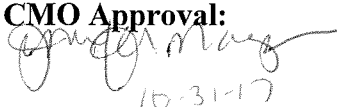


CITY COUNCIL ACTION REQUEST

Department: Transportation	CEQA: Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action	Coordination: CAO, PW	Dept. Approval: /s/ Jim Ortbal
Council District(s): Citywide			CMO Approval:  10-31-17

**SUBJECT: DOWNTOWN SAN JOSE PROPERTY-BASED IMPROVEMENT DISTRICT
ANNUAL FINANCIAL REPORT**

RECOMMENDATION:

Approve the Downtown San Jose Property-Based Improvement District (PBID) Annual Financial Report for FY 2016-17.

BASIS FOR RECOMMENDATION

The PBID was formed in August 2007 and renewed in June 2012 for a 10-year term. As required by the California Streets and Highways Code ("Property and Business Improvement District Law of 1994") and in compliance with the current agreement between the City and the Downtown Property Owners' Association, an annual Financial Report along with CPA-reviewed financial statements are required to be submitted to the City by October 1 each year. Per the agreement with the City, the Downtown Property Owners' Association submitted the attached reports for FY 2016-17 on September 29, 2017. Staff reviewed the Financial Report and determined that it meets the requirements of the current agreement between the City and the Downtown Property Owners' Association. The Financial Report is attached to this memorandum along with the CPA-reviewed financial statements, and will be posted on the City's internet site prior to the City Council Meeting on November 14, 2017. The Financial Report contains the following information as required by the agreement:

- Summary of Assessed Services
- Procurement of Goods and Services
- Downtown Property Owners' Association meeting dates for FY 2016-17
- FY 2016-17 Budget Report
- FY 2016-17 Financial Statements

City General Funds have been combined with assessment funds to provide baseline and enhanced services in accordance with the current agreement between the City and the Downtown Property Owners' Association, as well as the PBID Management Plan and Engineer's Report. PBID services have been effective in creating a cleaner and more vibrant downtown, and have been well received by property owners as reflected by the positive results of the 2017 member survey, highlighted by a 94% approval rating for the Groundwerx enhanced cleaning and maintenance program. The beautification/street life projects and Groundwerx ambassadors have also been highly successful efforts, and continue to receive high approval ratings. Additional program highlights, including cleaning service frequencies and outputs, are detailed in the attached Financial report (Attachment A). The CPA review report is also included (Attachment B).

COST AND FUNDING SOURCE:

No cost associated with this action.

FOR QUESTIONS CONTACT: Eric Hon, Department of Transportation Division Manager, (408) 794-1987.

Attachments



Financial Report for FY 2016-17

Submitted by
Downtown San Jose Property Owners' Association (POA)

September 29, 2017

The downtown San Jose Property-Based Improvement District (PBID), originally formed in August 2007 and renewed in June 2012 for a ten-year term, is an assessment district (District) that conveys special benefits to the properties located within the District boundaries. The District 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 SAP Center 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. The 2017 PBID member survey was completed April 2017 and downtown property owners continue their strong support of PBID services. Cleanliness maintained its standing as the highest downtown priority (86.3%), followed by security (85.3%) and homeless services (81.2%) rounding out the top three priorities. The cleaning program received an approval rating of 94.2 percent, which marks its fifth consecutive year with a rating above 90 percent.

I. Summary of Assessed Services for FY 2016-17

Service frequency Table A is from July 1, 2016 to June 30, 2017. The overall cleaning program has been consistent since the implementation of services. The enhanced cleaning program operates seven days a week, combining the use of mechanized equipment and cleaning by hand. Sidewalk sweeping and portering services take place from 6 a.m. to 8 p.m. daily. Pressure washing is divided into four shifts, which covers seven days per week. The shifts vary depending on the day. The District provided 8,288

hours of pressure washing in FY 2016-17, which equals approximately 159 hours of pressure washing per week.

Table A includes the cleaning frequencies for both enhanced and baseline services. Baseline services account for 28.4 percent of the total cleaning budget, which is equivalent to providing basic portering services Monday through Friday along the Transit Mall and Repertory Plaza and three days of portering in SoFA and San Pedro Square. Additional portering hours throughout the district, including evening and weekends, are part of the enhanced services provided by the PBID.

Table A

Cleaning	Proposed in Management Plan	FY 16-17
Maintenance F.T.E.	13 to 18	13-16
Pan & Broom litter removal/Machine Sweeping/Transit Stop Maintenance	7 days/week, 16 hours/day (Premium Zone) 8 hours/day (Basic Zone)	7 days/week, 16 hours/day (Premium Zone) 8 hours/day (Basic Zone)
Pressure Washing: Basic Zone	Two to Four times per year	Three times and as needed SWAT
Pressure Washing: Premium Zone	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
Maintenance of PBID funded beautification elements	Landscape watering 3 days/week and as needed.	Landscape watering 3 days/week and as needed.

Tree trimming	Approximately ¼ of street trees per year	Approximately ¼ of street trees per year
Other maintenance services such as pole painting, paver repair and refinishing street benches.	As Needed	As Needed

Table B shows total output for various components of the cleaning program in FY 2016-17. The amount of litter and the condition of the downtown streets resulted in more cleaning services provided by the District than projected in the management plan. Increased pedestrian foot traffic, which includes a large downtown homeless population, resulted in a greater need for sidewalk cleaning services. Additional litter removal and cleaning was also necessary because of various events held within the District throughout the year. "Hot Spot" cleaning is most often reported by Groundwerx staff but also includes cleaning requests from businesses, property owners and City departments. The majority of these rapid response cleanings take place within the same day that they are reported.

Groundwerx provides service to 104 public litter cans (PLC) by closely monitoring the overflow. At a minimum, the PLCs are emptied once a day, but many are frequently emptied more often. Pan and broom cleaners also wipe down each PLC and paint them as needed throughout the year.

The Groundwerx cleaning program is supplemented with additional resources through its partnership with Downtown Streets Team (DST). In FY 2016-17, the City of San Jose's Housing Department funded a work experience program that served 40 unduplicated participants, who provided additional pan and broom cleaning within the district. With the assistance of the DST participants, Groundwerx saw debris removal and trash collection output increased for a third year in a row. Of the 40 unduplicated DST participants, eleven gained employment (three of which were hired by Groundwerx) and three were housed through this program.

Graffiti clean up continues to be one of Groundwerx's primary services. Groundwerx removes most tags within 48 hours. Offensive tags are prioritized and are often abated within 24 hours. In addition to graffiti tags, Groundwerx removes stickers and handbills that are attached to public spaces and street fixtures. A small portion of District graffiti is forwarded to the City contractor or private property owners.

Table B

Clean Team Services:	Output:
Pan/Broom	16,751 hrs
Pan/Broom: Debris Removal	272,738 lbs
Mechanical Sweeping	1,196 hrs
Hot Spot Cleaning/Calls for Service	8,989
Pressure Washing	8,288 hrs
Trash Collected (Trash cans emptied)	155,991 lbs
Gum Removal	1,105 lbs
Graffiti cleaned by Groundwerx	18,272

Groundwerx ambassadors reinforce 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 and employees to their vehicles (or other destinations in the District) and reporting graffiti and other messes to the appropriate party. Ambassadors also report instances of vandalism and property damage to property owners and work with local social service agencies to provide referrals. Since 2013, the ambassadors have been called upon more frequently to assist in graffiti abatement. The ambassadors address most of the graffiti in the outer portions of the district, thus allowing the clean team to focus on the more densely populated downtown core.

The ambassador program incorporates mobile 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 to 11 p.m. on weekends. Ambassadors are frequently the first point of contact with many individuals in downtown's homeless population. 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 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. Ambassadors also play an important role in identifying potentially

troublesome situations and contact the appropriate authorities. Table C depicts the regular deployment of Groundwerx ambassadors. Hours and schedules may be adjusted to accommodate downtown special events.

Table C

Information and Safety Ambassadors	Proposed in Management Plan	FY 16-17
Ambassadors F.T.E.	9-12	9-12
Coverage in Basic area	7 days/week, 8 hours/day	7 days/week, 8 hours/day
Coverage in Premium area	7 days/week, 12-16 hours	7 days/week, 12-16 hours

Table D represents a statistical summary of the ambassador program for FY 2016-17. Ambassadors make business contacts on a regular basis as part of the enhanced services of the PBID. These informal “check-ins” allow ambassadors to convey information to business and property owners such as resource referrals and property condition reports. This type of interaction also enhances the visibility of ambassadors and helps promote a friendly downtown. The “Sitting/Lying” statistic reflects ambassador efforts in making downtown more friendly for the general public. The presence of ambassadors can discourage vagrancy and loitering. Ambassadors work with social service and outreach providers to assist the downtown homeless population who are interested in obtaining services.

Table D

Ambassador Services:	Output:
Ambassador hours	9,890 hrs
Directions given	5,560
Business contacts	1252

Sitting/Lying (loitering)	1,586
Personal safety escorts	304
Graffiti removed	6,335
Bike patrol (miles)	1,796 mi

Streetscape beautification and image enhancements, also referred to as Street Life Projects, comprise the third component of the core PBID services. The PBID continues to provide general maintenance of the PBID's previous installations. These installations include decorative lighting along the downtown transit mall and other areas, as well as planters, hanging flower baskets, flowerbeds and murals throughout the District.

Beautification and Street Tree Maintenance

Number of trees trimmed	747
Number of trees replanted	32
Number of trees treated (disease prevention)	121
Number of tree wells expanded/grates removed	71
Number of new/refreshed flowers installed (approximate)	1,300
Number of replaced hanging baskets	110

Mural Program – Three murals were completed in FY 2016-2017. One is on the former Lee-Yick Laundry building, painted by Roan Victor, local artist and business owner, and managed by Empire 7 Studios. The second is on Highway 87 and St. John Street, at the northwest portion of the district. The artist is Sainer, an artist from Poland, and also managed by Empire 7 Studios. The third mural was painted by Francisco Ramirez and managed by Local Color in Fountain Alley.

Hart's Dog Park – Hart's Dog Park, on Santa Clara Street, was completed in October 2016. The dog park has artificial turf, seating, tree stumps for agility exercises, decorative string lighting, new fencing, signage, and murals. The project brings much needed dog facilities to downtown San Jose and encourages more street life and neighbor interaction. The public's reaction has been overwhelmingly positive.

San Pedro Squared – Knight Cities Challenge project to add retail on the ground floor of a parking garage. The project gained pre-approval for a building permit in August 2016.

PBID has acquired a special use permit from the Planning Department and City Council approval for the lease of the garage for retail use. The project is in the queue for electrical connection, which will also be used to uplift the garage and provide a power source for street festivals. Expected project completion is FY 2017-18.

Fountain Alley Activation - Fountain Alley saw a series of events, beautification, and activation projects. In November 2016, a pop-up art gallery was hosted, with over 1,000 visitors stopping by or walking through in that period. In April 2017, PBID partnered with the Sharks Foundation to implement a cleanup and beautification effort in Fountain Alley. PBID was able to leverage \$20,000 in grant funding and volunteers from the Sharks Foundation to add new string lights, flowers and plantings, fresh paint on planters and walls, pennants across the alley, and a light wrap around a specimen tree. In May 2017, PBID hosted a street life prototyping showcase, with 150 at the opening ceremony.

Downtown Pedestrian Counts – Pedestrian counts are conducted every four months in April, August, and December. The first in-depth downtown San Jose pedestrian count report was published in September 2016. Another full year of pedestrian data has been collected and a revised report will be issued in October 2017.

Local Color - Led the brokerage of a former vacant department store to a community arts and events space by executing a short-term property-use agreement with the landlord. Local Color opened in December 2016, and has since hosted over 100 events and a rotating collaborative of 13 artists, an arts retail space, thrift store, public mural wall, performances and art installations.

Musical Swings – Partnership with Office of Cultural Affairs, PRNS, San Jose Jazz, Zero 1, Tech Museum, to bring a set of musical swings touring North America to downtown San Jose from August to September 2016. SJDA has supported through \$5,000 contribution, additional \$4,500 sponsorship assistance, and \$5,000 in-kind staffing services via Groundwerx. The Swings were extended a month into early October 2016.

The PBID's business development services are focused on helping recruit and retain district businesses. During the year 102 small businesses, brokers, developers and similar stakeholders were assisted with the city permitting process, available office or retail spaces, pricing, incentives and other issues related to the downtown business environment.

Related policy issues affecting downtown businesses were also addressed, such as updates to the zoning code in order to streamline permits for small businesses, expanding the outdoor seating program, making changes to the sign code, and working toward a vacant storefront registry program.

The PBID enhanced security program completed its fourth year of service in FY 16-17. These off-duty SJPD officers continued their focus in addressing quality-of-life issues in the downtown area. The program has been effective because the PBID officers actively engage business and property owners. The program is scheduled to provide 46 hours of

weekly coverage, but was not fully staffed, and provided an average of 35 hours per week during FY 16-17. Several active officers have left the program and recruitment is on-going to fill those vacancies. Typical program hours are Monday and Friday, from 7 a.m. to 12 p.m., Tuesday and Thursday, from 4 p.m. to 9 p.m. and Wednesday from 3 p.m. to 8 p.m.

II. Procurement of Goods and Services

The downtown Property Owners' Association (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 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 District's FY 2016-17 assessment funds were used to continue the service agreement with Block-by-Block (BBB), to provide cleaning and ambassadorial services. The POA and BBB worked with the PBID and the Office of Equality Assurance (OEA) to ensure wages complied with the City's Living Wage policy.

District funds were used to fund and install artificial turf, fencing material, waste management, planters, insurance and demolition/grading of the site for Hart's Dog Park.

Funds were also used to commission artists for various murals downtown.

III. Downtown POA meeting dates FY 2016-17:

August 20, 2016
October 11, 2016
October 14, 2016 – PBID Annual Meeting
January 11, 2017
March 15, 2017
May 16, 2017

IV. FY 2016-17 Budget report

Please see attached FY 2016-17 final reviewed financial statement for details.

The total PBID revenue for FY 2016-17 was \$3,095,440. Assessment revenues totaled \$2,492,606 and the City's baseline contribution was \$365,000. Additional revenue was generated through fee-for-service agreements and grants.

Total program administrative costs were \$293,667, which is 9.89 percent of the total revenue.

A balance of \$790,503 was carried over; including unexpended program funds that were budgeted in FY 2016-17. The PBID anticipated spending more on the installation of street life projects, however, many of these projects were new to San Jose. For instance, the San Pedro Squared project has undergone additional unanticipated comment periods and its completion date is extended into 2018. Additionally, PBID board and staff determined that it was not feasible to move forward with the Almaden Exercise Loop project in January 2017 due to excessively high costs.

The tree maintenance program was also under spent. The PBID made significant progress on tree work that was not completed in the previous fiscal year, but was unable to finish all tree work anticipated for FY 16-17. Winter storms had a significant impact on the availability of the tree contractor, pushing back scheduled maintenance several times. Additional savings occurred when palm trees scheduled to be trimmed by the PBID were trimmed by adjacent property owners.

The POA continues to leverage funds by negotiating discounts and conservatively projecting program costs. The current fund balance will allow the POA to maintain its current service levels despite anticipated increases in operating costs, such as the City's mandated living wage increases. The POA will also retain the ability to add services as needs arise within the District.

Aside from the assessment revenue and City baseline funds, the POA has other revenue fee-for-service contracts. In 2008, the POA reached an agreement with VTA to provide additional cleaning of the VTA tracks and light rail stations. In Q4 of FY 2016-17 VTA added the weekly maintenance of four Bus Rapid Transit stations to the contract. This service agreement was renewed with a three percent increase in FY 2016-17, along with additional funds for increased services, for a total of \$63,734. Since 2013, the POA has provided the Children's Discovery Museum with supplemental pressure washing. For FY 2016-17 the contract revenue was \$7,650.

In May 2017, the Parks, Recreation and Neighborhood Services Department (PRNS) began contracting with the POA to provide supplemental maintenance, trash collection, cleaning and ambassador services in St. James Park. Services began in June 2017, with \$4,844 generated in revenue.

V. FY 2016-17 Reviewed Financial Statement.

Please see attached Reviewed Financial Statement.

San Jose Downtown Property Owners' Association
FY 2016-17 Financial Statement

	A	B
1	Revised 9/28/17	FY 16-17
2		
3		ACTUALS
4		
5	REVENUE	
6		
7	Assessments	
8	Assessments - thru SCC	2,004,292
9	less assessment charges SCC	(20,043)
10	Assessments - exempt thru SJ	514,519
11	less assessment charges SJ	(10,000)
12	Assessment - thru PBID	3,839
13		
14	Net Assessments	2,492,606
15		
16	City baseline	365,000
17	Contracts	96,143
18	Street Life Investors	117,600
19	San Pedro Squared	22,469
20	Miscellaneous & Interest	1,621
21		
22	TOTAL REVENUE	3,095,440
23		
24		
25	EXPENSES	
26		
27	CLEAN TEAMS	
28	Contract service	921,284
29	Contract baseline	365,000
30	Subtotal	1,286,284
31		
32	SAFETY AMBASSADOR TEAMS	
33	Contract Service	489,371
34	Subtotal	489,371
35		
36	Total BBB Contract	1,775,655
37		
38	IMAGE ENHANCEMENTS	
39	San Pedro Squared	22,469
40	Street Life Plan Projects	255,569
41	Maintenance completed projects	221,955
42	Enhanced Maintenance	34,971
43	Street Tree maintenance	101,882
44	Subtotal	636,847
45		
46	DISTRICT ENHANCEMENTS	
47	Business development program	110,000
48	Secondary Employment Unit	116,167
49	GW Work Experience (DST)	
50	APT (auto public toilet) maintenance	31,200
51	St. James Park	4,844
52	Subtotal	262,211
53		
54	ADMINISTRATION	
55	SJDA Management	293,449
56	Insurance	3,329
57	Professional Services	20,597
58	Office Supplies	5,149
59	Misc	6,657
60	less 2% prepay contracts	(35,513)
61	Subtotal	293,668
62		
63	TOTAL EXPENSES	2,968,381
64		
65	REVENUE NET OF EXPENSES	127,059
66		
67		
68	Beginning Fund Balance	663,444
69		
70	Projected Ending Fund Balance	790,503
71		
72		
73		

**San Jose Downtown Property Owners'
Association**

Financial Statements

June 30, 2017

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Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 8



INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
San Jose Downtown Property Owners' Association
San Jose, California

We have reviewed the accompanying financial statements of San Jose Downtown Property Owners' Association (a California nonprofit mutual benefit corporation) (the "Association"), 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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 accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Armanino LLP".

Armanino^{LLP}
San Jose, California

September 29, 2017

San Jose Downtown Property Owners' Association
Statement of Financial Position
June 30, 2017

ASSETS

Current assets	
Cash	\$ 1,112,617
Contracts receivable	84,140
Accounts receivable	32,861
Prepaid expenses	<u>21,673</u>
Total current assets	<u>1,251,291</u>
Property and equipment, net	
Office equipment	18,927
Accumulated depreciation	<u>(12,614)</u>
Total property and equipment, net	<u>6,313</u>
Total assets	<u><u>\$ 1,257,604</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 378,126
Accrued expenses	14,250
Deferred revenue	<u>74,725</u>
Total current liabilities	<u>467,101</u>
Net assets	
Unrestricted	790,503
Temporarily restricted	<u>-</u>
Total net assets	<u>790,503</u>
Total liabilities and net assets	<u><u>\$ 1,257,604</u></u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association
Statement of Activities
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Property owners' assessments	\$ 1,984,249	\$ -	\$ 1,984,249
Exempt properties assessments	504,519	-	504,519
City of San Jose contracts - baseline services	365,000	-	365,000
Other contracts	236,212	-	236,212
Miscellaneous	5,339	-	5,339
Interest income	121	-	121
Total revenues, gains and other support	<u>3,095,440</u>	<u>-</u>	<u>3,095,440</u>
Expenses			
Subcontractors - Groundwerx	1,740,142	-	1,740,142
Image enhancement	613,907	-	613,907
Management services	293,449	-	293,449
District enhancements	262,211	-	262,211
Other supplies and materials	22,940	-	22,940
Professional services	20,597	-	20,597
Office supplies	5,149	-	5,149
Depreciation	3,437	-	3,437
Insurance	3,329	-	3,329
Miscellaneous	3,220	-	3,220
Total expenses	<u>2,968,381</u>	<u>-</u>	<u>2,968,381</u>
Change in net assets	127,059	-	127,059
Net assets, beginning of year	<u>663,444</u>	<u>-</u>	<u>663,444</u>
Net assets, end of year	<u>\$ 790,503</u>	<u>\$ -</u>	<u>\$ 790,503</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities	
Change in net assets	\$ 127,059
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	3,437
Changes in operating assets and liabilities	
Contracts receivable	(4,878)
Accounts receivable	(14,339)
Prepaid expenses	6,188
Accounts payable	72,306
Accrued expenses	3,050
Deferred revenue	<u>(113,489)</u>
Net cash provided by operating activities	<u>79,334</u>
Net increase in cash	79,334
Cash, beginning of year	<u>1,033,283</u>
Cash, end of year	<u><u>\$ 1,112,617</u></u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2017

1. NATURE OF OPERATIONS

The 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 28, 2008. The purpose of the Association is to improve downtown San Jose, California 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.
- (d) Tree maintenance to maintain the street trees and palms within the downtown San Jose Property-based Business Improvement District (PBID) boundary.
- (e) Enhanced security services to provide a visible uniformed presence at the properties and parcels within the downtown San Jose PBID boundary.
- (f) Business development program designed to keep and attract jobs, investment and new businesses to downtown San Jose.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of the Association are prepared on the accrual basis of accounting with a fiscal year end of June 30.

The Association follows standards of accounting and financial reporting as prescribed by the American Institute of Certified Public Accountants. In accordance with accounting principles generally accepted in the United States of America, the Association reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted net assets* - 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.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Temporarily restricted net assets* - assets which are subject to restriction and for which the restriction was not met as of the year end. There are currently no temporarily restricted net assets.
- *Permanently restricted net assets* - assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

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.

Prepaid expenses

Prepaid expenses result from advances or deposits on goods or services that will be received in the following year. Direct event expenses are recorded in the year the event takes place.

Property and equipment

The Association's policy is to capitalize property and equipment purchases in excess of \$500. Any furniture, equipment or other assets purchased under a grant or a service contract are considered the property of the granting agency and will not be capitalized. Depreciation is computed using straight-line depreciation methods. Depreciation expense for the year ended June 30, 2017 is \$3,437.

Deferred revenue

Deferred revenue results from assessments, contract or sponsorship revenue received for a specific event scheduled in the following year. Revenue is recognized in the period that the related expenses are incurred.

Advertising costs

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

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

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 Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

The Association files information returns in the U.S. federal jurisdiction and state of California. The Association's federal returns for the years ended June 30, 2014 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2013 and beyond remain subject to possible examination by the Franchise Tax Board.

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.

Subsequent events

Management of the Association has evaluated events and transactions subsequent to June 30, 2017 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 June 30, 2017. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 29, 2017.

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" or "District"). The PBID is funded by an assessment levied on the property owners located within the District and approved through a petition and mail-ballot process. The PBID was scheduled to terminate on December 31, 2012, however, the PBID was renewed for an additional ten years through December 31, 2022.

The Association was incorporated as a California Nonprofit Mutual Benefit Corporation 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
Notes to Financial Statements
June 30, 2017

4. SAN JOSE DOWNTOWN ASSOCIATION

On January 28, 2008, the Association entered into an agreement with San Jose Downtown Association ("SJDA") to receive management services. The agreement has been extended several times and continues through January 31, 2022. The entities have separate boards of directors and operate as separate entities. As a fee for the management services, the Association will pay up to and not to exceed 9.9% of the total revenue received by PBID. The fee is payable semi-annually. For the year ended June 30, 2017, the Association incurred expenses from this agreement totaling \$293,449.

The Association also has an arrangement with SJDA in which salaries for two SJDA employees who work on PBID projects are paid through SJDA and reimbursed by the Association. For the year ended June 30, 2017, the Association paid a total of \$202,000 towards salaries of a Business Development Program Manager and Street Life Program Project Manager under this arrangement.

Further, the Association has an arrangement with San Jose Downtown Property Owners' Association in which grant money received by SJDA is paid to PBID to operate programs specified in the grant via an exchange transaction. During the year ended June 30, 2017, the Association received a net amount of \$26,580 from SJDA under this arrangement. Deferred revenue related to this arrangement as of June 30, 2017 was \$74,725. Revenue recognized related to this arrangement totaled \$140,069 for the year ended June 30, 2017.

On January 15, 2013, SJDA on behalf of the Association entered into an agreement with Block by Block. The original agreement was for a period of three years and expired on January 14, 2016. The agreement has been amended and renewed and will expire on January 14, 2018.

5. ASSESSMENTS ON SARA PARCELS

There are certain parcels of property, SARA (Successor Agency to the Redevelopment Agency of the City of San Jose), Federal and State properties where assessments continue to be made on an annual basis although management of the Association believes collectability to be uncertain. Assessments are recognized in revenue upon the sale of each parcel. There were no SARA parcels sold during the year ended June 30, 2017. There are other assessments related to SARA transfers to the City of San Jose that have not been included in accounts receivable or recognized in revenue, and collectability, if possible, is entirely dependent on sufficient proceeds being available at the time of any potential sale of each parcel.