional nine extensions of five years. According to the lease, the expiration date of final extension will be May 31, 2060. Rent will be increased for each such renewal term over the monthly or annual installment of rent payable during the preceding renewal term by 12%. In consideration of the additional ground space being lease pursuant to the First amendment effective from the year 2016, tenant shall pay to landlord the amount of \$1,700 per month. The ground expansion fees shall increase in the same manner and at the same time as rent, as provided in the lease, and shall be payable, in advance, together with the rent.

The Gurdwara deferred rent receivable for the year ended December 31, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletion</u>	<u>Ending Balance</u>
Deferred rent receivable	\$ -	\$ 25,521	\$ -	\$ 25,521
Total	<u>\$ -</u>	<u>\$ 25,521</u>	<u>\$ -</u>	<u>\$ 25,521</u>

NOTE 7 - NOTE PAYABLE

At February 20, 2017, the Gurdwara had \$11,174,638 of variable-rate debt outstanding with payments due on a monthly basis. The note accrued interest at Daily LIBOR plus 1.75%. In order to hedge interest rate risk, on January 31, 2017, the Gurdwara entered into a Swap Agreement, governed by International Swaps and Derivatives Association, Inc. Master Agreement 2002 with Umpqua Bank with effective date of Swap Agreement as February 20, 2017 and termination date as April 20, 2026. The Gurdwara entered into an interest rate swap for a notional amount of \$11,174,638 at fixed rate of 2.57%.

SIKH GURDWARA - SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 7 - NOTE PAYABLE - CONT'D

Under this agreement, the Gurdwara pays the fixed rate of 2.57% on the outstanding balance on monthly basis and receives Daily LIBOR on a monthly basis. Payments are settled on a net basis, and the Gurdwara has effectively converted its variable-rate debt into fixed-rate debt with an effective interest rate of 4.32% (2.57%+1.75%).

The following is a summary of the notes payable:

	<u>2022</u>	<u>2021</u>
Notes payable, current	\$ 302,973	\$ 285,372
Notes payable, net of current	<u>9,553,150</u>	<u>9,856,122</u>
Total notes payable	<u>\$ 9,856,123</u>	<u>\$ 10,141,494</u>

The future scheduled maturities of long-term debt are as follows:

<u>Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2023	\$ 425,682	\$ 302,973	\$ 728,655
2024	413,181	321,659	734,840
2025	397,558	341,498	739,056
2026	<u>128,459</u>	<u>8,889,993</u>	<u>9,018,452</u>
Total	<u>\$ 1,364,880</u>	<u>\$ 9,856,123</u>	<u>\$ 11,221,003</u>

NOTE 8 - RISK MANAGEMENT

The Gurdwara is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Gurdwara carries commercial insurance covering such risks of loss, including workers' compensation.

NOTE 9 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The Gurdwara's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested into short-term investments, including money market accounts and certificates of deposit. The Gurdwara had the following financial assets that could readily be made available within one year to fund expenses without limitations:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,374,285	\$ 1,240,464
Investments	1,538,672	1,949,733
ERTC refund receivable	<u>-</u>	<u>125,745</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,912,957</u>	<u>\$ 3,315,942</u>

SIKH GURDWARA - SAN JOSE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 10 - EMPLOYEE RETENTION CREDIT (ERC) RECEIVABLE

The ERC provides eligible employers with less than 500 employees a refundable tax credit against the employer's ERC proshare of social security taxes. The ERC is equal to 70% of qualified wages paid to employees for a maximum credit per employee of \$7,000 per employee for each calendar quarter through December 31, 2022. During the year ended December 31, 2022, the Gurdwara claimed ERCs of \$125,745, recognized as revenue. At the end of December 31, 2022, the Gurdwara had no receivable for ERC refunds.

NOTE 11 - SUBSEQUENT EVENTS

The management of the Gurdwara has reviewed the results of operations for the period of time from its year end December 31, 2022 through July 12, 2023, the date the financial statements were available to be issued and has 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.

SUPPLEMENTARY INFORMATION

SIKH GURDWARA - SAN JOSE
SUPPORTING DATA REQUIRED BY THE LENDER-
DEBT SERVICE COVERAGE RATIO AND LIQUIDITY MAINTENANCE RATIO
FOR THE YEAR ENDED DECEMBER 31, 2022

Debt Service Coverage Ratio Calculation

Net revenue available for debt service (cash flow) Divided by	\$ 975,994
Maximum annual debt service as defined in the debt agreement	728,655
Debt service coverage ratio	1.34
Debt service coverage ratio required by lender	1.00 to 1.25

Calculation of Net Revenues Available for Debt Service on the Debt

Changes in net assets from operating activities	\$ (643,750)
Add: Depreciation expense	1,066,013
Interest expenses	<u>553,731</u>
Net revenue available for debt service	<u>\$ 975,994</u>

Debt Service for the year ended December 31, 2022

Principal payment upon long- term debt during the year ended December 31, 2023	\$ 302,973
Interest expenses during the year ended December 31, 2023	<u>425,682</u>
Maximum annual debt service as defined in the debt agreement	<u>\$ 728,655</u>

Liquidity maintenance

Liquidity maintenance	\$ 2,912,957
Liquidity maintenance required by lender	600,000

Calculation of Liquidity maintenance

Unrestricted cash	1,374,285
Marketable securities	<u>1,538,672</u>
Liquidity maintenance	<u>\$ 2,912,957</u>