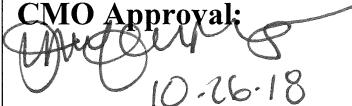


CITY COUNCIL ACTION REQUEST

Department(s): 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, DPW	Dept. Approval: /s/ John Ristow
Council District(s): 3			CMO Approval:  10-26-18

SUBJECT: PBID ANNUAL FINANCIAL REPORT

RECOMMENDATION:

Approve the downtown San José Property-Based Improvement District (PBID) Annual Financial Report for FY 2017-18.

BASIS FOR RECOMMENDATION:

The downtown San José 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 2017-18 on September 28, 2018. 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 website prior to the City Council Meeting on November 6, 2018. 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 2017-18
- FY 2017-18 Budget Report
- FY 2017-18 Financial Statements

City General Funds appropriated for baseline maintenance have been combined with property 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. This is reflected by the positive results from the 2018 member survey, which indicated a 92% approval rating for the Groundwerx enhanced cleaning and maintenance program. The beautification and street life projects and Groundwerx ambassadors have also been extremely successful 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:

Not Applicable

FOR QUESTIONS CONTACT: Eric Hon, Division Manager, (408) 794-1987



Financial Report for FY 2017-18

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

September 28, 2018

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 2018 PBID member survey was completed April 2018 and downtown property owners continue their strong support of PBID services. Cleanliness maintained its standing as the highest downtown priority (85.9%), followed by homeless services (84.1%) and security (81%) rounding out the top three priorities. The cleaning program received an approval rating of 92 percent, which marks its sixth consecutive year with a rating above 90 percent

I. Summary of Assessed Services for FY 2017-18

Service frequency Table A is from July 1, 2017 to June 30, 2018. 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 7,821 hours of pressure washing in FY 2017-18, which equals approximately 150 hours of pressure washing per week.

Table A includes the cleaning frequencies for both enhanced and baseline services. Baseline services account for 27.3 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 17-18
Maintenance F.T.E.	13 to 18	13-16
Pan & Broom litter removal/Machine Sweeping/Transit Stop Maintenance (Includes Basic Portering)	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 2017-18. 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 and an increased 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 2017-18, the City of San Jose’s Housing Department funded a work experience program that served 68 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 increase for a fourth year in a row. Of the 40 unduplicated DST participants, 11 gained employment (four 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	415,575 lbs
Hot Spot Cleaning/Calls for Service	7,616
Pressure Washing	7,821 hrs
Trash Collected (Trash cans emptied)	134,925 lbs
Gum Removal	29.6lbs
Graffiti cleaned by Groundwerx	6,789

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. To better serve visitors and conventioners, the District purchased a bicycle kiosk, with deployment of the kiosk beginning in May 2018. 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 17-18
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 2017-18. 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	10,744 hrs
Directions given	3,743
Business contacts	1268

Graffiti removed	17,765
Sitting/Lying (loitering)	2,595
Personal safety escorts	308
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	880
Number of trees replanted	7
Number of trees treated (disease prevention)	112
Number of tree wells expanded/grates removed	73
Number of new/refreshed flowers installed (approximate)	3,124
Number of replaced hanging baskets	110

Mural Program – Eight murals were completed in 2017-18. A mural was painted by Bunnie Reiss on the Robert F. Peckham Federal Building. The mural was coordinated by SJDA and logistics managed by Empire 7 Studios. Another mural was painted on Chase Bank on Santa Clara Street. It took three years for SJDA to obtain property owner permission and co-funding. The artist was Lacey Bryant and logistics were managed by Exhibition District. Funding came from PBID, Exhibition District, city grants, and Chase Bank.

The inaugural POW! WOW! San Jose! mural festival occurred in the city between October 22-29. PBID provided significant assistance in finding walls for murals, which included project

management support, permitting navigation, event promotion and leveraging partnerships and networks. Six new murals were painted over the week in downtown, and another 12 citywide.

MOMENT at San Pedro Squared is the Knight Cities Challenge project to add retail on the ground floor of the city owned parking garage. Project construction broke ground in January 2018 and took four months to complete. Construction involved trenching for conduit installation, creating three new entryways, wall construction, installation of canopies, electrical work, and adding sidewalk epoxy. Tenant improvements began in April and the San Pedro Squared retail concepts, branded as “MOMENT,” opened on May 18.

In addition to the retail shops, a new parklet was constructed. This parklet is the longest in San Jose, replacing five on-street parking spaces and creating 600 square feet of new public space. The parklet decking has a decorative pattern, movable seating, planters and swing gates that open to the street during street closures and farmers’ markets. The retail vendors have used the parklet for talks, workshops, and yoga classes.

Fountain Alley Visioning & Activation – In March 2018, SJDA staff conducted a site inventory of Fountain Alley and Santa Clara Street, capturing needed improvements to existing conditions and highlighting opportunities to better promote street life in this area. In July 2018, a pro-bono visioning exercise was led by Gensler, an international design firm, along with staff and the property ownership team that owns the majority of the property facing Fountain Alley. The team discussed project goals, programming ideas and outcomes of a successful Fountain Alley.

In total, 15 activations were programmed in Fountain Alley during September, December and April, with 20-85 attendees at any given time. In total, approximately 7,500 people have attended or walked through Fountain Alley throughout the activations, which included live bands, DJs/dance, stand up comedians, ping pong, corn hole games, interactive murals and more. Upcoming efforts for Fountain Alley include storefront activation support on adjacent properties, a pilot monthly activation plan, and placemaking kit

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. The second was published in December 2017. The third report will be published in Fall 2018.

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. Current discussions with property owners about the future of Local Color and other interim use projects continue.

The PBID’s business development services are focused on helping recruit and retain district businesses. During the year 116 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, growing the Small Business Ally program, expanding the outdoor seating program, making changes to the sign code, and implementing the vacant storefront registry program.

The PBID enhanced security program completed its fifth year of service in FY 17-18. These off-duty SJPd officers continued their focus in addressing quality-of-life issues in the downtown area. The program is scheduled to provide 50 hours of weekly coverage, but was not fully staffed, and provided an average of 25 hours per week from June 2017 to April 2018. In April 2018, the reserve officers participating in the program retired from service. The PBID board voted to increase officer pay to time and a half due to recurring recruitment issues. In June 2018 the District was able to recruit eight on-duty officers to staff each shift, with six alternate officers, and has been fully staffed each week since. Typical program hours are Monday, Thursday and Friday, from 10 a.m. to 3 p.m. and Tuesday and Wednesday from 7 a.m. to 12 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 2017-18 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 Office of Equality Assurance (OEA) to ensure wages complied with the City's Living Wage policy.

District funds were used to construct San Pedro Squared, as well as to commission artists for various murals downtown.

III. Downtown POA meeting dates FY 2017-18:

August 8, 2017
October 13, 2017 – PBID Annual Meeting
November 14, 2017
January 30, 2018
March 27, 2018
May 15, 2018

IV. FY 2017-18 Budget report

Please see attached FY 2017-18 final reviewed financial statement for details.

The total PBID revenue for FY 2017-18 was \$3,626,818. Assessment revenues totaled \$2,704,629 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 \$352,992, which is 9.7 percent of the total revenue.

A balance of \$758,477 was carried over, which constitutes the POA's reserves. The tree maintenance program under spent, largely due to lower than anticipated rates from both contractors used for maintaining trees.

The POA overspent on San Pedro Squared by \$414,088, due to unexpected construction expenses and design changes to the project. Funds for this project consisted of previously allocated restricted funds, as well as additional grants donated in FY 2017-18.

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 FY 2016-17 VTA added weekly maintenance of four Bus Rapid Transit stations to the contract. This service agreement was renewed with a three percent increase in FY 2017-18, along with additional funds for increased services, for a total of \$80,796.

The POA continued to contract with the Parks, Recreation and Neighborhood Services Department (PRNS) to provide supplemental maintenance, trash collection, cleaning and ambassador services in St. James Park. In FY 2017-18, the contract generated \$94,427 in revenue.

Additional small-scale fee for service contracts are in place with the Children's Discovery Museum, the San Jose Museum of Art, and Valley Oaks Partners.

V. FY 2017-18 Reviewed Financial Statement.

Please see attached Reviewed Financial Statement.

San Jose Downtown Property Owners' Association
FY 2017-18 Budget

	A	B
1	Revised 9/10/18	FY 17-18
2		Actuals
3		6/30/18
4		
5	REVENUE	
6		
7	Assessments	
8	Assessments - thru SCC	2,056,292
9	less assessment charges SCC	(20,563)
10	Assessments - exempt thru SJ	674,946
11	less assessment charges SJ	(10,000)
12	Assessment - thru PBID	3,953
13		
14	Net Assessments	2,704,629
15		
16	City baseline	365,000
17	Contracts	226,064
18	Street Life Investors	108,500
19	San Pedro Squared	221,724
20	Miscellaneous & Interest	901
21		
22	TOTAL REVENUE	3,626,818
23		
24		
25	EXPENSES	
26		
27	CLEAN TEAMS	
28	Contract service	973,086
29	Contract baseline	365,000
30	Subtotal	1,338,086
31		
32	SAFETY AMBASSADOR TEAMS	
33	Contract Service	509,079
34	Subtotal	509,079
35		
36	Total BBB Contract	1,847,165
37		
38	IMAGE ENHANCEMENTS	
39	San Pedro Squared	644,088
40	Street Life Plan Projects	160,023
41	Maintenance completed projects	185,314
42	Enhanced Maintenance	42,190
43	Street Tree maintenance	119,808
44	Subtotal	1,151,422
45		
46	DISTRICT ENHANCEMENTS	
47	Business development program	130,000
48	Secondary Employment Unit	65,815
49	APT (auto public toilet) maintenance	18,200
50	St. James Park	58,129
51	District Maintenance	19,054
52	Subtotal	291,198
53		
54	ADMINISTRATION	
55	SJDA Management	359,055
56	Insurance	5,548
57	Professional Services	13,000
58	Office Supplies	3,632
59	Misc	8,701
60	less 2% prepay contracts	(36,943)
61	Subtotal	352,992
62		
63	PBID 10 Year Anniversary	16,067
64		
65	TOTAL EXPENSES	3,658,844
66		
67	REVENUE NET OF EXPENSES	(32,026)
68		
69		
70	Beginning Fund Balance	790,503
71		
72	Ending Fund Balance	758,477

**San Jose Downtown Property Owners'
Association**

Financial Statements

June 30, 2018

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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, 2018, 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 entity 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 engagement 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 accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

September 27, 2018

San Jose Downtown Property Owners' Association
Statement of Financial Position
June 30, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 923,413
Accounts receivable	9,101
Contracts receivable	152,542
Grants receivable	49,000
Prepaid expenses	<u>3,893</u>
Total current assets	<u>1,137,949</u>
Property and equipment, net	
Office equipment	18,927
Accumulated depreciation	<u>(16,051)</u>
Total property and equipment, net	<u>2,876</u>
Total assets	<u><u>\$ 1,140,825</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 369,348
Accrued expenses	<u>13,000</u>
Total current liabilities	382,348
Unrestricted net assets	<u>758,477</u>
Total liabilities and net assets	<u><u>\$ 1,140,825</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, 2018

Revenue, support and other income	
Property owners' assessments	\$ 2,035,730
Exempt properties assessments	668,900
City of San Jose contracts - baseline services	365,000
Grants	328,225
Other contracts	228,064
Miscellaneous	771
Interest income	129
Total revenue, support and other income	<u>3,626,819</u>
Expenses	
Subcontractors - Groundwerx	1,810,222
Contribution of leasehold improvement to DCDC	628,421
Image enhancement	539,068
Management services	359,055
District enhancements	273,919
Professional services	13,000
Other supplies and materials	17,278
Insurance	5,548
Miscellaneous	4,755
Office supplies	3,632
Depreciation	3,437
Travel	510
Total expenses	<u>3,658,845</u>
Change in unrestricted net assets	(32,026)
Unrestricted net assets, beginning of year	<u>790,503</u>
Unrestricted net assets, end of year	<u>\$ 758,477</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, 2018

Cash flows from operating activities	
Change in net assets	\$ (32,026)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	3,437
Contributions restricted for leasehold improvements	(98,000)
Contribution of leasehold improvement to DCDC	628,421
Changes in operating assets and liabilities	
Accounts receivable	23,760
Contracts receivable	(68,402)
Grants receivable	(49,000)
Prepaid expenses	17,780
Accounts payable	(8,778)
Accrued expenses	(1,250)
Deferred revenue	(74,725)
Net cash provided by operating activities	<u>341,217</u>
Cash flows from investing activities	
Purchase of leasehold improvement	<u>(628,421)</u>
Net cash used in investing activities	<u>(628,421)</u>
Cash flows from financing activities	
Proceeds from contributions restricted for leasehold improvements	<u>98,000</u>
Net cash provided by financing activities	<u>98,000</u>
Net decrease in cash and cash equivalents	(189,204)
Cash and cash equivalents, beginning of year	<u>1,112,617</u>
Cash and cash equivalents, end of year	<u>\$ 923,413</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2018

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.

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.
- *Temporarily restricted net assets* - assets which are subject to donor restriction and for which the restriction was not met as of the year end. There are currently no temporarily restricted net assets.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *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 an original 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 over the asset's estimated useful lives. Depreciation expense for the year ended June 30, 2018 was \$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, 2018

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, 2015 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2014 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, 2018 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, 2018. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 27, 2018.

3. PROPERTY-BASED IMPROVEMENT DISTRICT

In August 7, 2007, City of San Jose City Resolution No. 73937 established and defined the San Jose 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.

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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, SJDA will receive up to and not to exceed 9.9% of the total revenue received by the Association. The fee is payable semi-annually. For the year ended June 30, 2018, the Association incurred expenses from this agreement totaling \$359,055.

The Association also has an arrangement with SJDA in which salaries for two SJDA employees who work on the PBID projects are paid through SJDA and reimbursed by the Association. For the year ended June 30, 2018, the Association paid a total of \$228,000 towards salaries of a Business Development Program Manager and Street Life Program Project Manager under this arrangement.

Further, the Association has an arrangement with SJDA in which grant money received by SJDA is paid to PBID for programs specified in the grant via an exchange transaction. During the year ended June 30, 2018, the Association received \$147,000 from SJDA under this arrangement. Revenue recognized related to this arrangement totaled \$272,725 for the year ended June 30, 2018.

On January 15, 2013, SJDA on behalf of the Association entered into an Environmental and Maintenance and Supplemental Security Services 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, 2019.

5. SAN JOSE DOWNTOWN COMMUNITY DEVELOPMENT CORPORATION

The San Jose Downtown Community Development Corporation ("DCDC") is a 501(c)(3) nonprofit organization whose mission is to develop and fund capital and management initiatives that enrich the downtown economy and public realm.

On December 20, 2017, DCDC entered into an agreement with the City of San Jose to lease specific parking spaces located on the ground floor of the Market Street and San Pedro Street garage ("San Pedro Squared project") in downtown San Jose starting from January 1, 2018 through December 31, 2022. The agreement allows for the construction and operation of four retail incubation units on the leased spaces and the City granted \$98,000 for the construction of leasehold improvements set forth in the agreement. The granted fund was awarded to SJDA and then paid to the Association via an exchange transaction since the Association has the capability to meet the funding needs beyond the \$98,000 in order to cover the full cost of the San Pedro Squared project.

The construction of the San Pedro Squared project was completed and placed in service on May 18, 2018. On June 30, 2018, the Board of Directors of the Association passed a resolution to grant the San Pedro Squared leasehold improvement totaling \$628,421 to DCDC.

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6. ASSESSMENTS ON SARA PARCELS

There are certain parcels of Federal and State SARA (Successor Agency to the Redevelopment Agency of the City of San Jose) 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. The Association recognized \$68,292 in revenue related to SARA parcels sold during the year ended June 30, 2018. 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 is entirely dependent on sufficient proceeds being available at the time of any potential sale of each parcel.