

**San Jose Downtown Property Owners'  
Association**

Financial Statements

June 30, 2019



## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Accountant's Review Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10



## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed 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, 2019, 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 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.

### **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.

### **Change in Accounting Principle**

As described in Note 2 to the financial statements, the Association has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our conclusion 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<sup>LLP</sup>  
San Jose, California

September 27, 2019

San Jose Downtown Property Owners' Association  
Statement of Financial Position  
June 30, 2019

ASSETS

Current assets	
Cash and cash equivalents	\$ 1,234,871
Accounts receivable	4,799
Contracts receivable	76,890
Prepaid expenses	<u>2,964</u>
Total current assets	<u>1,319,524</u>
 Fixed assets	
Office equipment	18,927
Accumulated depreciation	<u>(18,203)</u>
Total fixed assets	<u>724</u>
 Total assets	<u><u>\$ 1,320,248</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 312,758
Accrued expenses	<u>15,650</u>
Total current liabilities	328,408
 Net assets without donor restrictions	<u>991,840</u>
 Total liabilities and net assets	<u><u>\$ 1,320,248</u></u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association  
Statement of Activities  
For the Year Ended June 30, 2019

Revenues, gains and other support	
Property owners' assessments	\$ 2,165,126
Exempt properties assessments	605,751
City of San Jose contracts - baseline services	395,000
Grants	100,000
Other contracts	208,281
Miscellaneous	26
Interest income	146
Total revenues, gains and other support	<u>3,474,330</u>
Functional expenses	
Program services	
San Pedro Squared	8,673
Street Life Projects	157,364
Image Maintenance Projects	183,989
Enhanced Maintenance	78,912
Tree Maintenance	116,499
District Enhancements	431,683
Clean / Greet Teams	<u>1,856,986</u>
Total program services	<u>2,834,106</u>
Support services	
Management and general	<u>406,861</u>
Total support services	<u>406,861</u>
Total functional expenses	<u>3,240,967</u>
Change in net assets	233,363
Net assets without donor restrictions, beginning of year	<u>758,477</u>
Net assets without donor restrictions, end of year	<u>\$ 991,840</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association  
Statement of Functional Expenses  
For the Year Ended June 30, 2019

	San Pedro Squared	Street Life Projects	Image Maintenance Projects	Enhanced Maintenance	Tree Maintenance	District Enhancements	District Maintenance Projects	Clean / Greet Teams	Total Program Services	Management and General	Total
Functional expenses											
Subcontractors - Groundwerx	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,856,986	\$ 1,856,986	\$ -	\$ 1,856,986
Image enhancement	6,074	155,134	183,989	78,912	116,499	-	-	-	540,608	-	540,608
District enhancements	-	-	-	-	-	411,342	-	-	411,342	-	411,342
Management services	-	-	-	-	-	-	-	-	-	343,959	343,959
Bad debt expense	-	-	-	-	-	-	-	-	-	28,000	28,000
Other supplies and materials	-	-	-	-	-	20,341	-	-	20,341	-	20,341
Professional services	-	-	-	-	-	-	-	-	-	19,375	19,375
Miscellaneous	2,599	386	-	-	-	-	-	-	2,985	5,586	8,571
Insurance	-	-	-	-	-	-	-	-	-	5,201	5,201
Office supplies	-	-	-	-	-	-	-	-	-	4,037	4,037
Depreciation	-	1,449	-	-	-	-	-	-	1,449	703	2,152
Travel	-	395	-	-	-	-	-	-	395	-	395
	<u>\$ 8,673</u>	<u>\$ 157,364</u>	<u>\$ 183,989</u>	<u>\$ 78,912</u>	<u>\$ 116,499</u>	<u>\$ 431,683</u>	<u>\$ -</u>	<u>\$ 1,856,986</u>	<u>\$ 2,834,106</u>	<u>\$ 406,861</u>	<u>\$ 3,240,967</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association  
Statement of Cash Flows  
For the Year Ended June 30, 2019

Cash flows from operating activities	
Change in net assets	\$ 233,363
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	2,152
Bad debt	28,000
Contracts receivable	4,302
Grants receivable	47,652
Prepaid expenses	49,000
Accounts payable	929
Accrued expenses	(56,590)
Deferred revenue	<u>2,650</u>
Net cash provided by operating activities	<u>311,458</u>
Net increase in cash and cash equivalents	311,458
Cash and cash equivalents, beginning of year	<u>923,413</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,234,871</u></u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association  
Notes to Financial Statements  
June 30, 2019

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 August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, Presentation of Financial Statements of Not-for-Profit ("NFP") Entities. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two: net assets with donor restrictions and net assets without donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the Association, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses.



San Jose Downtown Property Owners' Association  
Notes to Financial Statements  
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting policy (continued)

The amendment in this ASU is effective for organizations with fiscal years beginning after December 15, 2017 and must be applied on a retrospective basis. The Association adopted the ASU effective July 1, 2018. The adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

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

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 \$500. 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, 2019 was \$2,152.

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.

San Jose Downtown Property Owners' Association  
Notes to Financial Statements  
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 programs, 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, 2016 and beyond remain subject to possible examination by the Internal Revenue Service. The Association's California returns for the years ended June 30, 2015 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 revenue 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, 2019 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, 2019. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 27, 2019.

San Jose Downtown Property Owners' Association  
Notes to Financial Statements  
June 30, 2019

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, 2019, the Association incurred expenses from this agreement totaling \$343,959.

The Association also has an arrangement with SJDA in which salaries for two SJDA employees who work on the PBID projects are paid through SJDA and reimbursed by the Association. For the year ended June 30, 2019, the Association paid a total of \$233,000 towards salaries of a Business Development Program Manager and Street Life Program Project Manager under this arrangement.

Further, the Association has an arrangement with SJDA in which grant money received by SJDA is paid to PBID for programs specified in the grant via an exchange transaction. During the year ended June 30, 2019, the Association received \$98,000 from SJDA under this arrangement. Revenue recognized related to this arrangement totaled \$100,000 for the year ended June 30, 2019.

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.

San Jose Downtown Property Owners' Association  
Notes to Financial Statements  
June 30, 2019

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, 2019. 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.

6. LIQUIDITY

The following is a quantitative disclosure describing financial assets that are available within one year of June 30, 2019 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 1,234,871
Accounts receivable	4,799
Contracts receivable	<u>76,890</u>
	<u><u>\$ 1,316,560</u></u>

The Association had \$1,316,560 of financial assets available at June 30, 2019 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.