

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)

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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.

A handwritten signature in cursive script that reads "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 | <u>\$ 384,181</u> |

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 | <u>\$ 384,181</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 ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2010

| | 2010 | | |
|--------------------------------------|-------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | TOTAL |
| REVENUE: | | | |
| 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> |
| EXPENSES: | | | |
| 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> |
| CHANGE IN NET ASSETS | 29,102 | - | 29,102 |
| NET ASSETS, Beginning of Year | <u>183,183</u> | <u>-</u> | <u>183,183</u> |
| NET ASSETS, End of Year | <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

| | |
|--|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| 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> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 111,746 |
| CASH AND CASH EQUIVALENTS, Beginning of Year | <u>129,560</u> |
| CASH AND CASH EQUIVALENTS, End of Year | <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
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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.