



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Katy Allen
Hans F. Larsen

**SUBJECT: DOWNTOWN PBID
ANNUAL REPORT**

DATE: 10-19-09

Approved

Date

10/29/09

COUNCIL DISTRICT: 3

RECOMMENDATION

Acceptance of the Downtown San Jose Property-Based Business Improvement District *Financial Report for FY 2008-09*.

OUTCOME

Acceptance of the *Financial Report for FY 2008-09* as filed by the Downtown San Jose Property-Based Business Improvement District (PBID) which provides information to the public and the property owners in the District regarding the use of the assessments and the management and operations of the District.

BACKGROUND

The Downtown PBID was approved by property owners and adopted by City Council on August 7, 2007, to raise funds and provide enhanced cleaning, information and safety, and image enhancement services in the Downtown area. On January 15, 2008, the City entered into an Agreement with the San Jose Downtown Property Owners Association for the management and delivery of services in the Downtown PBID. Enhanced and City baseline services provided through the Downtown PBID commenced on January 28, 2008. A map of the boundaries of the Downtown PBID is provided in Attachment A.

ANALYSIS

As required by Part 7 of Division 18 of the California Streets and Highways Code "Property and Business Improvement District Law of 1994" and in compliance with the Agreement between the City and the Downtown PBID Owners' Association (Owners' Association), the Owners' Association submitted the *Financial Report for FY 2008-09* for City Council review and approval on September 22, 2009. Staff reviewed the *Financial Report for FY 2008-09* and believes it meets the requirement of the Agreement between the parties. The *Financial Report*

for FY 2008-09 is provided in Attachment B and will also be on file in the City Clerk's Office prior to the City Council Meeting. It contains information regarding the following issues as required by the Agreement:

1. Summary of Assessed Services for 2008-2009
2. Procurement of Goods and Services
3. Property Owners' Association meeting dates FY 2008-09
4. FY 2008-09 Budget Report
5. FY 2008-09 CPA review

Summary of Assessed Services for 2008-2009

The Downtown PBID commenced City baseline and enhanced cleaning and information and safety services on January 28, 2008. These services include sidewalk and street furniture cleaning and scrubbing, power washing and sweeping, portering, trash collection and litter can maintenance, and cleaning/reporting of graffiti. In addition, ambassadors patrol within the boundaries of the PBID daily, offering assistance to downtown employees, visitors and residents.

Baseline and enhanced services were provided in accordance with the Agreement between the City and the Owners' Association and the Downtown PBID Management Plan/Engineer's Report, respectively. These services have been successful in improving the conditions and the atmosphere in the Downtown area, and have also been received well by the Downtown property owners and the public.

In addition to the cleaning and ambassadorial services, image enhancement and beautification projects have been installed on First Street.

Procurement of Goods and Services

The City's General Funds were combined with the assessment funds in order to provide both baseline and enhanced services, which provides greater economy of scale for services as well as a single source of management. All funds expended are subject to the City's procurement policies and the City's living and prevailing wage rate policies. Substantial compliance with these policies have been met. The Department of Public Work's Equality Assurance Division has reviewed the payrolls for SGI, the primary service provider for the Downtown PBID, and found minor deficiencies in payments to employees working on the Downtown PBID. SGI cooperated with the City's Equality Assurance Division and has corrected these deficiencies.

Property Owners' Association Meetings Dates FY 2008-09

The Agreement requires that the Report list all Owners' Association Board meetings held during the previous year. The PBID Property Owners Association Board of Directors held seven meetings in 2008-2009.

FY 2008-09 Budget Report

The PBID received \$340,477 in Baseline services from the City and \$1,659,797 in property assessments, for a total of \$2,000,274 to provide baseline and enhanced PBID services in Downtown for the FY2008-09. Included in the assessments received was \$29,842 from the Redevelopment Agency and \$140,785 from the City.

A total of \$1,511,088 was expended in FY 2008-09 for cleaning and ambassadorial services: \$340,477 in City baseline services and \$1,170,611 for enhanced services. These expenditures are in line with the Agreement between the City and the Owners' Association and the Downtown PBID Management Plan/Engineer's Report.

\$202,353 expended for administration costs less the prepayment credits to SGI of \$30,825 resulted in a net administrative cost of \$171,528 which is approximately 8.6% of assessment revenues, which is below the 9.1% detailed in the Management Plan/Engineer's Report.

The Owners' Association is reporting a balance of \$183,183, reflecting the unexpended funds for pending and future image enhancement projects and maintenance services. This balance will be carried over and expended in FY 2009-10 on other image enhancement projects. While the Management Plan/Engineer's Report does not project a fund balance, this approach appears to be prudent given the nature of planning and delivering image enhancement services.

FY 2008-09 CPA Review

Berger/Lewis Accountancy Corporation, a certified accounting agency, reviewed the financial statements of the Downtown PBID and found them to be in conformity with generally accepted accounting principles.

EVALUATION AND FOLLOW-UP

The *Financial Report for FY 2008-09* by the Owners' Association provided in Attachment B completes the required reports for 2008-2009. The Owners' Association will continue to report twice yearly to the City; once in May for the Annual Assessment District Report and in October for this Annual Financial Report. In addition, all funds are subject to approval through the City's Annual Budget Process.

POLICY ALTERNATIVES

Not applicable.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although the public funds to be used in fiscal year 2009-10 does not meet the \$1 million threshold under Criteria 1, this memorandum will be posted on the City's website for the Council Agenda. The *Financial Report for 2008-09* will be filed in the City Clerk's Office for public review and will also be made available to the property owners within the district upon request.

COORDINATION

This memorandum and related documents were coordinated with the City Attorney's Office and the City Manager's Budget Office.

FISCAL/POLICY ALIGNMENT

This action is consistent with the Council-approved Budget Principle to meet legal commitments and requirements.

COST SUMMARY/IMPLICATIONS

Not applicable.

BUDGET REFERENCE

Not applicable.

HONORABLE MAYOR AND CITY COUNCIL

10-19-09

Subject: Downtown PBID Annual Report

Page 5 of 5

CEQA

Exempt: File No. PP08-095.

/s/

/s/

KATY ALLEN

Director, Public Works Department

HANS F. LARSEN

Acting Director, Department of Transportation

For questions please contact Kevin O'Connor, Deputy Director, for Transportation Infrastructure Maintenance at 277-3028.

Attachments



GROUNDWERX, INC.

28 N. First St. #1000

San Jose, CA 95113

408-279-1775

Financial Report for FY 2008-09

Submitted by
Downtown San Jose Property Owners' Association

October 1, 2009

The downtown San Jose Property-Based Improvement District (PBID), formed in August 2007, is an assessment district (District) that conveys special benefits to the properties located within the District boundaries. The District currently encompasses the core of the downtown area bounded approximately by Fourth Street and City Hall complex to the east, St. James and Devine streets to the north, Highway 87 and the HP Pavilion to the west and Market and First streets south to Reed Street.

Enhanced cleaning and maintenance services under the auspice of "Groundwerx" commenced on January 28, 2008. Upon the completion of the first year's services in February 2009, the Downtown San Jose Property Owners' Association (POA) surveyed its members, who overwhelmingly approved of the enhanced services they received.

I. Summary of Assessed services for FY 2008-09

The service frequency table below is from July 1, 2008 to June 30, 2009. The cleaning program, which combines the use of mechanized equipment and cleaning by hand, operates seven days a week. Sidewalk scrubbing, sweeping and portering services take place from 6 a.m. to 8 p.m. daily. Pressure washing is divided into three shifts, two at night/early morning between 12 a.m. and 10:30 a.m. One pressure washing shift occurs during the day from 10 a.m. to 6:30 p.m. This deployment configuration promotes the greatest efficiency without compromising the District's commitment to being responsive to the constantly changing conditions of downtown San Jose.

The table below includes the cleaning frequencies for both enhanced and baseline services. Baseline services account for approximately 30% of the total cleaning, which is equivalent to providing basic portering services Monday through Friday along the Transit Mall and Repetory Plaza and three days of portering in SoFA and San Pedro Square. Additional portering hours, including evening and weekends are part of the enhanced services provided by the PBID. The PBID averaged 435 hours of pressure washing per month in FY 2008-09, of which 130 hours per month were part of the baseline service agreement between the City of San Jose and the POA.

Cleaning	Proposed in Management Plan	FY 08-09
Maintenance F.T.E.	13 to 22	13-15
Average weekly coverage	5 to 7 days	7 days
Litter Removal/Vacuuming	Daily All Downtown	Daily All Downtown
Litter Removal/Pan & Broom	One to Two Shifts in Premium Area	One to Two Shifts in Premium Area
Machine Sweeping/Scrubbing	Daily All Downtown	Daily All Downtown
Transit Stop Maintenance	Yes	Yes
Steam Cleaning/Pressure Wash: Basic	Two to Four times per year	Three times
Steam Cleaning/Pressure Wash: Premium	Four to Six times per year	Six times and as needed SWAT
Graffiti Reporting/Cleaning	Daily as Needed	Daily as Needed
Light Landscape/Weeds	As Needed	As Needed
SWAT Patrol or "emergency cleaning"	As Needed	Daily

The table below shows total output for various components of the cleaning program over FY 2008-09. The amount of litter and the condition of the downtown streets resulted in more cleaning services provided by the District than what was projected in the management plan. For example, environmental factors such as street trees dropping fruit, berries and sticky substances onto sidewalks contributed to a greater need for sidewalk cleaning, particularly pressure washing and mechanical scrubbing. Additional litter removal was also necessary because there are a number of high traffic areas within the district.

Clean Team Services:	Output:
Pan/Broom	10,968 hrs
Pan/Broom: Debris Removal	91,827 lbs
Mechanical Sweeping	4,330 hrs
Mechanical Scrubbing	5,433 hrs
Pressure Washing	5,224 hrs
Trash Collected (Trash cans emptied)	63,725 lbs
Graffiti cleaned by Groundwerx	14,644
Directions Given	8,399

The Groundwerx ambassadors promote the image of a friendly downtown by offering visible assistance to downtown employees, visitors and residents. Ambassadors perform a variety of tasks, such as providing information to visitors, escorting pedestrians, holding and bearing witness against persons that commit nuisance crimes, and reporting

graffiti and other messes to the clean team. Ambassadors also report instances of vandalism and property damage and work with local social service providers to provide service referrals. The ambassador program incorporates Segway, bike and foot patrols seven days a week. Ambassadors begin their routes at 6 a.m. and provide services until 8 p.m. during the week, with extended hours till 11 p.m. on the weekends. Ambassadors are trained on the nuances of downtown San Jose and carry information such as walking maps, bus and light rail schedules, the Official Visitors Guide, special event flyers and other promotional collateral. They are equipped with handheld devices with Internet access and printing capability, which allows them to provide written directions on the spot. Reporting incidents and property conditions are also made easier and more effective by this technology.

Information and Safety Ambassadors	Proposed in Management Plan	FY 08-09
Ambassadors F.T.E.	9-12	9-12
Coverage in all areas	8 hours	8 hours
Coverage in Premium areas	12-16 hours	12-16 hours

The table below represents a statistical summary of the ambassador program for FY 2008-09. Pedestrian assistance includes personal safety escorts, distributing downtown information and other types of event collateral to individuals on the streets. The most common form of social service referral provided by the ambassadors is the distribution of the City of San Jose Housing department service guide. This guide contains a variety of information, including housing information, mental health, employment and veteran services. Property condition reports include reports to both the City of San Jose and individual property owners. Incident reports document various quality of life issues that occur in the District, including 911 calls, trespassing, public urination, damaging property and obstruction of the public right-of-way.

Ambassador Services:	Output:
Directions given	44,862
Pedestrian Assistance	1,239
Social Service: Shelter	219
Social Service: Food referral	297
Social Service: Info Handouts	838
Graffiti reports to City	3,563
Property condition reports	591
Incident reports	40

Streetscape beautification and image enhancements comprise the third component of the PBID enhanced services. The District installed the first beautification project in November 2008. Ken Kay Associates (KKA) was selected in a competitive bid process to create a streetscape beautification plan for the District, and implement a demonstration project. South First Street between Santa Clara and San Fernando Streets was selected for the demonstration project because of its central location and pre-existing

infrastructure. Post Street, between South First and Market streets was also part of the demonstration area. The beautification enhancements included the installation of intersection and street planters, hanging flower baskets, a bamboo wall and mural and festive LED tree lights.

II. Procurement of Goods and Services

The POA certifies all funds were expended in accordance with the Property and Business Improvement District Law of 1994, Section 36600 et seq. of the State of California Streets and Highways Code (PBID Law). A fair and competitive process was maintained during the procurement of goods and services as per the agreement with the City of San Jose.

The District's FY 2008-09 assessment funds were used to continue the service agreement with Service Group Incorporated (SGI), to provide cleaning and ambassadorial services. The POA and SGI worked with the Office of Equality Assurance (OEA) to ensure wages complied with the City's Living and Prevailing Wage policies.

The POA also used assessment funds to hire KKA for the beautification project. The POA substantially followed the procurement guidelines provided by the City of San Jose, Council Policy No. 0-35. The following steps were taken to ensure compliance with this policy:

- A Request For Qualifications (RFQ) was submitted to 15 potential consultants, which included referrals from the City of San Jose.
- The RFQ was posted on the San Jose Downtown Association (SJDA) website, as well as the City's Bidline in April 2008.
- Sub-committee reviewed the 10 RFQ submittals and selected four finalists to submit proposals.
- Sub-committee finalized and posted the RFP on June 16, 2008. All communications between the RFP respondents and the POA were directed to one designated individual, as stated in the RFP.
- Responses to the RFP were due on July 3, 2008.
- The POA formed a selection committee to review the RFP proposals. The selection committee members had no contact with the respondents during the RFP process. The selection committee reported no conflicts of interest and each member of the committee signed the City's confidentiality agreement and conflict of interest disclosure.
- The selection committee selected three proposals for the interview phase, which took place on July 14, 2008.
- The award of the contract was announced on July 16, 2008.

III. Downtown San Jose Property Owners' Association meeting dates FY 2008-09:

July 15, 2008
September 16, 2008
October 10, 2008
December 16, 2008
February 17, 2009
April 28, 2009
June 16, 2009

IV. FY 2008-09 Budget report

Please see attached final FY 2008-09 for budget expenditure details.

The total PBID budget for FY 2008-09 was \$2,049,876. Assessment revenues totaled \$1,659,797 and the City's baseline contribution was \$340,477. Additional revenue was generated through a separate agreement with VTA and other sources, including \$1,500 in grant money.

Total program administrative costs were \$171,528, representing 8.4% of the total revenue. The management allows for a maximum of 9.1% for administrative costs. The POA was able to achieve these savings because it negotiated a discounted rate with SGI.

A balance of \$183,183 was carried over, mostly reflecting unexpended beautification project funds that will be spent in FY 2009-10. The POA wisely leveraged its funds by negotiating discounts and conservatively projecting beautification costs. The remaining funds will allow the POA to maintain streetscape beautification projects at a high level and assume the maintenance for the Redevelopment Agency's completed SoFA improvements, covering three additionally blocks.

The POA reached an agreement with VTA to provide additional cleaning of the VTA tracks. The \$47,910 was a prorated amount FY 2008-09, with services beginning in August 2008. VTA light rail tracks along the downtown transit mall are not part of enhanced services provided by the PBID. A \$1,500 grant from Keep America Beautiful was awarded to the POA for the reduction of cigarette litter. The PBID conducted a survey of downtown streets to identify the areas with the highest concentration of cigarette litter and used the grant money to purchase ashtrays to be used in those locations. The POA joined the San Jose Downtown Association (SJDA), City of San Jose, Team San Jose, Barry Swenson Builder, Adobe and Silicon Valley Sports Authority, by contributing \$5,000 to the Highway 87 cleanup program, which began in March 2009 and will be completed in November.

V. FY 2008-09 CPA review

Please see attached review report.

Downtown San Jose Property Owners' Association
 FY 2008-09

	FY 08-09 Approved *	FY 08-09 Actual	
	BUDGET	FINAL	
1			
2			
3			
4	REVENUE		
5			
6	Assessments		
7	Assessments - thru SCC	1,259,035	1,268,884
8	less assessment charges SCC	(12,590)	(13,189)
9	Assessments - exempt thru SJ	410,340	414,101
10	less assessment charges SJ	(10,000)	(10,000)
11			
12	Net Assessments	1,646,784	1,659,797
13			
14	City baseline	340,863	340,477
15	Contracts	50,000	47,910
16	Grants		1,500
17	Miscellaneous		192
18			
19	TOTAL REVENUE	2,037,647	2,049,876
20			
21			
22	EXPENSES		
23			
24	CLEAN TEAMS		
25	Contract PBID	609,900	776,485
26	Contract Baseline	340,025	340,477
27	Subtotal	949,925	1,116,962
28			
29	GREET (SAFETY AMBASSADOR) TEAMS		
30	Contracts	582,200	424,951
31	Subtotal	582,200	424,951
32			
33	Total SGI Contract	1,532,125	1,541,913
34			
35	IMAGE ENHANCEMENTS		
36	Demonstration project	315,000	182,065
37	Beautification projects		55,000
38	Maintenance		7,700
39	Hwy 87		5,000
40	Subtotal	315,000	249,765
41			
42	ADMINISTRATION		
43	SJDA Management	185,426	186,539
44	Insurance	5,500	3,722
45	Professional Services	11,000	8,350
46	Marketing	6,000	-
47	Misc	8,000	8,742
48	less 2% prepay contracts	(30,600)	(30,825)
49	Subtotal	185,326	171,528
50			
51	TOTAL EXPENSES	2,032,451	1,968,206
52			
53	REVENUE NET OF EXPENSES	5,196	86,670
54			
55			
56	Beginning Fund Balance	96,513	96,513
57			
58	Projected Ending Fund Balance	101,709	183,183
59			
60			
61	* Approved by Board 5/13/08		

**SAN JOSE DOWNTOWN PROPERTY
OWNERS' ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)**

FINANCIAL STATEMENTS

Year Ended June 30, 2009

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)

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Thomas C. Bondi
Lawrence S. Kuechler
Roberto M. Maragoni
Frank A. Minuti, Jr.

EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Daniel C. Moors
Randy G. Peterson
David R. Sheets
Robert W. Smiley
Todd W. Robinson

ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
San Jose Downtown Property Owners' Association
(A California Nonprofit Mutual Benefit Corporation)
San Jose, California

We have reviewed the accompanying statement of financial position of San Jose Downtown Property Owners' Association (a California nonprofit mutual benefit corporation) as of June 30, 2009 and the related statements of activities and changes in net assets, and cash flows, in accordance with Statements of Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of San Jose Downtown Property Owners' Association.

A review consists principally of inquiries of the Association's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles in the United States of America.

Berger/Lewis Accountancy Corporation

BERGER/LEWIS ACCOUNTANCY CORPORATION
San Jose, California
September 1, 2009

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2009

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 129,560
Contracts Receivable	19,434
Accounts Receivable	12,500
Prepaid Expenses	<u>129,500</u>

Total Current Assets 290,994

TOTAL ASSETS \$ 290,994

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts Payable	\$ 94,362
Accrued Expenses	<u>13,450</u>

Total Current Liabilities 107,812

NET ASSETS:

Unrestricted Net Assets 183,182

TOTAL LIABILITIES AND NET ASSETS \$ 290,994

See Accountant's Review Report and Accompanying Notes to Financial Statements.

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2009

	2009		
	Unrestricted	Temporarily Restricted	TOTAL
REVENUE:			
Property Owners Assessments	\$ 1,255,696	\$ -	\$ 1,255,696
Exempt Properties Assessments	404,101	-	404,101
City Contracts - Baseline Services	340,477	-	340,477
Other Contracts	47,910	-	47,910
Grants	1,500	-	1,500
Interest Income	192	-	192
Total Revenue	2,049,876	-	2,049,876
EXPENSES:			
Subcontractors - Clean and Greet	1,511,088	-	1,511,088
Supporting Services:			
Image Enhancement	249,766	-	249,766
Insurance	3,722	-	3,722
Management Services	186,539	-	186,539
Office Equipment	1,202	-	1,202
Office Supplies	1,982	-	1,982
Professional Services	8,350	-	8,350
Miscellaneous	558	-	558
Total Supporting Services	452,119	-	452,119
Total Expenses	1,963,207	-	1,963,207
CHANGE IN NET ASSETS	86,669	-	86,669
NET ASSETS, Beginning of Year	96,513	-	96,513
NET ASSETS, End of Year	\$ 183,182	\$ -	\$ 183,182

See Accountant's Review Report and Accompanying Notes to Financial Statements.

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in Net Assets	\$ 86,669
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
(Increase) Decrease in Assets:	
Contract Receivable	(19,435)
Accounts Receivable	(12,500)
Prepaid Expenses	(129,500)
Increase (Decrease) in Liabilities:	
Accounts Payable	14,724
Accrued Expenses	<u>13,451</u>
DECREASE IN CASH	(46,591)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>176,151</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 129,560</u>

See Accountant's Review Report and Accompanying Notes to Financial Statements.

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES:

San Jose Downtown Property Owners' Association (the "Association"), is a corporation organized under the California Nonprofit Mutual Benefit Corporation Law. The Association is exempt from Federal Income Tax under Section 501(c)(6) of the Internal Revenue Code. The Association's operation commenced on January 21, 2008. The purpose of the Association is to improve Downtown San Jose with enhanced services including:

- (a) Clean teams that will sweep, scrub, power wash sidewalks, remove litter and graffiti, and increase the frequency of trash removal and maintenance of public spaces within downtown.
- (b) Information and Safety Ambassadors to provide information on downtown activities and establishments, prevent crime and work productively with social service providers.
- (c) Image enhancement and cosmetic improvements to visually improve downtown.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - Revenue and expenses are recognized on the accrual basis. Revenue consists primarily of assessments on property owners within a specified district. Expenses consist primarily of the cost of providing the services as described in Note 1.

Basis of Presentation - Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Association 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.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Association. Under this category, the Association maintains an operating fund, plus any net assets designated by the Board for specific purposes. The Association has elected to report as an increase in unrestricted net assets any restricted revenue received in the current period for which the restrictions have been met in the current period.

Temporarily restricted net assets include those assets which are subject to restriction and for which the restriction was not met as of the year end.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

Fair Value of Financial Instruments - The carrying value of the Association's financial instruments including cash and cash equivalents, receivables, and trade accounts payable approximate their fair values as of June 30, 2009 due to their short-term maturities.

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Association maintains its cash in bank deposit accounts which, at times, may exceed Federally insured limits. The Association has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Receivables - No allowance for uncollectible receivables has been presented since all amounts are deemed to be collectible.

Income Taxes - San Jose Downtown Property Owners' Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Advertising - The Association's policy is to expense advertising costs as the costs are incurred.

Subsequent Events - Management of the Association has evaluated events and transactions subsequent to December 31, 2008 for potential recognition or disclosure in the financial statements. The Association did not have subsequent events that required recognition or disclosure in the financial statements for the year ended December 31, 2008. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 1, 2009.

Recent Accounting Pronouncements -

FIN 48 - In June 2006, the Financial Accounting Standards Boards (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, (FIN 48). FIN 48 provides guidance on recognition and measurement of uncertainties in income taxes recognized in financial statements by prescribing a more-likely-than-not recognition threshold and measurement attribute of tax positions taken or expected to be taken on a tax return. On December 30, 2008 FASB Staff Position (FSP) FIN 48-3 was issued and allows for the deferral of FIN 48 for fiscal years beginning after December 15, 2008.

In accordance with this provision, the Association elected to defer the application of FIN 48. Based on management's analysis of the Association's tax positions, the accounting for any uncertainty in its tax positions is not expected to have a material impact on the financial statements.

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

SFAS No. 157 - In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. FASB previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. However, for some entities, application of SFAS No. 157 will change current practice. In February 2008, FASB issued Staff Position No. 157-2 that defers the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in financial statements on a recurring basis for fiscal years beginning after November 15, 2008. In addition, FASB also agreed to exclude from scope of SFAS No. 157 fair value measurements made for purposes of applying SFAS No. 13, *Accounting for Leases*, and related interpretive accounting pronouncements. The adoption of SFAS No. 157 for financial assets and liabilities did not have a significant impact on the Association's results of operations, cash flows or financial position. The Association is assessing the impact of adopting SFAS No. 157 on non-financial assets and liabilities, but do not expect it to have a material impact on its results of operations, cash flows or financial position.

SFAS No. 159 - In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159) which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for an entity's first fiscal year that begins after November 15, 2007. The Association has adopted SFAS No. 159 but did not elect to measure any eligible financial instruments at fair value under this guidance.

NOTE 3 - PROPERTY-BASED IMPROVEMENT DISTRICT:

In August 7, 2007, City of San Jose City Resolution No. 73937 established and defined the Downtown Property-Based Improvement District ("PBID"). The PBID is funded by an assessment levied on the property owners located within the District and approved through petition and mail-ballot process. By state law, the Association has a five year life. Any subsequent renewals will require a new management plan, petition and mail-ballot process.

The Association was incorporated as a California Non-profit Mutual Benefit Corporation Law to provide oversight of the District, to contract on behalf of the District, to review and provide leadership and guidance to the members of the district.

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SAN JOSE DOWNTOWN ASSOCIATION MANAGEMENT FEE:

The Association entered into an agreement with San Jose Downtown Association to receive management services. The agreement shall run from January 28, 2008 to January 31, 2013. The entities have separate boards of directors and operate as separate entities. As a fee for the management services, the Association will pay 9.1% of the total revenue received by PBID. The fee is payable semi-annually. As of June 30, 2009, the Association incurred expenses from this agreement totaling \$186,539.

As of January 14, 2008 San Jose Downtown Association (the "SJDA") entered into an agreement on behalf of the Association with Service Group Incorporated (the "SGI"). SGI provides services to allow the Association to carry out its nature of activities of maintenance of Downtown San Jose, including cleaning, safety and information services. The agreement shall terminate on January 13, 2010, unless renewed for 3 additional one year terms. Either party has the right to terminate this agreement at any time, by giving written notice at least 120 days prior to termination date.