

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	3 - 4
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets	6
Statement of Cash Flows	7
Statement of Functional Expenses	8
Notes to Financial Statements	9 - 15



## INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of  
East Passyunk Avenue Business Improvement District  
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of East Passyunk Avenue Business Improvement District (a Pennsylvania Not-For-Profit Corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year 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.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY (Continued)

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 East Passyunk Avenue Business Improvement District as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Philadelphia, Pennsylvania  
March 28, 2019

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2018

ASSETS

Current assets:	
Cash	\$ 12,379
Accounts receivable, net of allowance for doubtful accounts of \$9,780	111,066
Prepaid expenses	<u>3,451</u>
Total current assets	<u>126,896</u>
Cash Restricted for Neighborhood Development	<u>152,895</u>
Fixed assets, net of accumulated depreciation of \$208,770	<u>138,392</u>
Other assets:	
Security deposits	700
Utility deposits	<u>330</u>
Total other assets	<u>1,030</u>
Total assets	<u>\$419,213</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	\$ 12,031
Deferred revenue	<u>85,000</u>
Total current liabilities	<u>97,031</u>
Net assets:	
Net assets, without donor restrictions	254,287
Net assets, with donor restrictions	<u>67,895</u>
Total net assets	<u>322,182</u>
Total liabilities and net assets	<u>\$419,213</u>

See accompanying notes to financial statements

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue:			
Assessments	\$ 194,573		\$ 194,573
Grants	1,000	\$ 85,000	86,000
Event income	56,299		56,299
Sponsorship, event	24,750		24,750
Finance changes on assessments	79		79
Interest income	25		25
Other income	80		80
Net assets released from restrictions	<u>57,839</u>	<u>(57,839)</u>	<u>-0-</u>
Total Support and Revenue	<u>334,645</u>	<u>27,161</u>	<u>361,806</u>
 Expenditures:			
Program	305,525		305,525
Administrative and support	49,093		49,093
Fundraising	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Expenditures	<u>354,618</u>	<u>-0-</u>	<u>354,618</u>
 Increase (Decrease) in Net Assets	 (19,973)	 27,161	 7,188
 Net Assets, at beginning of year	 <u>274,260</u>	 <u>40,734</u>	 <u>314,994</u>
 Net Assets, at end of year	 <u>\$ 254,287</u>	 <u>\$ 67,895</u>	 <u>\$ 322,182</u>

See accompanying notes to financial statements

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Cash flows from operating activities:	
Increase in net assets	\$ 7,188
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	22,266
(Increase) decrease in operating assets:	
Accounts receivable	(14,682)
Prepaid expenses	3,492
Increase (decrease) in operating liabilities:	
Accounts payable	4,891
Deferred revenue	<u>85,000</u>
Net cash provided by operating activities	<u>108,155</u>
 Cash flows from investing activities:	
Purchase of equipment and improvements	<u>(35,900)</u>
Net cash used by investing activities	<u>(35,900)</u>
 Net increase in cash	72,255
Cash, beginning of year	<u>93,019</u>
Cash, end of year	<u>\$ 165,274</u>
 Supplemental disclosures:	
 Interest paid	<u>\$ -0-</u>
 Taxes paid	<u>\$ -0-</u>

See accompanying notes to financial statements

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program	Supporting		Total	Total
		Administrative	Fundraising		
Expenditures:					
Accounting		\$ 3,844	\$ -0	\$ 3,844	\$ 3,844
Bank service charges		759		759	759
Consulting, event management	\$ 8,680				8,680
Depreciation	20,039	2,227		2,227	22,266
Design/beautification	35,834				35,834
Donation	650				650
Economic development	19,173				19,173
Façade reimbursements	829				829
Filing fees		150		150	150
Insurance	5,626	625		625	6,251
Legal fees		7,500		7,500	7,500
License and permits	3,657	406		406	4,063
Marketing, promotion, and events	138,959				138,959
Office		8,102		8,102	8,102
Office supplies		974		974	974
Payroll	66,371	7,375		7,375	73,746
Payroll tax	4,816	535		535	5,351
Employment benefits	669	74		74	743
Payroll service fee		2,597		2,597	2,597
Rent		13,900		13,900	13,900
Other	222	25	\$ -0-	\$ 25	\$ 247
Total expenditures	<u>\$305,525</u>	<u>\$ 49,093</u>	<u>\$ -0-</u>	<u>\$ 49,093</u>	<u>\$354,618</u>
	<u>86.2%</u>	<u>13.8%</u>	<u>0.0%</u>	<u>13.8%</u>	<u>100.0%</u>

See accompanying notes to financial statements



EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 1 Nature of Organization

The Organization is a neighborhood improvement district whose goal is to promote the East Passyunk Business District section of the City of Philadelphia as a popular destination for retail trade, dining, entertainment and recreation.

Note 2 Background

The Organization was formed on April 26, 2002 as Pennsylvania non-profit corporation organized exclusively for charitable purposes under section 501 (C)(3) of the Internal Revenue code to formulate, promote and implement the economic revitalization and general welfare of the designated commercial area described above. The organization is a Neighborhood Improvement District formed as a Pennsylvania non-profit organization, which was authorized pursuant to the community and economic improvement act of the Commonwealth of Pennsylvania, who was established to administer programs and services.

A consulting firm, (The Atlantic Group) was engaged to prepare a business plan for the East Passyunk Avenue Business Improvement District. The business plan identified needs for the district and formulated a budget based on the needs and projected assessments.

The neighborhood improvement district generally includes both sides of East Passyunk Avenue from the south side of Federal Street to Broad Street, certain blocks of streets that intersect that portion of East Passyunk Avenue, both sides of South Broad Street from the south side of McKean Street to the north side of Snyder Avenue, and the west side of South Broad Street from the south side of Mifflin Street to the north side of McKean Street, which is now known as the East Passyunk Avenue Business Improvement District.

During 2009, the City of Philadelphia passed ("City") legislation which extended the organization for a 10 year term until 2019.

Note 3 Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide").

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 3 Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified 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. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Federal Tax Status

The organization is a not-for-profit corporation that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation under 509(a)(2). The Organization's federal tax returns are remained subject to examination by major tax jurisdictions from 2015-2017.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 3 Summary of Significant Accounting Policies (Continued)

Advertising Costs and Donated Services

Advertising costs are expensed as incurred. Substantial numbers of volunteers have donated approximately 2,000 hours to the organization's program services and fundraising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

Fixed Assets

Fixed assets, which consist of furniture and equipment, streetscapes, and lighting, are reported in the financial statements. All fixed assets are capitalized at cost and updated for additions and retirements during the year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Fixed assets of the Organization are depreciated using the straight-line method over the estimated useful lives of the assets.

Methods Used for Allocation of Expenses from Management and General Activities

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions. Those expenses include salaries which are allocated between program and administrative functions. The allocation is based on the executive director's estimated time spent and effort made on each function.

Subsequent Events

Subsequent events have been evaluated through March 28, 2019, the date that the financial statements were available to be issued.

Note 4 Assessment

The original method of determining the amount of assessment fee levied on property owners within the District was calculated at 20% of the real estate taxes for all commercial and industrial properties within the area. The budget included, but was not limited to, personnel and administration, programs and services, maintenance and operation, and capital expenditures, and was legislated to be apportioned among benefited properties.

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 5      Relationship with the City of Philadelphia

The City has agreed to assist the Organization. The duties and responsibilities of the City and the East Passyunk Avenue Business Improvement District with respect to the district are as follows:

The City is responsible for maintaining the same level of municipal programs and services within the District before its designation as a neighborhood improvement district as after such designation.

East Passyunk Avenue Business Improvement District shall fulfill all the duties and responsibilities of a Neighborhood Improvement District Management Association as set forth in the Community and Economic Improvement Act.

Such duties and responsibilities include: administering programs, improvements and services within the District; preparing planning or feasibility studies or contracting for the preparation of such studies to determine needed capital improvements or administrative programs and services within the District; imposing special assessment fees and soliciting in-kind services or financial contributions from tax exempt property owners within the District in lieu of such assessment fees; hiring additional off-duty police officers or private security officers to support existing municipal and volunteer efforts aimed at reducing crime and improving security in the District; designating an advisory committee for the District; submitting an audit of all income and expenditures to the Department of Community and Economic Development and to City Council within 120 days after the end of each fiscal year; and submitting a report, including financial and programmatic information and summary of audit findings, to City Council and to all assessed property owners located in the District.

The Organization has taken over the billing and collection process from the City and is responsible for the collection of all BID property assessment levied within the District and will employ any legal methods to insure collection of such assessments, including the filing of liens.

Note 6      Concentration of Credit Risk

The Organization maintains its cash balances at financial institutions. As of December 31, 2018, the Organization's uninsured cash balance was \$-0-.

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED DECEMBER 31, 2018

Note 7      Accounts Receivable

The accounts receivable balances are for property assessments receivable. Liens have been filed on unpaid property assessments. Management reviews the accounts receivable aging report periodically. The Organization has authority to assess interest and liens on unpaid assessments. Based on past history, the management established approximately 8% of allowance for doubtful accounts previously.

Note 8      Lease Commitment

The Organization leases a suite at 1904 East Passyunk Avenue from an individual and the monthly lease rate was \$1,000 from January 2018 to June 2018 and was increased to \$1,300 in July 2018. This office lease is a month to month lease and there is not a formal lease agreement between the Organization and the individual.

Note 9      Fixed Assets

The following is a summary of the fixed assets:

Furniture and equipment	\$ 5,999
Streetscapes	177,151
Lighting	<u>164,012</u>
	347,162
Accumulated depreciation	<u>(208,770)</u>
	<u>\$ 138,392</u>

Note 10     Deferred Revenue

Deferred revenue consists of the following:

CDC Tax Credit for 2019	<u>\$ 85,000</u>
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The Organization has been receiving \$85,000 of Business Income and Receipts tax credit to a Community Development Corporation (CDC) from the City of Philadelphia since 2014. This grant is expected to continue until 2022.

The Organization received \$170,000 during 2018 for calendar year 2018 and 2019. In past years, the funds were received in the period before the grant period.

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 11 Significant Events

During 2009, City Council extended the Business Improvement District for 10 years as described in City Bill Number 090128. The method for determining each property assessment is based upon 20% of the 2009 property tax bills. The property tax bills budget of the assessed area will generate, at least, \$172,158 for the next 10 years. Since 2015, the Organization has been successful with collecting past due assessments and changed the allowance for past due assessments from 90% to 10% and recognized \$90,830 as a result of this change in 2016.

During 2017, the Organization engaged a law firm to assist the district property owners to appeal their taxes in City tax assessments and to negotiate the allocation of street cleaning costs with the City of Philadelphia. The organization also engaged a consultant to extend the BID before the BID sunsets.

The Organization is currently in process to renew the Business Improvement District for the next 5 years. The Organization is expecting to finalize the agreement with the City in April 2019.

Note 12 Cash and Restricted Cash

The following table provides a reconciliation of cash and cash restricted for Neighborhood Development within the statement of financial position that reconciles to the total of the same amounts shown in the statement of cash flows for the year ended December 31, 2018.

Cash	\$ 12,397
Cash restricted	<u>152,895</u>
Total cash and restricted cash shown in statement of cash flows	<u>\$ 165,274</u>

Cash restricted for neighborhood development on the statement of financial position includes restricted cash received with a donor-imposed restriction that limits use of that cash for neighborhood development. The restriction will lapse when neighborhood development services and equipment are placed in service.

EAST PASSYUNK AVENUE BUSINESS IMPROVEMENT DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED DECEMBER 31, 2018

Note 13 Liquidity

Financial assets available for general expenditure within one year are as follows as of December 31, 2018.

Cash	\$ 12,397
Accounts receivable, net of allowance of doubtful accounts of \$9,780	<u>111,066</u>
	<u>\$123,463</u>

Note 14 Not-for-Profit Financial Statement Presentation

The Organization adopted ASU No. 2016-14 - Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance include presentation of two classes of net assets versus the previously required three and enhanced disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 follows:

	<u>ASU 2016-14 Classifications</u>		
	Without Donor Restrictions	With donor Restrictions	Total Net Assets
Net Assets Classification			
As previously presented:			
Unrestricted	\$274,260	\$ -0-	\$274,260
Temporarily restricted		40,734	40,734
Permanently restricted	-0-	-0-	-0-
Net assets as previously presented	<u>\$274,260</u>	<u>\$ 40,734</u>	<u>\$314,994</u>

Note 15 Net Assets Without Donor Restrictions

Net assets without donor restriction were \$254,287 as of December 31, 2018.

Note 16 Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for neighborhood development purpose and the balance as of December 31, 2018 was \$67,895.