

**San Jose Downtown Property Owners'
Association**

Financial Statements

June 30, 2021



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
San Jose Downtown Property Owners' Association
San Jose, California

We have audited the accompanying financial statements of San Jose Downtown Property Owners' Association (a California nonprofit mutual benefit corporation) (the "Association"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for 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 San Jose Downtown Property Owners' Association 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Association has adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topics 606)*. Our opinion is not modified with respect to that matter.



An independent firm
associated with Moore
Global Network Limited

Emphasis of Matter

As discussed in Note 7 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

September 30, 2021

San Jose Downtown Property Owners' Association
Statement of Financial Position
June 30, 2021

ASSETS

Current assets	
Cash and cash equivalents	\$ 1,385,808
Accounts receivable	9,496
Contracts receivable	57,388
Prepaid expenses	<u>8,872</u>
Total current assets	<u>1,461,564</u>
Fixed assets, net	
Office equipment	20,266
Accumulated depreciation	<u>(19,374)</u>
Total fixed assets, net	<u>892</u>
Total assets	<u><u>\$ 1,462,456</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 581,578
Accrued expenses	<u>17,300</u>
Total current liabilities	598,878
Net assets without donor restrictions	<u>863,578</u>
Total liabilities and net assets	<u><u>\$ 1,462,456</u></u>

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

San Jose Downtown Property Owners' Association
Statement of Activities
For the Year Ended June 30, 2021

Revenues, gains and other support	
Property owners' assessments	\$ 2,341,426
Exempt properties assessments	622,678
City of San Jose contracts - baseline services	395,000
Other contracts	200,676
Other revenue	30,100
Interest income	64
Total revenues, gains and other support	<u>3,589,944</u>
Functional expenses	
Program services	
Street Life Projects	534,260
Image Maintenance Projects	215,421
Enhanced Maintenance	50,788
Tree Maintenance	123,555
District Enhancements	465,573
Clean / Greet Teams	2,048,973
Total program services	<u>3,438,570</u>
Support services	
Management and general	436,814
Total support services	<u>436,814</u>
Total functional expenses	<u>3,875,384</u>
Change in net assets	(285,440)
Net assets without donor restrictions, beginning of year	<u>1,149,018</u>
Net assets without donor restrictions, end of year	<u>\$ 863,578</u>

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

San Jose Downtown Property Owners' Association
Statement of Functional Expenses
For the Year Ended June 30, 2021

	Street Life Projects	Image Maintenance Projects	Enhanced Maintenance	Tree Maintenance	District Enhancements	Clean / Greet Teams	Total Program Services	Management and General	Total
Functional expenses									
Subcontractors - Groundwerx	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,045,871	\$ 2,045,871	\$ -	\$ 2,045,871
Image enhancement	531,515	215,421	50,788	123,555	-	-	921,279	38,026	959,305
District enhancements	-	-	-	-	405,071	-	405,071	-	405,071
Management services	-	-	-	-	-	-	-	355,404	355,404
Other supplies and materials	-	-	-	-	20,502	-	20,502	-	20,502
Professional services	-	-	-	-	-	-	-	27,740	27,740
Miscellaneous	-	-	-	-	40,000	3,102	43,102	6,289	49,391
Travel	-	-	-	-	-	-	-	1,494	1,494
Insurance	-	-	-	-	-	-	-	4,746	4,746
Office supplies	2,299	-	-	-	-	-	2,299	3,115	5,414
Depreciation	446	-	-	-	-	-	446	-	446
	<u>\$ 534,260</u>	<u>\$ 215,421</u>	<u>\$ 50,788</u>	<u>\$ 123,555</u>	<u>\$ 465,573</u>	<u>\$ 2,048,973</u>	<u>\$ 3,438,570</u>	<u>\$ 436,814</u>	<u>\$ 3,875,384</u>

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

San Jose Downtown Property Owners' Association
Statement of Cash Flows
For the Year Ended June 30, 2021

Cash flows from operating activities	
Change in net assets	\$ (285,440)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	446
Changes in operating assets and liabilities	
Accounts receivable	(4,587)
Contracts receivable	71,186
Prepaid expenses	(1,872)
Accounts payable	(133,104)
Accrued expenses	500
Net cash used in operating activities	<u>(352,871)</u>
Net decrease in cash and cash equivalents	(352,871)
Cash and cash equivalents, beginning of year	<u>1,738,679</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,385,808</u></u>

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

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2021

1. NATURE OF OPERATIONS

The San Jose Downtown Property Owners' Association (the "Association") is a corporation organized under the California Nonprofit Mutual Benefit Corporation Law. The Association is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. The Association's operation commenced on January 28, 2008. The purpose of the Association is to improve downtown San Jose, California with enhanced services including:

(a) Clean teams that will sweep, scrub, power wash sidewalks, remove litter and graffiti, and increase the frequency of trash removal and maintenance of public spaces within downtown.

(b) Information and safety ambassadors to provide information on downtown activities and establishments, prevent crime and work productively with social service providers.

(c) Image enhancement and cosmetic improvements to visually improve downtown.

(d) Tree maintenance to maintain the street trees and palms within the downtown San Jose Property-based Business Improvement District ("PBID") boundary.

(e) Enhanced security services to provide a visible uniformed presence at the properties and parcels within the downtown San Jose PBID boundary.

(f) Business development program designed to keep and attract jobs, investment and new businesses to downtown San Jose.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

In accordance with accounting principles generally accepted in the United States of America, the Association reports its financial position and operating activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. There are currently no net assets with donor restrictions.

Change in accounting policy

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topics 606)*. This ASU provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Association adopted ASU 2014-09 with a date of the initial application of July 1, 2020, using the full retrospective method. The adoption of ASU 2014-09 did not have a significant impact on the Association's financial position, result of operations, or cash flows. No changes were required to previously reported revenue as a result of the adoption of this standard.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Receivables

Receivables represent amount due from grants, contracts and fees that are carried at the original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Receivables are written off when deemed uncollectible and recoveries of receivables previously written off are recorded when received. No allowance for uncollectible receivables has been presented since all amounts are deemed to be collectible.

Prepaid expenses

Prepaid expenses result from advances or deposits on goods or services that will be received in the following year. Direct event expenses are recorded in the year the event takes place.

Property and equipment

The Association's policy is to capitalize property and equipment purchases in excess of \$3,000. Any furniture, equipment or other assets purchased under a grant or a service contract are considered the property of the granting agency and will not be capitalized. Depreciation is computed using straight-line depreciation methods over the asset's estimated useful lives. Depreciation expense for the year ended June 30, 2021 was \$446.

Deferred revenue

Deferred revenue results from assessments, contract or sponsorship revenue received for a specific event scheduled in the following year. Revenue is recognized in the period that the related expenses are incurred.

Revenue recognition

The Association recognizes revenue and support on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided. The Association follows the following steps to determine revenue recognition:

- Identifying the contract(s) with a customer,
- Identifying the performance obligations in the contract(s),

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- Determining the transaction price,
- Allocating the transaction price to the performance obligations in the contract(s), and
- Recognizing revenue when, or as, the Association satisfies a performance obligation.

Advertising costs

The Association's policy is to expense advertising costs as the costs are incurred.

Functional expenses

Costs of providing the Association's activities have been allocated between program services and management and general based upon estimates of time and costs incurred by the Association.

Income tax status

San Jose Downtown Property Owners' Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

The Association files information returns in the U.S. federal jurisdiction and state of California. The Association's federal returns for the years ended June 30, 2018 and beyond remain subject to possible examination by the Internal Revenue Service. The Association's California returns for the years ended June 30, 2017 and beyond remain subject to possible examination by the Franchise Tax Board.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Subsequent events

Management of the Association has evaluated events and transactions subsequent to June 30, 2021 for potential recognition or disclosure in the financial statements. The Association did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2021. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 30, 2021.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2021

3. PROPERTY-BASED IMPROVEMENT DISTRICT

In August 7, 2007, City of San Jose City Resolution No. 73937 established and defined the San Jose Downtown Property-Based Improvement District ("PBID" or "District"). The PBID is funded by an assessment levied on the property owners located within the District and approved through a petition and mail-ballot process. The PBID was scheduled to terminate on December 31, 2012, however, the PBID was renewed for an additional ten years through December 31, 2022.

The Association was incorporated as a California Nonprofit Mutual Benefit Corporation to provide oversight of the District, to contract on behalf of the District, and to review and provide leadership and guidance to the members of the District.

4. SAN JOSE DOWNTOWN ASSOCIATION

On January 28, 2008, the Association entered into an agreement with San Jose Downtown Association ("SJDA") to receive management services. The agreement has been extended several times and continues through January 31, 2022. The entities have separate boards of directors and operate as separate entities. As a fee for the management services, SJDA will receive up to and not to exceed 9.9% of the total revenue received by the Association. The fee is payable semi-annually. For the year ended June 30, 2021, the Association incurred expenses from this agreement totaling \$355,404.

The Association also has an arrangement with SJDA in which salaries for four SJDA employees who work on the PBID projects are paid through SJDA and reimbursed by the Association. For the year ended June 30, 2021, the Association paid a total of \$363,000 towards salaries of a Business Development Program Manager, a Street Life Program Project Manager, a Community Engagement Manager and a PBID coordinator under this arrangement.

On January 15, 2013, SJDA on behalf of the Association entered into an Environmental and Maintenance and Supplemental Security Services agreement with Block by Block. The original agreement was for a period of three years and expired on January 14, 2016. The agreement has been amended and renewed and will expire on January 14, 2022.

5. ASSESSMENTS ON SARA PARCELS

There are certain parcels of Federal and State SARA (Successor Agency to the Redevelopment Agency of the City of San Jose) properties where assessments continue to be made on an annual basis although management of the Association believes collectability to be uncertain. Assessments are recognized in revenue upon the sale of each parcel. There were no SARA parcels sold during the year ended June 30, 2021. There are other assessments related to SARA transfers to the City of San Jose that have not been included in accounts receivable or recognized in revenue, and collectability is entirely dependent on sufficient proceeds being available at the time of any potential sale of each parcel.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2021

6. LIQUIDITY

The following is a quantitative disclosure describing financial assets that are available within one year of June 30, 2021 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 1,385,808
Accounts receivable	9,496
Contracts receivable	<u>57,388</u>
	<u>\$ 1,452,692</u>

The Association had \$1,452,692 of financial assets available at June 30, 2021 to meet the needs for general expenditures in the next 12 months and none of them are subject to donor or other contractual restrictions. The Association manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due.

As part of the Association's liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Association expects that receivables from program and contracts will be collected and available within 60 days of the fiscal year end.

7. CONTINGENCIES AND RISKS

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has continued to cause business disruption through multiple mandated and voluntary closings of businesses and shelter in place orders over the last fiscal year. In response, the U.S. Government has enacted several financial safety net provisions in both the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and the American Rescue Plan ("ARP").

While the Association cannot anticipate all of the ways in which COVID19 could adversely impact its operations, it did react swiftly during FY2020-21 including utilizing a Knight Foundation grant to create a short-term strategic plan (the Stabilization Plan, published in August 2020) to address pandemic conditions and prepare the Association for recovery. This Plan recognized that organizations such as the Association that rely on property tax receipts were largely spared dramatic financial impacts since property owners continued to make property tax payments. The Plan also emphasized the essential services of the PBID's Groundwerx program that provides clean and safe services for the district.