



**CRYSTAL CITY
BUSINESS IMPROVEMENT
DISTRICT**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

JUNE 30, 2019 AND 2018

BURDETTE SMITH & BISH LLC
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CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

CONTENTS

Independent Auditors' Report	1
Statements of Financial Position	
June 30, 2019 and 2018	2
Statements of Activities	
For the Years Ended June 30, 2019 and 2018	3 - 4
Statements of Functional Expenses	
For the Years Ended June 30, 2019 and 2018	5 - 6
Statements of Cash Flows	
For the Years Ended June 30, 2019 and 2018	7
Notes to Financial Statements	8 - 12

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Crystal City Business Improvement District
Arlington, Virginia

We have audited the accompanying financial statements of Crystal City Business Improvement District (the District), a not-for-profit organization, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Crystal City Business Improvement District as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Burdette Smith & Bish, LLC

Fairfax, Virginia
October 2, 2019

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
<hr/>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,090,591	\$ 745,637
Prepaid expenses	14,638	33,210
Other current assets	-	2,044
Total Current Assets	<u>1,105,229</u>	<u>780,891</u>
 PROPERTY AND EQUIPMENT, AT COST	 78,029	 78,215
Less: accumulated depreciation	(57,409)	(75,147)
	<u>20,620</u>	<u>3,068</u>
	 <u>\$ 1,125,849</u>	 <u>\$ 783,959</u>
 LIABILITIES AND NET ASSETS		
<hr/>		
CURRENT LIABILITIES		
Accounts payable	\$ 213,952	\$ 114,410
Accrued payroll and taxes	54,290	26,161
Total Current Liabilities	<u>268,242</u>	<u>140,571</u>
 COMMITMENTS		
 NET ASSETS		
Without donor restrictions	<u>857,607</u>	<u>643,388</u>
	 <u>\$ 1,125,849</u>	 <u>\$ 783,959</u>

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

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES			
County disbursements	\$ 2,520,350	\$ -	\$ 2,520,350
Sponsorships and events	60,246	-	60,246
Interest income	135	-	135
	<u>2,580,731</u>	<u>-</u>	<u>2,580,731</u>
EXPENSES			
Program services	1,798,917	-	1,798,917
Management and general	567,595	-	567,595
	<u>2,366,512</u>	<u>-</u>	<u>2,366,512</u>
CHANGE IN NET ASSETS	<u>214,219</u>	<u>-</u>	<u>214,219</u>
NET ASSETS, BEGINNING OF YEAR	<u>643,388</u>	<u>-</u>	<u>643,388</u>
NET ASSETS, END OF YEAR	<u>\$ 857,607</u>	<u>\$ -</u>	<u>\$ 857,607</u>

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

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
County disbursements	\$ 2,614,094	\$ -	\$ 2,614,094
Sponsorships and events	111,589	-	111,589
Interest income	243	-	243
Gain (loss) on asset disposal	(3,995)	-	(3,995)
	<u>2,721,931</u>	<u>-</u>	<u>2,721,931</u>
EXPENSES			
Program services	2,024,192	-	2,024,192
Management and general	624,608	-	624,608
	<u>2,648,800</u>	<u>-</u>	<u>2,648,800</u>
CHANGE IN NET ASSETS	<u>73,131</u>	<u>-</u>	<u>73,131</u>
NET ASSETS, BEGINNING OF YEAR	<u>570,257</u>	<u>-</u>	<u>570,257</u>
NET ASSETS, END OF YEAR	<u>\$ 643,388</u>	<u>\$ -</u>	<u>\$ 643,388</u>

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

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2019

	PROGRAM SERVICES					Total
	Marketing	Physical Enhancement	Transportation	Total Program Services	Management and General	
Accounting and legal	\$ -	\$ -	\$ -	\$ -	\$ 99,155	\$ 99,155
Advertising	252,058	65,855	-	317,913	-	317,913
Cleaning and recycling	-	12,059	14,203	26,262	-	26,262
County fees	-	-	-	-	50,820	50,820
Depreciation	-	-	-	-	968	968
Development	-	-	-	-	117,521	117,521
Employee benefits	51,470	18,907	14,706	85,083	19,957	105,040
Equipment rental	29,100	-	-	29,100	8,084	37,184
Insurance	-	-	-	-	5,087	5,087
Labor and talent	76,660	274,923	-	351,583	-	351,583
Licenses and permits	2,933	-	-	2,933	6,288	9,221
Office expenses	-	-	-	-	22,517	22,517
Payroll taxes	19,171	7,042	5,477	31,690	7,434	39,124
Photography and video	12,713	-	-	12,713	-	12,713
Program reserve funds	7,710	13,500	-	21,210	2,854	24,064
Research	72,492	-	68,295	140,787	-	140,787
Rent	-	-	-	-	71,865	71,865
Sales tax	-	-	-	-	12,305	12,305
Sponsorship	156,240	-	-	156,240	-	156,240
Staff salaries	296,008	108,738	84,574	489,320	114,778	604,098
Supplies	125,087	-	-	125,087	9,930	135,017
Travel and conferences	-	-	-	-	18,032	18,032
Website	8,996	-	-	8,996	-	8,996
	\$ 1,110,638	\$ 501,024	\$ 187,255	\$ 1,798,917	\$ 567,595	\$ 2,366,512

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

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2018

	PROGRAM SERVICES					Total
	Marketing	Physical Enhancement	Transportation	Total Program Services	Management and General	
Accounting and legal	\$ -	\$ -	\$ -	\$ -	\$ 46,598	\$ 46,598
Advertising	143,690	76,583	-	220,273	-	220,273
Cleaning and recycling	-	25,220	7,787	33,007	-	33,007
County fees	-	-	-	-	25,972	25,972
Depreciation	-	-	-	-	1,099	1,099
Development	-	-	-	-	258,373	258,373
Employee benefits	48,060	17,655	13,731	79,446	18,636	98,082
Equipment rental	47,472	-	-	47,472	8,836	56,308
Insurance	-	-	-	-	5,213	5,213
Labor and talent	164,089	225,630	-	389,719	-	389,719
Licenses and permits	3,569	-	-	3,569	4,916	8,485
Office expenses	-	-	-	-	21,521	21,521
Other	567	-	-	567	-	567
Payroll taxes	19,405	7,128	5,544	32,077	7,525	39,602
Photography and video	16,931	-	-	16,931	-	16,931
Research	87,834	-	179,361	267,195	-	267,195
Rent	-	-	-	-	62,571	62,571
Sponsorship	237,214	-	-	237,214	-	237,214
Staff salaries	320,341	117,677	91,526	529,544	124,214	653,758
Supplies	158,092	-	-	158,092	9,231	167,323
Travel and conferences	-	-	-	-	29,903	29,903
Website	9,086	-	-	9,086	-	9,086
	<u>\$ 1,256,350</u>	<u>\$ 469,893</u>	<u>\$ 297,949</u>	<u>\$ 2,024,192</u>	<u>\$ 624,608</u>	<u>\$ 2,648,800</u>

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

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase (decrease) in net assets	\$ 214,219	\$ 73,131
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	968	1,099
Loss on disposal of property and equipment	-	3,995
(Increase) decrease in:		
Prepaid expenses	18,572	(25,210)
Other current assets	2,044	6,007
Increase (decrease) in:		
Accounts payable	99,542	34,632
Accrued payroll and taxes	28,129	(24,935)
	<u>149,255</u>	<u>(4,412)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>363,474</u>	<u>68,719</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash used to purchase property and equipment	<u>(18,520)</u>	<u>(3,540)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(18,520)</u>	<u>(3,540)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ...	344,954	65,179
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>745,637</u>	<u>680,458</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,090,591</u>	<u>\$ 745,637</u>

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

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

NOTE 1 – Summary of Significant Accounting Policies

Crystal City Business Improvement District (the District) is a not-for-profit trade association incorporated under the laws of the Commonwealth of Virginia in July 2006. The District was formed for the purpose of providing a range of services, events, and activities such as marketing and promotion, transportation, physical enhancements, cleaning and maintenance, and security to enhance the public use, safety, convenience and well-being in the Crystal City area of Arlington County, Virginia. The District's major source of revenue is derived from the real property assessments on commercial properties located within the business improvement district and collected by the County Board of Arlington County. The initial charter is for a five-year term which may be extended for an additional five years upon completion of the first five-year period. In 2011, the Arlington County Board removed the District's sunset clause, allowing it to continue its operations in perpetuity.

Basis of Accounting

The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Revenue Recognition

Revenue from the services agreement with Arlington County is recognized when it is received.

In-Kind Support

Contributions of donated services that enhance a non-financial asset and contributed services that are considered specialized and can be estimated, and would have been purchased if not donated, are reflected in the accompanying financial statements. Contributed services represent the value of donated program sponsorship services and are recorded as sponsorship income at their estimated fair market value as of the date of the donation. There was no in-kind support during the years ended June 30, 2019 and 2018.

Fair Value of Financial Measurements

Accounting principles generally accepted in the United States established a framework for measuring fair value, clarifying the definition of fair value within that framework and expanding disclosure about fair value measurements. U.S. GAAP established a three-tiered fair value hierarchy with Level 1 representing quoted prices for identical assets or liabilities in an active market, Level 2 representing quoted prices for identical assets or liabilities in a market that is non-active or with other than directly or indirectly observable inputs, and Level 3 representing estimate values based on unobservable inputs. Related disclosures are segregated for assets and liabilities measured at fair value based on the level used within the hierarchy to determine their fair values.

The carrying amounts for cash and cash equivalents, other current assets, accounts payable, and accrued payroll and taxes approximate fair market value because of the short maturity of these instruments.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the financial statements include County administrative fees and the estimated useful lives of property and equipment.

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

NOTE 1 - Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all checking, money market accounts, and cash on hand to be cash and cash equivalents.

Property and Equipment

Property and equipment (including major renewals, replacements and betterments), with a cost of \$1,000 or more, are capitalized and stated at cost. Expenditures for ordinary maintenance and repair items are charged to operations as incurred. Upon the sale or other disposition of property, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the changes in net assets. Depreciation is provided for principally under the straight-line method. Asset useful lives are from three to seven years.

Classes of Assets

To ensure the observance of limitations and restrictions placed on the use of resources available to the District, resources for various purposes are classified for accounting purposes into classes established according to their nature and purpose as follows:

Net assets without donor restrictions - net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the District's management and the Board of Directors.

Net assets with donor restrictions - result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the District pursuant to these stipulations. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. The District has no net assets with donor restrictions as of June 30, 2019 and 2018.

Tax Exempt Status

The District has been granted exemption from income taxes under Section 501(c)(6) of the Internal Revenue Code, as amended. However, income from certain activities not directly related to the District's tax-exempt purpose may be subject to taxation as unrelated business income.

Management has evaluated the District's tax positions and concluded that the District had taken no uncertain tax positions that require adjustment to or disclosure in the financial statements. With few exceptions, the District is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years prior to 2016.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$317,913 and \$220,273 for the years ended June 30, 2019 and 2018, respectively.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiency in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The District has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

NOTE 2 – Concentration of Credit Risk

The District maintains bank accounts with a credit-worthy, high quality financial institution. The Federal Deposit Insurance Corporation (FDIC) has limitations on the amount it will insure, and the District's accounts balances may periodically exceed that amount. The District has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

NOTE 3 – Prepaid Expenses

Prepaid expenses at June 30 consisted of the following:

	<u>2019</u>	<u>2018</u>
Operations	\$ 350	\$ 20,000
Rent	14,288	13,210
	<u>\$ 14,638</u>	<u>\$ 33,210</u>

NOTE 4 – Property and Equipment

Property and equipment, at cost, and the related accumulated depreciation as of June 30, are summarized as follows:

	<u>2019</u>	<u>2018</u>
Computers	\$ 9,816	\$ 12,280
Furniture and fixtures	8,122	22,801
Leasehold improvements	60,091	43,134
	78,029	78,215
Less: accumulated depreciation	(57,409)	(75,147)
	<u>\$ 20,620</u>	<u>\$ 3,068</u>

Depreciation expense was \$968 and \$1,099 for the years ended June 30, 2019 and 2018, respectively.

NOTE 5 – Commitments

Leases

The District has a lease agreement with a related party; see Note 6. Under the terms of the agreement, the District is responsible for real estate taxes and operating expenses for the leased premises. In March 2019, the lease was extended to December 31, 2019. Monthly base rent is \$6,516. The first monthly base rent for each of the lease years during the lease term will be waived by the lessor provided that the District is not in default of any of the terms or condition of the lease. On June 28, 2019, both parties signed a sixty-five months lease on a new office location. The anticipated moving date will be November 1, 2019. Monthly base rent is \$14,160 with an annual escalation clause of three percent (3%). Provided that the District is not in default of payments, the first monthly base rent for each of the lease years during the lease term will be waived by the lessor.

Rent expense for the years ended June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Minimum	\$ 78,196	\$ 70,405
Contingent	(6,331)	(7,834)
	<u>\$ 71,865</u>	<u>\$ 62,571</u>

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

NOTE 5 – Commitments, Continued

The District also has a three-year equipment operating lease that expires in December 2020. Monthly payments are \$239.

The following is a schedule of future minimum payments under the above commitments as of June 30, 2019:

2020	\$	142,210
2021		174,273
2022		178,517
2023		183,873
2024 and beyond		<u>335,214</u>
	\$	<u><u>1,014,087</u></u>

County Board Services Agreement

The District has a service agreement with the County Board of Arlington County, Virginia. The County Board is authorized to levy and collect an annual tax on real property from commercial real estate assessments in the business improvement district to fund services delegated to the District. The services to be provided by the District include marketing and promotion, transportation, physical enhancements, security, and cleaning and maintenance in accordance with the work program and budget approved annually. The County also withheld a percentage of the budgeted revenues as a reserve for uncollected taxes and assessment reductions and retained administrative fees equal to one percent (1%) of actual revenues received from assessments. During the year ended June 30, 2019, administrative fees were increased to two percent (2%). The excess between actual revenues collected and budgeted revenues, less actual disbursements and budgeted disbursements, will be carried forward and available for additional draws.

The following schedule summarizes the activities and balances of the County disbursements at June 30:

	<u>2019</u>	<u>2018</u>
Actual revenues received by County from assessments ...	\$ 2,540,997	\$ 2,597,174
Administrative fee percentage	2%	1%
County fees	\$ <u>50,820</u>	\$ <u>25,972</u>
Actual disbursements received by the District	\$ 2,469,530	\$ 2,588,122
Additional draws	-	-
	<u>2,469,530</u>	<u>2,588,122</u>
County fees	<u>50,820</u>	<u>25,972</u>
County disbursements	\$ <u><u>2,520,350</u></u>	\$ <u><u>2,614,094</u></u>
Beginning reserve balance	\$ 37,942	\$ 53,435
Interest earned on reserve	-	1,427
Net of revenues less operating expenses	<u>20,647</u>	<u>(16,920)</u>
Ending reserve balance	\$ <u><u>58,589</u></u>	\$ <u><u>37,942</u></u>

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

NOTE 6 – Related Party

The District has an office lease with JBG Smith Properties, which has members on the Board of Directors; see Note 5.

NOTE 7 – Retirement Plan

The District maintains a defined contribution 401(k) plan (the “Plan”) for substantially all of its employees. The District contributes a \$1 for \$1 match on the first 6% of the employee contribution. At the discretion of the District, additional profit-sharing contributions may be made to the plan at the end of each plan year. The total contribution for the years ended June 30, 2019 and 2018 was \$33,846 and \$34,727, respectively.

NOTE 8 – Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs such as payroll, payroll taxes, and employee benefits have been allocated among the program and management and general based on level of effort. Such allocations are determined by management on an equitable basis.

NOTE 9 – Availability and Liquidity of Resources

The District’s financial assets available for general expenditures, that is, without donor restrictions limiting their use, within one year of the statement of financial position, are as follows:

Cash and cash equivalents	\$ <u>1,090,591</u>
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As part of liquidity management, the District has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations that come due. The District’s financial assets available at June 30, 2019 are sufficient to cover all of its obligations.

NOTE 10 – Subsequent Events

In preparing the accompanying financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 2, 2019, the date the financial statements were available for issuance, and determined that there were no such events that would require recognition or disclosure in the financial statements.