

**San Jose Downtown Property Owners'
Association**

Financial Statements

June 30, 2018



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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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, 2018, and the related statements of activities 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 entity 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.

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 27, 2018

San Jose Downtown Property Owners' Association
Statement of Financial Position
June 30, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 923,413
Accounts receivable	9,101
Contracts receivable	152,542
Grants receivable	49,000
Prepaid expenses	<u>3,893</u>
Total current assets	<u>1,137,949</u>
Property and equipment, net	
Office equipment	18,927
Accumulated depreciation	<u>(16,051)</u>
Total property and equipment, net	<u>2,876</u>
Total assets	<u>\$ 1,140,825</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 369,348
Accrued expenses	<u>13,000</u>
Total current liabilities	382,348
Unrestricted net assets	<u>758,477</u>
Total liabilities and net assets	<u>\$ 1,140,825</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, 2018

Revenue, support and other income	
Property owners' assessments	\$ 2,035,730
Exempt properties assessments	668,900
City of San Jose contracts - baseline services	365,000
Grants	328,225
Other contracts	228,064
Miscellaneous	771
Interest income	129
Total revenue, support and other income	<u>3,626,819</u>
Expenses	
Subcontractors - Groundwerx	1,810,222
Contribution of leasehold improvement to DCDC	628,421
Image enhancement	539,068
Management services	359,055
District enhancements	273,919
Professional services	13,000
Other supplies and materials	17,278
Insurance	5,548
Miscellaneous	4,755
Office supplies	3,632
Depreciation	3,437
Travel	510
Total expenses	<u>3,658,845</u>
Change in unrestricted net assets	(32,026)
Unrestricted net assets, beginning of year	<u>790,503</u>
Unrestricted net assets, end of year	<u><u>\$ 758,477</u></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, 2018

Cash flows from operating activities	
Change in net assets	\$ (32,026)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	3,437
Contributions restricted for leasehold improvements	(98,000)
Contribution of leasehold improvement to DCDC	628,421
Changes in operating assets and liabilities	
Accounts receivable	23,760
Contracts receivable	(68,402)
Grants receivable	(49,000)
Prepaid expenses	17,780
Accounts payable	(8,778)
Accrued expenses	(1,250)
Deferred revenue	<u>(74,725)</u>
Net cash provided by operating activities	<u>341,217</u>
Cash flows from investing activities	
Purchase of leasehold improvement	<u>(628,421)</u>
Net cash used in investing activities	<u>(628,421)</u>
Cash flows from financing activities	
Proceeds from contributions restricted for leasehold improvements	<u>98,000</u>
Net cash provided by financing activities	<u>98,000</u>
Net decrease in cash and cash equivalents	(189,204)
Cash and cash equivalents, beginning of year	<u>1,112,617</u>
Cash and cash equivalents, end of year	<u>\$ 923,413</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2018

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 accounting and financial statement presentation

The financial statements of the Association are prepared on the accrual basis of accounting.

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

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Permanently restricted net assets* - assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted 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, 2018 was \$3,437.

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.

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, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2015 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2014 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, 2018 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, 2018. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 27, 2018.

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, 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, 2018

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, 2018, the Association incurred expenses from this agreement totaling \$359,055.

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, 2018, the Association paid a total of \$228,000 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, 2018, the Association received \$147,000 from SJDA under this arrangement. Revenue recognized related to this arrangement totaled \$272,725 for the year ended June 30, 2018.

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, 2019.

5. SAN JOSE DOWNTOWN COMMUNITY DEVELOPMENT CORPORATION

The San Jose Downtown Community Development Corporation ("DCDC") is a 501(c)(3) nonprofit organization whose mission is to develop and fund capital and management initiatives that enrich the downtown economy and public realm.

On December 20, 2017, DCDC entered into an agreement with the City of San Jose to lease specific parking spaces located on the ground floor of the Market Street and San Pedro Street garage ("San Pedro Squared project") in downtown San Jose starting from January 1, 2018 through December 31, 2022. The agreement allows for the construction and operation of four retail incubation units on the leased spaces and the City granted \$98,000 for the construction of leasehold improvements set forth in the agreement. The granted fund was awarded to SJDA and then paid to the Association via an exchange transaction since the Association has the capability to meet the funding needs beyond the \$98,000 in order to cover the full cost of the San Pedro Squared project.

The construction of the San Pedro Squared project was completed and placed in service on May 18, 2018. On June 30, 2018, the Board of Directors of the Association passed a resolution to grant the San Pedro Squared leasehold improvement totaling \$628,421 to DCDC.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2018

6. 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. The Association recognized \$68,292 in revenue related to SARA parcels sold during the year ended June 30, 2018. 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.