

# **Japantown Community Benefit District, Inc.**

Financial Statements

June 30, 2020

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors  
Japantown Community Benefit District, Inc.

### Report on the Financial Statements

We have reviewed the accompanying financial statements of Japantown Community Benefit District, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended. 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 Statement

Management is responsible for the preparation and fair presentation of the 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 American Institute of Certified Public Accountants. 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 general 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.

**BAKER TILLY US, LLP**

*Baker Tilly US, LLP*

San Francisco, California  
February 26, 2021

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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2020**

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**Current Assets**

Cash	\$ 714,277
Assessments receivable	1,015
Pledges receivable	10,000
Prepaid expenses	<u>9,975</u>
Total current assets	735,267

**Noncurrent Assets**

Property and equipment, net	<u>414,492</u>
Total assets	<u>\$ 1,149,759</u>

**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts payable	<u>\$ 1,215</u>
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**Net Assets**

Without donor restrictions	930,764
With donor restrictions	<u>217,780</u>
Total net assets	<u>1,148,544</u>

Total liabilities and net assets	<u>\$ 1,149,759</u>
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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES AND SUPPORT</b>			
Assessments revenue	\$ 392,979	\$ -	\$ 392,979
Grants and contributions	29,915	31,763	61,678
Other - late fees	34,174	-	34,174
Satisfaction of donor restrictions	97,756	(97,756)	-
	<u>554,824</u>	<u>(65,993)</u>	<u>488,831</u>
<b>EXPENSES</b>			
Program services	411,435	-	411,435
Management and general	89,836	-	89,836
	<u>501,271</u>	<u>-</u>	<u>501,271</u>
	53,553	(65,993)	(12,440)
<b>CHANGE IN NET ASSETS</b>			
<b>NET ASSETS - beginning of year</b>	<u>877,211</u>	<u>283,773</u>	<u>1,160,984</u>
<b>NET ASSETS - end of year</b>	<u>\$ 930,764</u>	<u>\$ 217,780</u>	<u>\$ 1,148,544</u>

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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2020**

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	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Economic enhancement expenses	\$ 135,959	\$ -	\$ 135,959
Environmental enhancement expenses	120,545	-	120,545
Depreciation expense	101,630	-	101,630
Salaries	44,781	32,259	77,040
Legal and professional services	-	31,550	31,550
Payroll expenses	3,658	3,300	6,958
Taxes and licenses	-	5,783	5,783
Office expenses	-	5,243	5,243
Occupancy	1,477	3,696	5,173
Outside services	985	3,841	4,826
Insurance	-	4,164	4,164
Charitable contributions	2,400	-	2,400
	<u>411,435</u>	<u>89,836</u>	<u>501,271</u>
Total expenses	<u>\$ 411,435</u>	<u>\$ 89,836</u>	<u>\$ 501,271</u>

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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2020**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ (12,440)
Reconciliation of change in net assets to net cash provided by operating activities:	
Depreciation expense	101,630
Change in operating assets:	
Assessments receivable	1,202
Pledges receivable	(10,000)
Prepaid expenses	(9,975)
Accounts payable	(225)
<b>Net cash provided by operating activities</b>	<u>70,192</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of property and equipment	<u>(96,518)</u>
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**NET DECREASE IN CASH** (26,326)

**CASH - beginning of year** 740,603

**CASH - end of year** \$ 714,277

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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2020**

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**1. ORGANIZATION**

Japantown Community Benefit District, Inc. (the "JCBD") is a not-for-profit organization formed on October 19, 2017 pursuant to a management contract with the City and County of San Francisco (the "City"). Refer to Note 6.

The JCBD, located in San Francisco, California, has specific charitable purpose to advance the common good, general welfare and quality of life of all San Franciscans, and of visitors to San Francisco, by enhancing environmental quality and beauty in the Japantown Community Benefit District (the "District"), by fostering a safer and more secure community in that District, and by reinforcing the cultural heritage and economic vitality of that District, and to carry on other charitable activities associated with these goals as allowed by law.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting***

The financial statements are as of and for the year ended June 30, 2020 and are presented in accordance with generally accepted accounting principles promulgated in the United States of America for Not-For-Profit Organizations ("U.S. GAAP").

***Basis of Presentation***

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the JCBD and changes therein are classified and reported as follows:

***Net Assets Without Donor Restrictions***

Those net assets which are not subject to donor-imposed stipulations. Net assets without donor restrictions also include funds designated by the board of directors for specific projects. The JCBD currently has no board-designated net assets.

***Net Assets With Donor Restrictions***

Those net assets that are subject to donor-imposed stipulations that may or will be met by actions of the JCBD and/or the passage of time, and net assets to be held in perpetuity as directed by donors. The JCBD currently has no net assets to be held in perpetuity.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Cash and Cash Equivalents***

Cash consists of a checking account. JCBD considers short-term and highly liquid investments with original maturities of three months or less from the dates of acquisition as cash equivalents. There were no cash equivalents as of June 30, 2020.

***Assessments Receivable***

Assessments receivable represents obligations of the City due to the JCBD. The allowance for doubtful accounts is determined based on the collectability of receivables. Receivables are written off when it is probable that the receivables will not be collected. Management believes that all outstanding assessments receivable is collectible in full, therefore no allowance for doubtful accounts has been provided. All assessments receivable is due within one year.

***Pledges Receivable***

Unconditional pledges receivable is recorded when the pledge is made; such receivable is subject to an allowance for uncollectible amounts. Pledges which are due beyond one year are recorded at the net present value of the contribution. The changes in present value in future periods are recorded in the statement of activities as contributions in the periods of change. At June 30, 2020, management believes these amounts are fully collectible, and as such, did not record an allowance for doubtful accounts for grants receivable. All pledges receivable are due within one year.

***Property and Equipment***

Property and equipment with a cost or value in excess of \$5,000, are capitalized by the JCBD at cost or, if donated, recorded at fair value at the date of the donation. The cost of additions and major improvements is capitalized, while maintenance and repairs are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in other income. Depreciation is provided on the straight-line method over the estimated useful life of five years.

The JCBD reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Management believes there were no indicators of impairment at June 30, 2020.

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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Revenue Recognition***

*Assessments Revenue*

JCBD received assessments which are collected by the City under the terms of the agreement between the City and JCBD (refer to Note 6).

Assessments revenue which includes fines and penalties are accounted for as support and recognized when notification of the assessment is received from the City.

*Grants and contributions*

Unconditional grants and contributions and pledges are recognized at their fair value in the period notified.

Grants and contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Conditional grants and contributions are recognized once conditions associated with the contributions have been fulfilled.

***Income Taxes***

The JCBD is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California franchise taxes under Section 23701d of the Revenue and Taxation Code. In addition, the JCBD qualifies for the charitable contribution deduction under Section 170(b)(1)(A). However, income from activities not related to the JCBD's tax-exempt purpose may be subject to taxation as unrelated business income.

U.S. GAAP provides disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and does not believe that the JCBD has any uncertain tax positions that require adjustment or disclosure in the financial statements. The JCBD's returns are subject to examination by federal and state taxing authorities, generally for three to four years, respectively, after they are filed.

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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2020**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Functional Expenses***

The costs of program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses are identified with a specific program or support service and are charged directly to that program or support service. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

***Recently Issued Accounting Standard***

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) – Effective Dates for Certain Entities* (“ASU 2020-05”) to defer the effective dates of the ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”) and ASU 2016-02, *Leases* (“ASU 2016-02”) to provide immediate, near-term relief for certain entities for whom these updates are either currently effective or imminently effective. The deferral of the effective dates of ASU 2016-02 is reflected in the following paragraph.

In February 2016, the FASB issued ASU 2016-02. This standard modifies the principles that lessees and lessors apply to report information in their financial statements about the amount, timing, and uncertainty of cash flows arising from leases. The standard requires lessees to recognize most leases on their statements of financial position. ASU 2016-02 will be effective for the JCBD’s financial statements for the year ending June 30, 2023, and early adoption is permitted. The JCBD is currently evaluating the timing of its adoption and the impact on its financial statements.

In September 2020, the FASB issued ASU 2020-07, *Contributed Nonfinancial Assets (Topic 958)* (“ASU 2020-07”). ASU 2020-07 increases the transparency of contributed nonfinancial assets through enhancements to presentation and disclosures in programs and other activities of a not-for-profit organization. The new standard will be effective for the JCBD for the year ending June 30, 2022. The JCBD is currently evaluation the timing of its adoption and its impact on its financial statements.

**3. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT**

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* (“ASU 2018-08”). These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by all entities, including business entities. The amendments should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional or unconditional. The adoption of ASU 2018-08, effective July 1, 2019 on a modified prospective method, did not have a material effect on the JCBD’s financial position or results of operations.

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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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**4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The JCBD's primary source of revenue is the assessment revenue due from the City. The JCBD's goal is generally to maintain financial assets to meet 90 days of operating expenditures.

The JCBD considers all expenditures related to its ongoing program services and supporting services to be general expenditures.

The JCBD's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Financial assets at year-end:	
Cash	\$ 714,277
Assessments receivable	1,015
Pledges receivable	<u>10,000</u>
Total financial assets at year-end	725,292
Less: amounts not available to be used within one year:	
Net assets with donor restrictions	217,780
Less: net assets with restrictions to be met in less than a year	<u>(10,000)</u>
	<u>207,780</u>
Financial assets available for general expenditures over the next 12 months	<u><u>\$ 517,512</u></u>

**5. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30, 2020:

Equipment	\$ 562,745
Less: accumulated depreciation	<u>(148,253)</u>
	<u><u>\$ 414,492</u></u>

For the year ended June 30, 2020, depreciation expense amounted to \$101,630.

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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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**6. ASSESSMENTS REVENUE**

In April of 2017, the City developed the Japantown Community Benefit District Plan (the "Plan") to improve the appearance and safety of the District which encompasses approximately seven whole and partial blocks in the commercial core of Japantown. The Plan is also to increase building occupancy and lease rates, and to encourage new business development and attract ancillary businesses and services.

On January 18, 2018, an agreement was entered into between the City and the JCBD, to implement, administer and provide the property-related services, improvements and activities, in accordance with the Plan for a term expiring on June 30, 2027.

The JCBD receives its support primarily from the multi-year special assessment levied by the City on Identified Parcels (as defined in Section 53750(g) of the Government Code) located within the District. The assessments may only be used to fund property-related services, improvements and activities, as defined, within the District in accordance with the Plan.

**7. NET ASSETS WITH DONOR RESTRICTIONS**

At June 30, 2020, net assets with donor restrictions consists of the following:

<b>Subject to expenditure for specified purpose:</b>	
Surveillance camera implementation	\$ 187,256
Heart of Jtown Resiliency Fund	<u>20,524</u>
	207,780
<b>Subject to time restrictions:</b>	
Pledge receivable	<u>10,000</u>
	<u><u>\$ 217,780</u></u>

Net assets with donor restrictions released for satisfaction of donor-restricted program expenses for the year ended June 30, 2020 are as follows:

Surveillance camera implementation	\$ 96,517
Heart of Jtown Resiliency Fund	<u>1,239</u>
	<u><u>\$ 97,756</u></u>

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**JAPANTOWN COMMUNITY BENEFIT DISTRICT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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**8. CONCENTRATIONS OF RISK**

***Vendor***

The JCBD incurred expenses of \$137,713 for outsourced cleaning and hospitality services paid to one unrelated organization, representing 28% of the total expenses for the year ended June 30, 2020.

***Assessments revenue***

The JCBD's ability to generate resources is dependent upon the assessments from the City.

***Contributions***

40% of total contributions recognized for the year ended June 30, 2020 was from one grantor.

***Other risk***

Financial instruments, which potentially subject the JCBD to concentrations of credit risk, consist principally of cash in bank accounts greater than \$250,000 with each financial institution. The JCBD periodically reviews its cash policy and believes that any potential loss is not material to the financial statements.

**9. RISKS AND UNCERTAINTIES**

In March 2020, the World Health Organization declared the COVID-19 outbreak as a pandemic. In addition, the California State Governor ordered the closure of the physical location of every business, except those identified in the "critical infrastructure sectors", for a limited period of time. With the onset of COVID-19 and the prohibition on public gatherings in San Francisco beginning March 2020, the JCBD has developed contingency plans for operations and funding. The disruption and economic impact of the outbreak is uncertain. The JCBD will continue to monitor the situation closely, but given the uncertainty about the situation, management cannot estimate the impact to the financial statements.

**10. SUBSEQUENT EVENTS**

On July 13, 2020, the JCBD received a \$480,000 unconditional grant from a private fund for the Heart of Jtown Resiliency Fund.

Management has reviewed events and transactions through February 26, 2021, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.