

San Jose Downtown Property Owners' Association

Financial Statements

June 30, 2023



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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
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, 2023, 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.

We are required to be independent of San Jose Downtown Property Owners' Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

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.

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 28, 2023

San Jose Downtown Property Owners' Association
Statement of Financial Position
June 30, 2023

ASSETS

Current assets	
Cash and cash equivalents	\$ 631,637
Accounts receivable	708,196
Prepaid expenses	<u>279,202</u>
Total current assets	<u>1,619,035</u>
Property and equipment, net	
Office equipment	20,266
Accumulated depreciation	<u>(20,266)</u>
Total property and equipment, net	<u>-</u>
Total assets	<u><u>\$ 1,619,035</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 782,917
Accrued expenses	<u>20,000</u>
Total current liabilities	802,917
Net assets without donor restrictions	<u>816,118</u>
Total liabilities and net assets	<u><u>\$ 1,619,035</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, 2023

Revenues and support	
Property owners' assessments	\$ 2,826,495
Exempt properties assessments	1,053,325
City of San Jose contracts - baseline services	395,000
Grants	20,000
Other contracts	704,160
Other revenue	8,634
Total revenues and support	<u>5,007,614</u>
Functional expenses	
Program services	
Image Enhancement	539,288
Street Life	146,619
District Enhancements	1,049,735
Clean and Safety Teams	2,526,788
Total program services	<u>4,262,430</u>
Support services	
Management and general	776,731
Total support services	<u>776,731</u>
Total functional expenses	<u>5,039,161</u>
Change in net assets	(31,547)
Net assets without donor restrictions, beginning of year	<u>847,665</u>
Net assets without donor restrictions, end of year	<u>\$ 816,118</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, 2023

	<u>Image Enhancement</u>	<u>Street Life</u>	<u>District Enhancements</u>	<u>Clean and Safety Teams</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Total</u>
Functional expenses							
Subcontractors - Groundwerx	\$ -	\$ 1,375	\$ 702,554	\$ 2,459,542	\$ 3,163,471	\$ -	\$ 3,163,471
Management services	94,085	85,694	107,151	67,246	354,176	668,824	1,023,000
Security	-	-	222,760	-	222,760	-	222,760
Tree maintenance	200,359	-	-	-	200,359	-	200,359
Landscape maintenance	165,292	-	-	-	165,292	-	165,292
Supplies and materials	55,667	1,151	17,270	-	74,088	11,342	85,430
Other expenses	5,952	55,834	-	-	61,786	21,017	82,803
Professional services	-	-	-	-	-	69,365	69,365
Other services	17,933	-	-	-	17,933	127	18,060
Insurance	-	2,565	-	-	2,565	5,610	8,175
Depreciation	-	-	-	-	-	446	446
	<u>\$ 539,288</u>	<u>\$ 146,619</u>	<u>\$ 1,049,735</u>	<u>\$ 2,526,788</u>	<u>\$ 4,262,430</u>	<u>\$ 776,731</u>	<u>\$ 5,039,161</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, 2023

Cash flows from operating activities	
Change in net assets	\$ (31,547)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	446
Changes in operating assets and liabilities	
Accounts receivable	(683,130)
Contracts receivable	38,201
Prepaid expenses	(273,392)
Accounts payable	261,665
Accrued expenses	950
Net cash used in operating activities	<u>(686,807)</u>
Net decrease in cash and cash equivalents	(686,807)
Cash and cash equivalents, beginning of year	<u>1,318,444</u>
Cash and cash equivalents, end of year	<u><u>\$ 631,637</u></u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2023

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.

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.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. As of June 30, 2023, all property and equipment has been fully depreciated and is still being used by the Association. Accordingly, the property and equipment has been reported at a zero book value on the statement of financial position. Depreciation expense for the year ended June 30, 2023 was \$446.

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),
- 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.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020 and beyond remain subject to possible examination by the Internal Revenue Service. The Association's California returns for the years ended June 30, 2019 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, 2023 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, 2023. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 28, 2023.

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. On June 14, 2022, the renewed District was approved at City Council extending the term for an additional ten years through December 31, 2032.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2023

3. PROPERTY-BASED IMPROVEMENT DISTRICT (continued)

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 June 27, 2027. The entities have separate boards of directors and operate as separate entities. The Association pays SJDA a fee for the management services, and the amount is determined by PBID. The fee is payable semi-annually. For the year ended June 30, 2023, the Association incurred expenses from this agreement totaling \$668,824.

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, 2023, the Association paid a total of \$354,176 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 amended and renewed agreement expired on January 14, 2023. The Association's contract with Block by Block was extended through January 14, 2024.

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, 2023. 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, 2023 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 631,637
Accounts receivable	<u>708,196</u>
	<u><u>\$ 1,339,833</u></u>

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2023

6. LIQUIDITY (continued)

The Association had \$1,339,833 of financial assets available at June 30, 2023 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.