BALLSTON BUSINESS IMPROVEMENT CORPORATION AND AFFILIATE

COMBINED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended
June 30, 2018 and 2017

BALLSTON BUSINESS IMPROVEMENT CORPORATION AND AFFILIATE

Combined Financial Statements

As of and for the Years Ended June 30, 2018 and 2017

Contents

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Independent Auditors' Report

To the Board of Directors of
Ballston Business Improvement Corporation and Affiliate

We have audited the accompanying combined financial statements of Ballston Business Improvement Corporation and its affiliate (BallstonGives, Inc.) (collectively the "Organization") (nonprofit organizations), which comprise the combined statements of financial position as of June 30, 2018 and 2017, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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 combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Organization's preparation and fair presentation of the combined 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 Organization's internal controls. 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018 and 2017, 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.

Toole Katz & Roemersma, LLP

Arlington, Virginia
September 26, 2018

Ballston Business Improvement Corporation and Affiliate

Combined Statements of Financial Position

As of June 30, 2018 and 2017

		2018		2017
Assets				
Current Assets				
Cash and cash equivalents	$	468,892	$	379,943
Accounts receivable		5,857		20,792
Due from County		1,406		1,076
Prepaid expenses		17,699		36,682
Other assets		5,836		5,836
Total current assets		499,690		444,329
Restricted Cash		10,000		10,000
Property and Equipment, net		23,845		22,414
Total Assets	$	533,535	$	476,743
Liabilities and Unrestricted Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	$	147,307	$	212,392
Due to County		58,589		3,510
Deferred rent		17,106		8,683
Total Liabilities		223,002		224,585
Unrestricted Net Assets		310,533		252,158
Total Liabilities and Unrestricted Net Assets	$	533,535	$	476,743

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

BALLSTON BUSINESS IMPROVEMENT CORPORATION AND AFFILIATE

Combined Statements of Activities

For the Years Ended June 30, 2018 and 2017

	2018	2017
Changes in Unrestricted Net Assets		
Unrestricted support and contract revenue		
Arlington County funds	$ 1,443,662	$ 1,584,079
Program revenue	506,687	529,025
Interest income	1,643	1,442
Total unrestricted support and contract revenue	1,951,992	2,114,546
Expenses		
Program expenses		
Beautification	347,489	890,166
Community activities	609,218	531,285
Marketing and promotion	616,171	615,103
Support expenses		
Management and administration	320,739	331,420
Total expenses	1,893,617	2,367,974
Increase (Decrease) in Unrestricted Net Assets	58,375	(253,428)
Disposal of property and equipment	-	(1,875)
Change in Unrestricted Net Assets	58,375	(255,303)
Unrestricted Net Assets, beginning of year	252,158	507,461
Unrestricted Net Assets, end of year	$ 310,533	$ 252,158

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

BALLSTON BUSINESS IMPROVEMENT CORPORATION AND AFFILIATE

Combined Statement of Functional Expenses

For the Year Ended June 30, 2018

	Beautification	Community Activities	Marketing and Promotion	Total Program Expenses	Management and Administration	Total
Contracts	$ 66,805	$ 90,203	$ 74,813	$ 231,821	$ -	$ 231,821
Supplies and equipment	19,886	218,487	355,156	593,529	15,046	608,575
Salaries, wages, and benefits	193,665	638	-	194,303	92,486	286,789
Rent and utilities	29,622	28,893	-	58,515	74,833	133,348
Office expense	37,511	-	35,683	73,194	6,242	79,436
Promotional expenses	-	35,497	53,961	89,458	-	89,458
Insurance	-	-	-	-	7,819	7,819
Other expenses	-	118,008	89,270	207,278	44,519	251,797
Depreciation	-	-	-	-	12,155	12,155
County administration fee	-	-	-	-	14,361	14,361
Professional fees	-	117,492	7,288	124,780	53,278	178,058
Total Expenses	$ 347,489	$ 609,218	$ 616,171	$ 1,572,878	$ 320,739	$ 1,893,617

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

BALLSTON BUSINESS IMPROVEMENT CORPORATION AND AFFILIATE

Combined Statement of Functional Expenses

For the Year Ended June 30, 2017

	Beautification	Community Activities	Marketing and Promotion	Total Program Expenses	Management and Administration	Total
Contracts	$ 149,356	$ -	$ 11,096	$ 160,452	$ -	$ 160,452
Supplies and equipment	36,198	194,879	304,743	535,820	15,228	551,048
Salaries, wages, and benefits	191,980	997	-	192,977	86,737	279,714
Rent and utilities	64,944	-	-	64,944	79,817	144,761
Office expense	57,387	-	40,966	98,353	7,056	105,409
Promotional expenses	-	24,151	175,811	199,962	-	199,962
Insurance	-	-	-	-	7,341	7,341
Other expenses	353,684	164,393	82,487	600,564	46,841	647,405
Depreciation	-	-	-	-	13,381	13,381
County administration fee	200	-	-	200	15,865	16,065
Professional fees	36,417	146,865	-	183,282	59,154	242,436
Total Expenses	$ 890,166	$ 531,285	$ 615,103	$ 2,036,554	$ 331,420	$ 2,367,974

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

BALLSTON BUSINESS IMPROVEMENT CORPORATION AND AFFILIATE

Combined Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

		2018		2017
Cash Flows from Operating Activities				
Increase (Decrease) in unrestricted net assets	$	58,375	$	(255,303)
Reconciliation adjustments				
Depreciation and amortization		12,155		13,381
Disposal of property and equipment		-		1,875
Deferred Rent		8,423		5,278
Changes in:				
Accounts receivable		14,935		(5,011)
Prepaid expenses		18,983		(29,283)
Other assets		-		(490)
Accounts payable and accrued expenses		(65,085)		(9,128)
Due to County, net		54,749		(3,218)
Other liabilities		-		(16,707)
Net cash provided by (used in) operating activities		102,535		(298,606)
Cash Flows from Investing Activities				
Purchases of property and equipment		(13,586)		(12,102)
Net Increase (Decrease) in Cash and Cash Equivalents		88,949		(310,708)
Cash and Cash Equivalents, beginning of year		379,943		690,651
Cash and Cash Equivalents, end of year	$	468,892	$	379,943

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

NOTE 1 - ORGANIZATION

Ballston Business Improvement Corporation (the "Corporation") was founded in 2011, as a Virginia non-stock corporation. The Corporation was established to administer on behalf of the County Board of Arlington County, Virginia (the "County Board") the Ballston Business Improvement Service District (the "BID"), established by the County Board in 2011. The BID is located in the Ballston section of Arlington County, Virginia. Under work plans and budgets submitted by the Corporation and approved by the County Board, the Corporation may provide and promote: economic development; business recruitment and retention; marketing; sidewalk cleaning; landscaping and beautification of the public areas; visitor informational facilities and services; community outreach; social, entertainment, and other events and activities; pedestrian and traffic improvements; signage; and transportation services.

BallstonGives, Inc. (the "Affiliate") was incorporated in Virginia on December 29, 2015 as a non-stock corporation and is an affiliate of the Corporation. The Affiliate was formed to support the charitable deeds of the Corporation; including managing fundraising events such as Taste of Arlington.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principals of Combination - The accompanying combined financial statements include the accounts of Ballston Business Improvement Corporation and BallstonGives, Inc. for the years ended June 30, 2018 and 2017. The financial statements are combined due to common management and related activities of the entities. All significant intercompany balances have been eliminated in the accompanying combined financial statements. The Ballston Business Improvement Corporation and BallstonGives, Inc. are hereafter collectively referred to as the "Organization".

Net Assets - The Organization has presented its combined financial statements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Presentation of Financial Statements for Not-for-Profit Entities* ("FASB ASC 958"). Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has not received any funds that would result in temporarily or permanently restricted net assets.

Recent Accounting Pronouncements - In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit organization's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Organization is currently evaluating the effect that ASU No. 2016-14 will have on its combined financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenues from Contracts with Customers (Topic 606)* and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU No. 2014-09 is effective for annual reporting periods in fiscal years that begin after December 15, 2018. The Organization is currently evaluating the effect that ASU No. 2014-09 will have on its combined financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases on their statement of financial position as liabilities, with corresponding "right-of-use" assets. The standard is effective for annual reporting periods in fiscal years that begin after December 15, 2019. The Organization is currently evaluating the effect that ASU 2016-02 will have on its combined financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify the guidance in Topic 958 on how entities determine whether to account for a transfer of assets as an exchange transaction under other guidance or a contribution. The ASU will be effective for annual periods beginning after December 15, 2018 for resource recipients and annual periods beginning after December 31, 2019 for resource providers. Earlier adoption is permitted. The Organization is currently evaluating the effect that ASU No. 2018-08 will have on its combined financial statements.

Basis of Accounting - The Organization follows accounting principles generally accepted in the United States of America ("U.S. GAAP") and uses the accrual basis of accounting for financial reporting, whereby revenue is recognized when earned and expenses are recognized when incurred. The Organization's primary source of revenue is from BID assessments levied by Arlington County (the "County") on real property located within the BID.

Cash and Cash Equivalents - The term cash and cash equivalents, as used in the accompanying combined financial statements, includes currency on hand, demand deposits, and time deposits with original maturities of three months or less. The Organization maintains cash in certain bank deposit accounts, which at times may exceed federally insured limits. Interest bearing and non-interest bearing accounts are aggregated and guaranteed by the Federal Deposit Insurance Corporation up to $250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Restricted Cash - Restricted cash consists of funds held as collateral for the letter of credit described in Note 7.

Accounts Receivable - Accounts receivable result from community activity sponsorships and County assessments and are stated at net realizable value. Management determines the collectability of accounts receivable and the need for an allowance for doubtful accounts based on historical experience and the existing economic conditions. Management has evaluated the collectability of accounts receivable and determined that no allowance for doubtful accounts is necessary at June 30, 2018 and 2017. No interest is charged on accounts receivable and accounts are written off at the point management deems them to be uncollectible.

Property and Equipment - Property and equipment include computers, furniture and fixtures, and office equipment, which are capitalized at cost and are depreciated using the straight-line method over the estimated useful lives of three to five years. Property and equipment also include leasehold improvements which are amortized over the shorter of the estimated useful life of the improvements or the lease term. Expenditures for maintenance and repairs and minor betterments that do not extend the lives of the assets are charged to expenses as incurred. Major expenditures which extend the lives of the assets are capitalized. Depreciation and amortization expense for the years ended June 30, 2018 and 2017, totaled $12,155 and $13,381, respectively, and is included in management and administration expense on the accompanying combined statements of activities.

Revenue Recognition - Contract revenue is recognized when earned and support revenue is recognized when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Organization.

Donated Services and In-Kind Support - The Organization may receive services without payment or compensation. When the value of such services is ascertainable and meets the criteria for recognition in the statements of activities, it is reflected in the accompanying combined financial statements as revenue and expense. For the years ended June 30, 2018 and 2017, the Organization recorded in-kind support totaling $143,477 and $139,866, respectively, which is included in program revenue and community activities expense on the accompanying combined statements of activities. This in-kind support relates to the Taste of Arlington event.

Income Taxes - On November 20, 2012, the Corporation received notification from the Internal Revenue Service ("IRS") that it qualifies as an entity exempt from federal and Virginia income tax described in Section 501(c)(6) of the Internal Revenue Code ("IRC"). On May 2, 2016, the Affiliate received notification from the IRS that it qualifies as an entity exempt from federal and Virginia income tax described in Section 501(c)(3) of the IRC. However, the Organization is liable for income taxes on any unrelated business income. The Organization had no unrelated net business taxable income for the years ended June 30, 2018 and 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The tax effects from an uncertain tax position can be recognized in the combined financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Organization recognizes the combined financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the combined financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. The Organization applies the accounting standard to all tax positions for which the statute of limitations remained open. As a result, the Organization did not identify any material uncertain tax positions.

The Organization recognizes interest and penalties related to uncertain tax positions in administrative expenses. For the years ended June 30, 2018 and 2017, the Organization has not recognized any interest or penalties in its accompanying combined statements of activities. The Corporation is no longer subject to federal, state, or local income tax examinations by tax authorities for the years prior to the fiscal year ended June 30, 2014. The Affiliate is subject to federal, state, and local income tax examinations since inception. The Organization is not currently under examination by any taxing jurisdiction.

Marketing and Promotion - Marketing and promotion costs are expensed as incurred. Marketing and promotion expense for the years ended June 30, 2018 and 2017 was $616,171 and $615,103, respectively.

Use of Estimates - The preparation of combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Allocation of Expenses - The costs of providing various programs and services have been summarized on a functional basis on the accompanying combined statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and services benefited.

Reclassification - Certain reclassifications were made to the June 30, 2017 combined financial statements to conform to the June 30, 2018 presentation.

Subsequent Events - In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through the report date, the date the accompanying combined financial statements were available to be issued.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2018	2017
Computers	$ 14,958	$ 13,771
Furniture and fixtures	51,452	51,452
Office equipment	8,060	8,060
Leasehold improvements	21,080	8,680
	95,550	81,963
Less accumulated depreciation and amortization	(71,705)	(59,549)
Property and equipment, net	$ 23,845	$ 22,414

NOTE 4 - SERVICE AGREEMENT

On September 17, 2011, the Organization entered into a Service Agreement (the "Agreement") with the County Board to provide services in the BID through June 30, 2016. In April 2016, the County Board approved an ordinance extending the Agreement indefinitely until further action is taken by the County Board.

Under the Agreement, the Organization will provide agreed upon services to enhance and supplement County services provided in the BID, and the County will provide funding through collection from property owners of an annual assessment on property located within the BID. The Agreement provides that the County will receive an administrative fee equal to 1.0 percent of the funds collected and will hold a reserve, initially funded at up to 2.5 percent per fiscal year, provided that the reserve amount required to be carried by the Organization is capped at 5.0 percent of the then cumulative annual assessment of all properties within the BID in any fiscal year. This fund is set aside to handle delinquencies and successful appeals of the annual real property assessments of real property. The reserve is held and controlled by the County and, therefore, is not included in the accompanying combined financial statements. The Organization's June 30, 2018 and 2017 reserve balance was $16,027 and $76,890, respectively. The accompanying June 30, 2018 and 2017 combined statements of financial position include $58,589 and $3,510, respectively, due to the County, in order to meet the reserve funding requirement.

The County applies interest earnings to the reserve before the close of each fiscal year. Interest is calculated using the County's average rate for investment earnings for the fiscal year. The County's average rate for investment earnings was 1.36 and 1.09 percent, respectively, for the fiscal years ended June 30, 2018 and 2017. For the fiscal years ended June 30, 2018 and 2017, the County calculated interest of $1,406 and $1,076, respectively. As of June 30, 2018 and 2017, the interest earned on the reserve is included in due from County on the accompanying combined statements of financial position.

The Organization's annual operating expenditure budget for a fiscal year must be approved by the County Board prior to release of any funds for that fiscal year. The fiscal year ended June 30, 2019 work program and expenditure budget of $1,681,199 were submitted and approved by the County in April 2018.

Under the Agreement, funds generated from the County's BID assessments for a fiscal year and allocated in the Organization's approved budget for a fiscal year, but not expended in accordance with the approved budget, will be reserved and carried forward. There were no such amounts reflected as deferred revenue as of June 30, 2018 and 2017. Such funds must be expended according to the expenditure category in which they were originally approved, unless the budget reallocation is less than $20,000 or the County Manager's written approval is received.

NOTE 5 - LEASE AGREEMENTS

On January 31, 2012, the Organization entered into an operating lease agreement for 1,492 square feet of office space in the Ballston area of Arlington, Virginia. The lease was for a 60-month term commencing May 1, 2012. The lease provided for annual escalations of 3 percent beginning in the second lease year until the lease expiration date of April 30, 2017.

On January 12, 2017, the Organization entered into a new operating lease agreement with its existing landlord for 2,501 square feet of office space in the Ballston area of Arlington, Virginia. The new lease is for a 55-month term commencing April 30, 2017. The lease provides for annual escalations of 2.75 percent beginning in the second lease year until the lease expiration date of November 30, 2021. Under the lease agreement, the Organization receives a 50 percent abatement of base rental payments in months one, two, three, thirteen, fourteen, and fifteen of the lease. The Organization recognizes rent expense on a straight-line basis over the term of the lease.

Rent expense for the years ended June 30, 2018 and 2017 was $64,589 and $74,205, respectively.

NOTE 5 - LEASE AGREEMENTS - CONTINUED

Future minimum lease payments under the lease are as follows:

Year ending June 30, 2019		72,448
2020		74,441
2021		76,488
2022		32,523
	$	255,900

NOTE 6 - COMMUNITY PROGRAMS

The Organization entered into a multi-year agreement with FRESHfarm Markets through October 2017 to provide weekly open-air markets to the office, retail, and residential community in the Ballston area. The agreement was extended through December 2019. The markets are seasonal and run from April through October of each year. The agreement provides for a management fee of $12,000 to be paid to FRESHfarm Markets annually. For the years ended June 30, 2018 and 2017, the Organization incurred $12,000 in management fees each year, which is included in community activities in the accompanying combined statements of activities.

NOTE 7 - LETTER OF CREDIT

As of June 30, 2018 and 2017, the Organization has an irrevocable letter of credit available totaling $10,000 to secure completion of neighborhood work located in Arlington County, Virginia. The letter of credit is secured by cash totaling $10,000, which is reported as restricted cash on the accompanying combined statements of financial position.