



**CRYSTAL CITY
BUSINESS IMPROVEMENT
DISTRICT**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

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**CRYSTAL CITY
BUSINESS IMPROVEMENT DISTRICT**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

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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, 2018 and 2017, and the related statements of activities 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, 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.

To the Board of Directors of
Crystal City Business Improvement District
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Emphasis of Matter

As described in Note 9, Crystal City Business Improvement District has restated its June 30, 2017 financial statements to reflect the cancellation of several accrued expenses recognized in prior years. Our opinions on the June 30, 2018 and 2017 financial statements are not modified with respect to this matter.

Burdette Smith & Bish, LLC

Fairfax, Virginia
September 27, 2018

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 745,637	\$ 680,458
Prepaid expenses	33,210	8,000
Other current assets	2,044	8,051
Total Current Assets	<u>780,891</u>	<u>696,509</u>
PROPERTY AND EQUIPMENT, AT COST	78,215	80,764
Less: accumulated depreciation	<u>(75,147)</u>	<u>(76,142)</u>
	<u>3,068</u>	<u>4,622</u>
	<u>\$ 783,959</u>	<u>\$ 701,131</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 114,410	\$ 79,778
Accrued liabilities	<u>26,161</u>	<u>51,096</u>
Total Current Liabilities	<u>140,571</u>	<u>130,874</u>
COMMITMENTS		
NET ASSETS		
Unrestricted	<u>643,388</u>	<u>570,257</u>
	<u>\$ 783,959</u>	<u>\$ 701,131</u>

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

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
UNRESTRICTED NET ASSETS		
REVENUES		
County disbursements	\$ 2,614,094	\$ 2,522,936
Sponsorships and events	111,589	88,249
Contributions	-	4,700
Interest income	243	232
Gain (loss) on asset disposal	(3,995)	-
	<u>2,721,931</u>	<u>2,616,117</u>
EXPENSES		
Accounting and legal	46,598	8,180
County fees	25,972	25,380
Depreciation	1,099	78
Development	258,373	78,302
Employee benefits	98,082	99,001
Insurance	5,213	7,743
Marketing	868,544	1,025,462
Office expenses	44,504	54,639
Payroll taxes	39,602	38,988
Physical enhancement	327,433	446,488
Rent	62,571	72,801
Staff salaries	653,758	729,961
Transportation	187,148	118,093
Travel and conferences	29,903	46,233
	<u>2,648,800</u>	<u>2,751,349</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>73,131</u>	<u>(135,232)</u>
NET ASSETS, BEGINNING - AS PREVIOUSLY STATED	-	339,055
PRIOR PERIOD ADJUSTMENT	-	366,434
NET ASSETS, BEGINNING - RESTATED	<u>570,257</u>	<u>705,489</u>
NET ASSETS, END OF YEAR	<u>\$ 643,388</u>	<u>\$ 570,257</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 73,131	\$ (135,232)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,099	78
Donated property and equipment	-	(4,700)
Loss on disposal of property and equipment	3,995	-
(Increase) decrease in:		
Prepaid expenses	(25,210)	44,000
Other current assets	6,007	(8,051)
Increase (decrease) in:		
Accounts payable	34,632	(91,709)
Accrued liabilities	(24,935)	(2,512)
	<u>(4,412)</u>	<u>(62,894)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>68,719</u>	<u>(198,126)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash used to purchase property and equipment	<u>(3,540)</u>	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(3,540)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ...	65,179	(198,126)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>680,458</u>	<u>878,584</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 745,637</u>	<u>\$ 680,458</u>
SUPPLEMENTAL NON-CASH ACTIVITIES		
In-kind contributions	\$ -	\$ 10,000
Donated property and equipment	-	4,700
	<u>\$ -</u>	<u>\$ 14,700</u>

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

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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.

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 liabilities 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, 2018 AND 2017

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:

Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations and are available for the general operations of the District.

All of the assets of the District are unrestricted. There are no temporarily or permanently restricted net assets as of June 30, 2018 and 2017.

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 2015.

Advertising Costs

Advertising costs, which are reported in the statement of activities as marketing costs, are expensed as incurred and totaled \$868,544 and \$1,025,462 for the years ended June 30, 2018 and 2017, respectively.

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.

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

NOTE 3 – Prepaid Expenses

Prepaid expenses at June 30 consisted of the following:

	<u>2018</u>	<u>2017</u>
Operations	\$ 20,000	\$ 8,000
Rent	13,210	-
	<u>\$ 33,210</u>	<u>\$ 8,000</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>2018</u>	<u>2017</u>
Computers	\$ 12,280	\$ 8,741
Furniture and fixtures	22,801	24,189
Leasehold improvements	43,134	43,134
Vehicles	-	4,700
	<u>78,215</u>	<u>80,764</u>
Less: accumulated depreciation	(75,147)	(76,142)
	<u>\$ 3,068</u>	<u>\$ 4,622</u>

Depreciation expense was \$1,099 and \$78 for the years ended June 30, 2018 and 2017, 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. The expiration date of the lease was February 2018 with monthly base rent of \$6,202 and annual escalation of two and a half percent (2.5%). In February 2018, both parties signed a one-year extension expiring February 2019. 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.

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

	<u>2018</u>	<u>2017</u>
Minimum	\$ 70,405	\$ 75,044
Contingent	(7,834)	(2,243)
	<u>\$ 62,571</u>	<u>\$ 72,801</u>

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, 2018:

2019	\$ 54,999
2020	2,868
2021	1,434
	<u>\$ 59,301</u>

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

NOTE 5 – Commitments, Continued

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. 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>2018</u>	<u>2017</u>
Actual revenues received by County from assessments	\$ 2,597,174	\$ 2,537,971
Administrative fee percentage	1%	1%
County fees	<u>\$ 25,972</u>	<u>\$ 25,380</u>
Actual disbursements received by the District	\$ 2,588,122	\$ 2,497,556
Additional draws	-	-
	<u>2,588,122</u>	<u>2,497,556</u>
County fees	<u>25,972</u>	<u>25,380</u>
County disbursements	<u>\$ 2,614,094</u>	<u>\$ 2,522,936</u>
Beginning reserve balance	\$ 53,435	\$ 37,401
Interest earned on reserve	1,427	999
Net of revenues less operating expenses	<u>(16,920)</u>	<u>15,035</u>
Ending reserve balance	<u>\$ 37,942</u>	<u>\$ 53,435</u>

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 – Contributed Services

The accompanying statements include contributed program sponsorship services provided to the District as measured based on the fair value of those services. Contributed services received totaled \$-0- and \$10,000, respectively for the years ended June 30, 2018 and 2017.

CRYSTAL CITY BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

NOTE 8 – 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, 2018 and 2017 was \$34,727 and \$23,356, respectively.

NOTE 9 – Prior Period Adjustment – Beginning Net Assets

The District elected to cancel several accrued projects from years 2013-2017 that were outstanding as of June 30, 2017. As a result, the previously issued financial statements at June 30, 2017 have been restated to reflect a decrease in accounts payable of \$404,434, a decrease in physical enhancement expense of \$38,000, and an increase in beginning net assets of \$366,434.

NOTE 10 – Subsequent Events

In preparing the accompanying financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 27, 2018, the date the financial statements were available for issuance.