

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

INTRODUCTORY SECTION

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION

**Consolidated Financial Statements
For the Year Ended June 30, 2017**

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SAN PABLO ECONOMIC DEVELOPMENT CORPORATION

BOARD OF DIRECTORS

June 30, 2017

Adam Novickas, Chair
Kathy Chao Rothberg, Vice Chair
Elizabeth Pabon, Treasurer
Xavier Abrams, Director
Genoveva Garcia Calloway, Director

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
San Pablo Economic Development Corporation
San Pablo, California

We have audited the accompanying financial statements of the San Pablo Economic Development Corporation (Corporation), a not-for-profit organization, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows 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 Corporation'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 Corporation'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 the San Pablo Economic Development Corporation as of June 30, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the San Pablo Economic Development Corporation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Pleasant Hill, California

DATE

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2017

WITH SUMMARIZED AMOUNTS AS OF JUNE 30, 2016

ASSETS	General	Helms Community Center Project	Rumrill Park Healthy Eating Active Living Sports Complex	Totals	
				2017	2016
Current Assets:					
Unrestricted cash (Note 2D)	\$1,186,096	\$91,906	\$92,465	\$1,370,467	\$1,172,108
Restricted cash (Note 2D)		208,500	240,575	449,075	559,355
Account receivable	12,831			12,831	19,765
Prepaid expenses				-	10,326
Other assets	15,600			15,600	-
Total Current Assets	1,214,527	300,406	333,040	1,847,973	1,761,554
Non Current Assets:					
Capital assets (Note 3):					
Non-depreciable		235,000	1,600,000	1,835,000	1,835,000
Depreciable, net		8,085,733	5,908,538	13,994,271	14,728,551
Total Non Current Assets		8,320,733	7,508,538	15,829,271	16,563,551
Total Assets	\$1,214,527	\$8,621,139	\$7,841,578	\$17,677,244	\$18,325,105
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable	\$98,445		\$371	\$98,816	\$106,693
Accrued liabilities	5,291			5,291	9,623
Total Current Liabilities	103,736		371	104,107	116,316
Non Current Liabilities:					
Notes payable (Note 4)		\$9,306,000	7,500,000	16,806,000	16,806,000
Total Liabilities	103,736	9,306,000	7,500,371	16,910,107	16,922,316
NET ASSETS (DEFICIT) (NOTE 2B)					
Unrestricted	1,110,791	(1,032,861)		77,930	351,259
Temporarily restricted		348,000	341,207	689,207	1,051,530
Total Net Assets (Deficit)	1,110,791	(684,861)	341,207	767,137	1,402,789
Total Liabilities and Net Assets	\$1,214,527	\$8,621,139	\$7,841,578	\$17,677,244	18,325,105

See accompanying notes to consolidated financial statements

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	General	Helms Community Center Project	Rumrill Park Healthy Eating Active Living Sports Complex	Totals	
				2017	2016
UNRESTRICTED REVENUES					
Government contracts	\$506,000			\$506,000	\$500,000
Government grants	350,000			350,000	350,000
Rental income			\$74,437	74,437	55,249
Program income	51,405			51,405	44,768
Corporate contributions	18,950			18,950	16,375
Individual and business contributions	15,790			15,790	575
Interest income	116	\$8		124	135
Other income	35,850			35,850	56,391
Total Unrestricted Revenues	978,111	8	74,437	1,052,556	1,023,493
UNRESTRICTED EXPENSES					
Program Services	626,129			626,129	366,898
Support Services:					
Management and general	148,693	428,972	521,760	1,099,425	1,191,662
Fundraising	47,654			47,654	-
Total Unrestricted Expenses	822,476	428,972	521,760	1,773,208	1,558,560
Increase (Decrease) in Unrestricted Net Assets	155,635	(428,964)	(447,323)	(720,652)	(535,067)
TEMPORARILY RESTRICTED REVENUE					
Lease income (Note 5)		85,000		85,000	85,000
Capital contributions from City of San Pablo				-	-
Total Temporarily Restricted Revenue		85,000		85,000	85,000
Net assets released from restrictions				-	-
Increase in Temporarily Restricted Net Assets		85,000		85,000	85,000
Change in Net Assets	155,635	(343,964)	(447,323)	(635,652)	(450,067)
Net Assets (Deficit)-Beginning of Year	955,156	(340,897)	788,530	1,402,789	1,852,856
Net Assets (Deficit)-End of Year	\$1,110,791	(\$684,861)	\$341,207	\$767,137	\$1,402,789

See accompanying notes to consolidated financial statements

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(\$635,652)	(\$450,067)
Adjustments to reconcile to net cash (used for) provided by operating activities:		
Depreciation expense	737,030	586,738
Decrease (increase) in accounts receivable	6,934	(19,765)
Decrease (increase) in prepaid expenses	10,326	(10,326)
(Increase) in others assets	(15,600)	
(Decrease) in accounts payable	(7,877)	(727,963)
(Decrease) increase in accrued liabilities	(4,332)	5,504
Total Adjustments	726,481	(165,812)
Cash Flows (Used for) Operating Activities	90,829	(615,879)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(2,750)	(691,369)
Cash Flows Provided by (Used for) Investing Activities	(2,750)	(691,369)
Net increase (decrease) in cash and cash equivalents	88,079	(1,307,248)
Cash and cash equivalents, beginning of year	1,731,463	3,038,711
Cash and cash equivalents, end of year	\$1,819,542	\$1,731,463
Supplemental disclosure:		
Cash paid for interest	\$126,562	\$126,562

See accompanying notes to consolidated financial statements

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 – ORGANIZATION AND PROGRAM

The San Pablo Economic Development Corporation (EDC) is a nonprofit public benefit corporation incorporated on April 4, 2011. The mission of the EDC is to stabilize, diversify and develop the local economy through education and training of our workforce and businesses. The specific purposes of the EDC are to:

- Expand public-private partnerships and partner with various public and private entities to perform activities so as to expand employment, economic prosperity and business opportunities for businesses and residents within the City of San Pablo (City).
- Provide public and charitable services and activities that are associated with such specific purposes as allowed by law.
- Develop the capacity of local businesses, and expand access to resources to promote economic growth.
- Provide and expand economic opportunities for all residents with an emphasis on access to job training and employment for low and moderate income households in the City.
- Encourage and stimulate economic development within the City to attract industry that diversifies and stabilizes the local economy.
- Partner with various entities to develop programs that encourage employment and community safety.
- Engage in community development as it relates to economic development in partnership with others.
- Solicit and receive contributions, donations, grants, gifts, bequests, including all kinds of income, securities and property, both real, personal and mixed, whether principal or income, tangible or intangible, present or future, vested or contingent.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Principles of Consolidation*

Effective December 12, 2012, the EDC entered into an assignment agreement with the City whereby the City irrevocably and unconditionally assigned, pledged and transferred all of its rights, title and interests in the Helms Community Center Project to the EDC.

In February 2015, the EDC, as the only member of the Healthy Eating Active Living LLC, entered into an agreement with the City to manage the construction of the Rumrill Park Sports Complex. As discussed in Note 5, HEAL obtained two loans from Northern California Community Capital NMTC Sub-CDE XII, LLC to partially finance the construction costs of the complex. The City also provided funding towards the construction of the complex. As part of the agreement with the City, the City agreed to lease the property under a ground lease to HEAL for a term of 55 years, and negotiated a management agreement under which the City agrees to manage the activities of the complex through February 23, 2045. The EDC would not begin paying the City management fees until the project was to be completed, which was completed in fiscal year 2016. The City also agreed to grant funds to HEAL, as needed, for the purpose of funding the operating expenses for the Sports Park in an amount not to exceed \$4,123,559. The agreement terminates on February 23, 2045. No funds were granted under this agreement during fiscal year 2016.

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The consolidated financial statements include the accounts of the EDC, the Helms Community Center Project (HELMS), and the Rumrill Park Healthy Eating Active Living Sports Complex (HEAL). The activities of HELMS and HEAL are accounted for using a separate accounting system and combined with the EDC. Material intra-entity accounts and transactions, if any, are eliminated in consolidation.

B. Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting. The EDC reports information regarding its financial position and activities according to the three classes of net assets:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of EDC and/or the passage of time. Temporarily restricted net assets on the consolidated Statement of Activities as of June 30, 2017, consisted of \$348,000 of cumulative lease payments received from the City (see Note 2.C. and 5) related to HELMS, and \$341,207 related to construction of the HEAL project, respectively.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that are to be maintained permanently by the EDC. Generally, the donors of these assets permit the EDC to use all or part of the income earned or related investments for general or specific purposes. As of June 30, 2017, the EDC had no permanently restricted net assets.

C. Support and Revenues

Grants from the City and public contributions from individuals and corporations are recorded upon receipt. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Lease income received from the City must be used by the EDC to repay outstanding debt service as discussed in Note 5. This income is considered temporarily restricted upon receipt and will be released in the periods in which the debt service payments are made.

D. Restricted Cash and Cash Equivalents

The EDC's cash and cash equivalents are comprised of cash in banks, which is insured by the Federal Depository Insurance Corporation.

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under the terms of the New Markets Tax Credit (NMTC) loan agreement related to the Helms Community Center Project and Rumrill HEAL Project, the EDC was required to fund construction disbursement accounts and to fund reserves to pay for certain fees related to the NMTC loan and other professional fees through the end of the NMTC compliance period. The funds are held by the bank and will be disbursed according to the loan and construction budget. As of June 30, 2017, the restricted amount is \$449,075, which is included in restricted cash on the Consolidated Statement of Financial Position.

E. Concentration Risk

The EDC maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The EDC has not experienced any losses on such accounts, and management believes it is not exposed to any significant risk on cash deposits.

F. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

G. Capital Assets

Capital assets are recorded at cost or estimated fair value if the costs exceed minimum thresholds with useful lives exceeding two years. Depreciation is calculated by using the straight-line method over the assets' estimated useful lives. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in changes in net assets. The EDC's policy is to depreciate buildings over 39 years, furniture and equipment over 3-7 years and vehicles over a useful life of 5 years.

H. Income Taxes

The EDC is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. Accordingly, no provision for income taxes has been provided in these statements. In addition, the EDC qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(1). Unrelated business income, if any, may be subject to income tax. The EDC paid no taxes on unrelated business income for the year ended June 30, 2017.

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Generally accepted accounting principles require the recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in the organization's tax returns. Management has determined that the EDC does not have any uncertain tax positions and associated unrecognized benefits that materially impact the consolidated financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the EDC's tax returns will not be challenged by the taxing authorities and that the EDC will not be subject to additional tax, penalties, and interest as a result of such a challenge. Generally, the EDC's tax returns remain open for federal income tax examination for three years from the date of filing.

I. Advertising

Advertising costs, if any, are expensed as incurred.

J. Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards set a framework for measuring fair value using a three tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The three levels are defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs that are not observable in the market and reflect management's judgment about the assumptions that market participants would use in pricing the asset or liability.

K. Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the EDC's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 3 – CAPITAL ASSETS

Capital assets balances and activity are summarized below for the year ended June 30:

	Balance at June 30, 2016	Additions	Balance at June 30, 2017
Capital assets being depreciated:			
Building - Helms	\$8,364,410		\$8,364,410
Building - HEAL	180,000		180,000
Building improvements - Helms	46,235	\$2,750	48,985
Equipment - Helms	77,107		77,107
Field improvements - HEAL	6,453,041		6,453,041
Furniture and fixtures - Helms	459,784		459,784
Vehicles	13,274		13,274
Total capital assets being depreciated:	<u>15,593,851</u>	<u>2,750</u>	<u>15,596,601</u>
Less accumulated depreciation	<u>(865,300)</u>	<u>(737,030)</u>	<u>(1,602,330)</u>
Net capital assets being depreciated	<u>14,728,551</u>	<u>(734,280)</u>	<u>13,994,271</u>
Capital assets not being depreciated:			
Land - Helms	235,000		235,000
Land - HEAL	1,600,000		1,600,000
Total capital assets not being depreciated:	<u>1,835,000</u>		<u>1,835,000</u>
Total capital assets, net	<u>\$16,563,551</u>	<u>(\$734,280)</u>	<u>15,829,271</u>

NOTE 4 – NOTES PAYABLE

On December 12, 2012, the EDC entered into two loan agreements with New Markets Community Capital XI, LLC (NMCC). The first and second loans are in the amounts of \$6,510,080 and \$2,795,920, respectively. Under the terms of the agreements, the loans bear interest of 1.360% and are payable in semi-annual interest-only payments due June 20 and December 20 until fiscal year 2022. Beginning on June 20, 2023, the EDC will begin making principal payments along with interest semi-annually, with a final payment due on December 1, 2052. At June 30, 2017, the outstanding balances of the loans were \$6,510,080 and \$2,795,920, respectively, totaling \$9,306,000.

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 4 – NOTES PAYABLE (Continued)

Future repayment requirements for the two loan agreements are shown below:

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017		\$126,562	\$126,562
2018		126,562	126,562
2019		126,562	126,562
2020		126,242	126,242
2021		125,922	125,922
2022-2026	\$937,419	673,037	1,610,456
2027-2031	1,386,410	523,970	1,910,380
2032-2036	1,483,623	426,757	1,910,380
2037-2041	1,587,653	322,727	1,910,380
2042-2046	1,698,978	211,402	1,910,380
2047-2051	1,818,109	92,271	1,910,380
2052	393,808	3,433	397,241
	<u>\$9,306,000</u>	<u>\$2,885,447</u>	<u>\$12,191,447</u>

On February 23, 2015, the HEAL LLC entered into two loan agreements with Northern California Community Capital NMTC Sub-CDE XII LLC. The first and second loans are in the amounts of \$4,947,116 and \$2,552,884, respectively. Under the terms of the agreements, the loans bear interest of 0.8619% and are payable in quarter-annual interest-only payments until fiscal year 2022. Beginning on June 15, 2022, HEAL LLC will begin making principal payments along with quarterly interest-only, with a final payment due on June 15, 2045. At June 30, 2017, the outstanding balances of the loans were \$4,947,116 and \$2,552,884, respectively, totaling \$7,500,000.

Future repayment requirements for the two loan agreements are shown below:

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017		\$64,644	\$64,644
2018		64,644	64,644
2019		64,644	64,644
2020		64,644	64,644
2021		64,644	64,644
2022-2026	\$1,276,388	301,359	1,577,747
2027-2031	1,562,667	236,457	1,799,124
2032-2036	1,631,508	167,718	1,799,226
2037-2041	1,703,170	95,955	1,799,125
2042-2045	1,326,267	22,904	1,349,171
	<u>\$7,500,000</u>	<u>\$1,147,613</u>	<u>\$8,647,613</u>

SAN PABLO ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 5 – LEASE WITH CITY OF SAN PABLO

On December 12, 2012, the EDC entered into a lease agreement with the City. Under the terms of the lease, the EDC is leasing the Helms Community Center to the City for a period of thirty years. Payments are due in semi-annual installments. At the end of the NMTC compliance period, which is seven years, the EDC plans to transfer title of the Helms Community Center to the City, and therefore, the EDC has not recorded the lease as a receivable on the Consolidated Statement of Financial Position. Future minimum lease payments are due as follows:

Fiscal Year Ended	Amount
2018	\$85,000
2019	86,000
2020	203,113
2021	324,014
2022	333,734
2023-2027	1,824,997
2028-2032	2,115,676
2033-2037	2,452,646
2038-2042	2,843,287
2043-2047	3,296,150
2048-2052	3,821,149
2053-2054	1,257,711
	<u>\$18,643,477</u>

Under an assignment agreement with the City, the semi-annual lease payments received by the EDC are to be used to pay down the debt service of the first and second loans with NMCC (see Note 4). As of June 30, 2017, the cumulative balances of the lease payment received from the City is \$348,000.

NOTE 6 – SUBSEQUENT EVENTS

EDC evaluated subsequent events for recognition and disclosure through **DATE**, the date which these consolidated financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2017 that requires recognition or disclosure in such consolidated financial statements.