



**City Council Action Request**

<b>Department:</b> Transportation	<b>CEQA:</b> Exempt File No. PP08-095	<b>Coordination:</b> City Attorney's Office, Department of Public Works	<b>CMO Approval:</b> 
			<b>Dept. Approval:</b> /s/ 11/08/10

**RECOMMENDED ACTION:**

Acceptance of the Downtown San Jose Property-Based Business Improvement District (PBID) Financial Report for FY 2009-2010, 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.

**BASIS FOR RECOMMENDATION:**

As required by Part 7 of Division 18 of the California Streets and Highway 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 2009-2010 for City Council review and approval on September 30, 2010. Staff reviewed the Financial Report for FY 2009-2010 and believes it meets the requirement of the Agreement between the parties. The report is provided in Attachment A 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 2009-2010
2. Procurement of Goods and Services
3. Property Owners' Association meeting dates for FY 2009-2010
4. FY 2009-2010 Budget Report

The PBID adopted budget is provided in Attachment B.

As required by the Agreement, an independent Certified Public Accountant's Review Report on the finances of the District for the preceding fiscal year is provided in Attachment C. 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.

**COST AND FUNDING SOURCE:**

Not applicable.

**FOR QUESTIONS CONTACT:**

Diane Milowicki, Department of Transportation Division Manager, 277-5496.

## Financial Report for FY 2009-10

Submitted by  
Downtown San Jose Property Owners' Association

October 1, 2010

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. Since the implementation of services, property owners have been surveyed annually and the results have been overwhelmingly positive. Members clearly see the impact of the PBID's enhanced services. In 2010, the Groundwerx clean teams received a 91.6% approval rating. Members gave the streetscape beautification projects an 84.5% approval rating and the Groundwerx ambassadors received an approval rating of 71%.

### I. Summary of Assessed services for FY 2009-10

The service frequency table below is from July 1, 2009 to June 30, 2010. The overall cleaning program has not changed since the implementation of services. The enhanced cleaning program operates seven days a week, combining the use of mechanized equipment and cleaning by hand. The hours of operation have been adjusted to maximize resources and promote greater efficiency. Sidewalk scrubbing, sweeping and portering services take place from 6 a.m. to 8 p.m. daily. Pressure washing is now divided into four shifts, which covers seven days per week. The first shift occurs during the early morning hours between 1 a.m. to 9:30 a.m., the second shift is from 5 a.m. to 1:30 p.m. The third shift begins is from 10 a.m. to 5:30 p.m. and the last shift is from 12 p.m. to 8:30 p.m.

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 566 hours of pressure washing per month in FY 2009-10, of which 170 hours per month were part of the baseline service agreement between the City of San Jose and the POA.

<b>Cleaning</b>	Proposed in Management Plan	FY 09-10
Maintenance F.T.E.	13 to 22	13-16
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 and as needed SWAT
Steam Cleaning/Pressure Wash: Premium	Four to Six times per year	Seven 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 2000-10. 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 from insect infestations contributed to a greater need for sidewalk cleaning, particularly pressure washing and mechanical scrubbing. The district has also seen an increase in outdoor events that require pre and post event cleanups. Additional litter removal was also necessary because the district in general has a number of high traffic areas.

<b>Clean Team Services:</b>	<b>Output:</b>
Pan/Broom	12,473 hrs
Pan/Broom: Debris Removal	115,600 lbs
Mechanical Sweeping	4,184 hrs
Mechanical Scrubbing	3,834 hrs
Pressure Washing	6,797 hrs
Trash Collected (Trash cans emptied)	165,300 lbs
Graffiti cleaned by Groundwerx	22,277

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 agencies to provide 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 helpful 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, which allows them to access information at any time. Reporting incidents and property conditions are also made easier and more effective by this technology.

In the second half of FY 2009-10 ambassadors made a concerted effort to improve their ability to address nuisance crimes such as loitering, pan handling and other public disturbances. Ambassadors received training on basic mental health information to improve their communication with street people. Ambassadors are now better equipped to identify potentially volatile situations and contact the appropriate authorities for support. A renewed emphasis was also placed on safety. Ambassadors are looking to enhance their abilities to identify and report potential safety issues to law enforcement partners. Ambassadors have been actively communicating with business owners and residents, to inform them of the various ambassador services available, such as providing personal safety escorts.

<b>Information and Safety Ambassadors</b>	<b>Proposed in Management Plan</b>	<b>FY 09-10</b>
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 2009-10. Pedestrian assistance indicates an interaction with a pedestrian, such as providing specific downtown information and includes personal safety escorts. 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.

<b>Ambassador Services:</b>	<b>Output:</b>
Ambassador hours	13,699 hrs
Directions given	26,076
Pedestrian Assistance	270
Social Service: Shelter	94
Social Service: Food referral	452
Social Service: Info Handouts	420
Graffiti reports to City	2,037
Property condition reports	487
Incident reports	227

Streetscape beautification and image enhancements comprise the third component of the PBID enhanced services. Phase Two of the beautification project was completed December 16, 2009. In accordance with the 2008 beautification strategy plan produced by Ken Kay Associates, South First Street between San Fernando and San Carlos was selected for Phase Two in order to connect the 2008 PBID demonstration project and the 1stACT and RDA inspired SoFA improvements of 2009.

Phase Two enhancements included more colorful plantings, larger planters and improved strategic placement of the planters. The signature element in this project was the 106' vine bed at the Block 8 dirt area next to the Four Points by Sheraton hotel (formerly the Hotel Montgomery). The mural at the Federal Building was another significant achievement. The 10' tall and 135' long mural is the culmination of many years of dialogue with the U.S. General Services Administration. In addition to these two elements, 19 large sized custom planters were installed along the transit mall median and another 28 planters enhanced storefronts on the west side of the block. Each set of the storefront planters was selected to compliment the unique architecture of each building. At the northeast and southwest corner parking lots of this block, the parking lot walls were decorated with 188' of mounted planters bringing a splash of color to significant intersection corners. Four large hanging flower baskets were placed at the S. First and Paseo de San Antonio intersection and LED tree lights were hung on 54 street trees on this block as well.

## 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 2009-10 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 Finley Landscape Design for the Phase Two beautification project. The POA substantially followed the procurement guidelines provided by the City of San Jose, Council Policy No. 0-35 and in accordance with the POA procurement policy adopted on August 18, 2009. The following steps were taken to ensure compliance with this policy:

- Specifications for goods and services were developed for Phase Two of the beautification project and submitted to five prospective providers to solicit responses.
- A single point of contact was maintained during the procurement process for all communications.
- Sub-committee reviewed four proposals and Finley Landscape Design was selected based on quality of work and competitive pricing.

III. Downtown San Jose Property Owners' Association meeting dates FY 2009-10:

August 18, 2009  
October 9, 2009  
November 17, 2009  
January 19, 2010  
March 16, 2010  
May 11, 2010

IV. FY 2009-10 Budget report

Please see attached final FY 2009-10 for budget expenditure details.

The total PBID budget for FY 2009-10 was \$2,165,624. Assessment revenues totaled \$1,759,360 and the City's baseline contribution was \$349,529. Additional revenue was generated through a separate agreement with VTA and other sources, including a \$5,000 contribution from 1stACT for the Phase Two beautification project.

Total program administrative costs were \$181,278, representing 8.4% of the total revenue. The Management Plan allows for a maximum of 9.1% for administrative costs.

A balance of \$212,283 was carried over; mostly reflecting unexpended beautification project funds that have been budgeted in FY 2010-11. The POA 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 additional blocks.

In 2008, the POA reached an agreement with VTA to provide additional cleaning of the VTA tracks. VTA light rail tracks along the downtown transit mall are not part of enhanced services provided by the PBID. This service agreement was renewed in FY 2009-10 with a three percent increase for a total of \$51,500.

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 was completed in November 2009.

V. FY 2009-10 CPA review

Please see attached review report.

San Jose Downtown Property Business Improvement District  
FY 2010-11 Budget

	B	C	D
4		FY 09-10	FY 09-10
5		APPROVED*	ACTUAL
6			
7			
8	<b>REVENUE</b>		
9			
10	Assessments		
11	Assessments - thru SCC	1,328,685	1,349,247
12	less assessment charges SCC	(13,287)	(14,217)
13	Assessments - exempt thru SJ	413,508	434,330
14	less assessment charges SJ	(10,000)	(10,000)
15			
16	<b>Net Assessments</b>	<b>1,718,906</b>	<b>1,759,360</b>
17			
18	City baseline	346,901	349,529
19	Contracts	50,000	51,500
20	Grants	-	-
21	Miscellaneous	193	5,234
22			
23	<b>TOTAL REVENUE</b>	<b>2,116,000</b>	<b>2,165,624</b>
24			
25			
26	<b>EXPENSES</b>		
27			
28	<b>CLEAN TEAMS</b>		
29	Contract PBID	652,129	799,166
30	Contract Baseline	346,901	349,529
31	<b>Subtotal</b>	<b>999,030</b>	<b>1,148,696</b>
32			
33	<b>GREET (SAFETY AMBASSADOR) TEAMS</b>		
34	Contracts	612,309	437,024
35	<b>Subtotal</b>	<b>612,309</b>	<b>437,024</b>
36			
37	<b>Total SGI Contract</b>	<b>1,611,338</b>	<b>1,585,720</b>
38			
39	<b>IMAGE ENHANCEMENTS</b>		
40	Demonstration project	-	-
41	Beautification projects	225,000	297,525
42	Maintenance	70,000	67,000
43	Hwy 87	5,000	5,000
44	<b>Subtotal</b>	<b>300,000</b>	<b>369,525</b>
45			
46	<b>ADMINISTRATION</b>		
47	SJDA Management	192,556	197,072
48	Insurance	9,000	2,193
49	Professional Services	11,000	8,645
50	Marketing	6,500	-
51	Misc	8,000	5,082
52	less 2% prepay contracts	(32,227)	(31,714)
53	<b>Subtotal</b>	<b>194,829</b>	<b>181,278</b>
54			
55	<b>TOTAL EXPENSES</b>	<b>2,106,168</b>	<b>2,136,523</b>
56			
57	<b>REVENUE NET OF EXPENSES</b>	<b>9,832</b>	<b>29,101</b>
58			
59			
60	Beginning Fund Balance	183,183	183,182
61			
62	Projected Ending Fund Balance	193,015	212,283
63			
64			
65	* Approved by Board 4/28/09		
66			
67			

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

\*\*\*

FINANCIAL STATEMENTS

Year Ended June 30, 2010

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

TABLE OF CONTENTS

	<u>Pages</u>
ACCOUNTANT'S REVIEW REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-7

Thomas C. Bondi  
David P. Johnson  
Lawrence S. Kuechler  
Roberto M. Maragoni

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



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Anthony M. Matusich  
Frank A. Minuti, Jr.  
Daniel C. Moors  
Randy G. Peterson  
Todd W. Robinson  
David R. Sheets  
Robert W. Smiley

## 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, 2010 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 24, 2010

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

STATEMENT OF FINANCIAL POSITION

June 30, 2010

---

**ASSETS**

**CURRENT ASSETS:**

Cash and Cash Equivalents	\$ 241,306
Accounts Receivable	12,875
Prepaid Expenses	<u>130,000</u>
Total Current Assets	<u>384,181</u>

**TOTAL ASSETS** \$ 384,181

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts Payable	\$ 140,458
Accrued Expenses	<u>31,438</u>
Total Current Liabilities	<u>171,896</u>

**NET ASSETS:**

Unrestricted Net Assets	<u>212,285</u>
-------------------------	----------------

**TOTAL LIABILITIES AND NET ASSETS** \$ 384,181

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, 2010

	2010		
	Unrestricted	Temporarily Restricted	TOTAL
<b>REVENUE:</b>			
Property Owners Assessments	\$ 1,335,030	\$ -	\$ 1,335,030
Exempt Properties Assessments	424,330	-	424,330
City Contracts - Baseline Services	349,529	-	349,529
Other Contracts	51,500	-	51,500
Interest Income	234	-	234
Miscellaneous	5,000	-	5,000
Total Revenue	<u>2,165,623</u>	<u>-</u>	<u>2,165,623</u>
<b>EXPENSES:</b>			
Subcontractors - Clean and Greet	<u>1,554,006</u>	<u>-</u>	<u>1,554,006</u>
Supporting Services:			
Image Enhancement	368,661	-	368,661
Insurance	2,193	-	2,193
Management Services	197,071	-	197,071
Office Equipment	1,823	-	1,823
Office Supplies	1,348	-	1,348
Professional Services	8,645	-	8,645
Postage and Shipping	908	-	908
Conference and Meetings	790	-	790
Miscellaneous	1,076	-	1,076
Total Supporting Services	<u>582,515</u>	<u>-</u>	<u>582,515</u>
Total Expenses	<u>2,136,521</u>	<u>-</u>	<u>2,136,521</u>
<b>CHANGE IN NET ASSETS</b>	29,102	-	29,102
<b>NET ASSETS, Beginning of Year</b>	<u>183,183</u>	<u>-</u>	<u>183,183</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 212,285</u>	<u>\$ -</u>	<u>\$ 212,285</u>

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, 2010

---

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Change in Net Assets	\$ 29,102
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
(Increase) Decrease in Assets:	
Contract Receivable	19,435
Accounts Receivable	(375)
Prepaid Expenses	(500)
Increase (Decrease) in Liabilities:	
Accounts Payable	46,096
Accrued Expenses	<u>17,988</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	111,746
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>129,560</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 241,306</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 (FASB) Accounting Standard Codification (ASC) 958 (formerly Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*). Under ASC 958, 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.

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.

ASC 740-10 (formerly FIN 48) - In June 2006, the Financial Accounting Standards Boards (FASB) issued ASC 740-10 (formerly Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, (FIN 48)). ASC 740-10 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.

Effective July 1, 2009 the Association implemented the new accounting requirements associated with uncertainty in income taxes using the provisions of FASB ASC 740-10. Accordingly, an entity shall initially recognize the financial statement effects of a tax position when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2010, the Association believes it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

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 June 30, 2010 for potential recognition or disclosure in the financial statements. The Association did have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2010, see Note 4. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 24, 2010.

---

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):

Recent Accounting Pronouncements -

FASB Accounting Standards Codification - On July 1, 2009, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) 105-10, *Generally Accepted Accounting Principles* (GAAP) (Codification). ASC 105-10 establishes the exclusive authoritative reference for U.S. GAAP for us in financial statements, except for SEC rules and interpretive releases, which are also authoritative for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. The Association has included the references to the Codification, as appropriate, in these financial statements.

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.

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, 2010, the Association incurred expenses from this agreement totaling \$197,071.

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.

On June 16, 2010, SJDA on behalf of the Association extended the agreement with SGI for one additional year of service. The agreement shall terminate on January 13, 2011, unless renewed.