

**San Jose Downtown Property  
Owners' Association**

(A California Nonprofit Mutual Benefit Corporation)

Financial Statements

Year Ended June 30, 2016



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
San Jose Downtown Property Owners' Association  
(A California Nonprofit Mutual Benefit Corporation)  
San Jose, California

We have audited the accompanying financial statements of San Jose Downtown Property Owners' Association (a California nonprofit mutual benefit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, 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, 2016, 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.

*Armanino LLP*

Armanino<sup>LLP</sup>  
San Jose, California

September 23, 2016

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION  
Statement of Financial Position  
June 30, 2016

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ASSETS

Current assets	
Cash	\$ 1,033,283
Contracts receivable	79,262
Accounts receivable	18,522
Prepaid expenses	<u>27,861</u>
Total current assets	<u>1,158,928</u>
Property and equipment, at cost	
Office and computer equipment	18,927
Accumulated depreciation	<u>(9,177)</u>
Total property and equipment, net	<u>9,750</u>
Total assets	<u>\$ 1,168,678</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 305,820
Accrued expenses	11,200
Deferred revenue	<u>188,214</u>
Total current liabilities	505,234
Net assets	
Unrestricted net assets	<u>663,444</u>
Total liabilities and net assets	<u>\$ 1,168,678</u>

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

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION  
Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue			
Property owners' assessments	\$ 1,887,881	\$ -	\$ 1,887,881
Exempt properties assessments	530,331	-	530,331
City of San Jose contracts - baseline services	365,000	-	365,000
Other contracts	374,272	-	374,272
Miscellaneous	17,696	-	17,696
Interest income	122	-	122
Total revenue	<u>3,175,302</u>	<u>-</u>	<u>3,175,302</u>
Expenses			
Subcontractors - Groundwerx	<u>1,669,196</u>	<u>-</u>	<u>1,669,196</u>
Supporting services			
Image enhancement	644,340	-	644,340
Management services	314,355	-	314,355
District enhancements	297,840	-	297,840
Professional services	11,200	-	11,200
Insurance	2,561	-	2,561
Miscellaneous	1,510	-	1,510
Downtown Street Team (DST)	124,665	-	124,665
Depreciation	3,715	-	3,715
Conferences and meetings	1,298	-	1,298
Office supplies	3,206	-	3,206
Total supporting services	<u>1,404,690</u>	<u>-</u>	<u>1,404,690</u>
Total expenses	<u>3,073,886</u>	<u>-</u>	<u>3,073,886</u>
Change in net assets	101,416	-	101,416
Net assets, beginning of year	<u>562,028</u>	<u>-</u>	<u>562,028</u>
Net assets, end of year	<u>\$ 663,444</u>	<u>\$ -</u>	<u>\$ 663,444</u>

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

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION  
Statement of Cash Flows  
Year Ended June 30, 2016

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Cash flows from operating activities	
Change in net assets	\$ 101,416
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	3,715
Change in operating assets and liabilities	
Contracts receivable	(51,262)
Accounts receivable	331,754
Prepaid expenses	(6,786)
Accounts payable	(97,942)
Accrued expenses	4,350
Deferred revenue	<u>49,214</u>
Net cash provided by operating activities	<u>334,459</u>
Cash flows from investing activities	
Purchase of property and equipment	<u>(1,641)</u>
Net cash used by investing activities	<u>(1,641)</u>
Increase in cash	332,818
Cash, beginning of year	<u>700,465</u>
Cash, end of year	<u>\$ 1,033,283</u>

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

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION  
Notes to Financial Statements  
June 30, 2016

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1. Nature of Activities

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 accounting

The financial statements of the Association are prepared on the accrual basis of accounting with a fiscal year end of June 30. Revenue consists primarily of assessments on property owners within a specified district. Expenses consist primarily of the cost of providing the services as described in Note 1.

Basis of presentation

The Association follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with accounting principles generally accepted in the United States of America, the Association reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Association. Under this category, the Association maintains an operating fund, plus any net assets designated by the Board for specific purposes. The Association has elected to report as an increase in unrestricted net assets any restricted revenue received in the current period for which the restrictions have been met in the current period.

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION  
Notes to Financial Statements  
June 30, 2016

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2. Summary of Significant Accounting Policies (continued)

Temporarily restricted net assets include those assets which are subject to restriction and for which the restriction was not met as of the year end. There are currently no temporarily restricted net assets.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

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.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with a 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.

Capitalization policy

The Association's policy is to capitalize fixed asset 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. Depreciation expense for the year ended June 30, 2016 is \$3,715.

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.

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION  
Notes to Financial Statements  
June 30, 2016

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2. Summary of Significant Accounting Policies (continued)

Income taxes

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 Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

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, 2013 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns of the years ended June 30, 2012 and beyond remain subject to possible examination by the Franchise Tax Board.

Advertising

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

Subsequent events

Management of the Association has evaluated events and transactions subsequent to June 30, 2016 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, 2016. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 23, 2016

3. Property-Based Improvement District

In August 7, 2007, City of San Jose City Resolution No. 73937 established and defined the 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 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 Non-profit Mutual Benefit Corporation Law to provide oversight of the District, to contract on behalf of the District, to review and provide leadership and guidance to the members of the District.

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION  
Notes to Financial Statements  
June 30, 2016

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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, the Association will pay up to and not to exceed 9.9% of the total revenue received by PBID. The fee is payable semi-annually. As of June 30, 2016, the Association incurred expenses from this agreement totaling \$314,355.

The Association also has an arrangement with SJDA in which salaries for two SJDA employees who work on PBID projects are paid through SJDA and reimbursed by the Association. For the year ended June 30, 2016, the Association paid a total of \$200,000 towards salaries of a Business Development Program Manager and Street Life Program Project Manager under this arrangement.

Further, the Association has an arrangement with San Jose Downtown Property Owners' Association in which grant money received by SJDA is paid to PBID to operate programs specified in the grant via an exchange transaction. During the year ended June 30, 2016, the Association received \$214,820 from SJDA under this arrangement. Deferred revenue related to this arrangement as of June 30, 2016 was \$188,214. Revenue recognized related to this arrangement totaled \$172,606 for the year ended June 30, 2016.

On January 15, 2013, SJDA on behalf of the Association entered into an agreement with Block by Block. The agreement was for a period of three years and expires January 14, 2016, at which time it was renewed for one year. It may be renewed for one final year upon the mutual written agreement of the parties.

5. Assessments on SARA parcels

There are certain parcels of property, SARA (Successor Agency to the Redevelopment Agency of the City of San Jose), Federal and State 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. During the year ended June 30, 2016, the Association recognized \$51,262 in revenue related to SARA parcels sold in June 2016. 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, if possible, is entirely dependent on sufficient proceeds being available at the time of any potential sale of each parcel.