

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

FINANCIAL STATEMENTS

Year Ended June 30, 2011

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

TABLE OF CONTENTS

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of San Jose Downtown Property Owners' Association (a California nonprofit mutual benefit corporation) as of June 30, 2011, and the related statements of activities, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Downtown Property Owners' Association as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
August 24, 2011

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

STATEMENT OF FINANCIAL POSITION

June 30, 2011

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 254,763
Accounts Receivable	17,875
Prepaid Expenses	<u>131,066</u>
Total Current Assets	<u>403,704</u>
TOTAL ASSETS	<u>\$ 403,704</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts Payable	<u>\$ 128,238</u>
Total Current Liabilities	<u>128,238</u>

NET ASSETS:

Unrestricted Net Assets	<u>275,466</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 403,704</u>

The Accompanying Notes are an Integral Part of these 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, 2011

	Unrestricted	Temporarily Restricted	TOTAL
REVENUE:			
Property Owners Assessments	\$ 1,423,777	\$ -	\$ 1,423,777
Exempt Properties Assessments	455,081	-	455,081
City Contracts - Baseline Services	357,805	-	357,805
Other Contracts	51,500	-	51,500
Miscellaneous	5,000	-	5,000
Interest Income	316	-	316
Total Revenue	2,293,479	-	2,293,479
EXPENSES:			
Subcontractors - Clean and Greet	1,554,006	-	1,554,006
Supporting Services:			
Image Enhancement	448,727	-	448,727
Management Services	208,704	-	208,704
Professional Services	11,750	-	11,750
Insurance	3,619	-	3,619
Office Supplies	1,764	-	1,764
Postage and Shipping	669	-	669
Miscellaneous	559	-	559
Conference and Meetings	500	-	500
Total Supporting Services	676,292	-	676,292
Total Expenses	2,230,298	-	2,230,298
CHANGE IN NET ASSETS	63,181	-	63,181
NET ASSETS, Beginning of Year	212,285	-	212,285
NET ASSETS, End of Year	\$ 275,466	\$ -	\$ 275,466

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SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION
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STATEMENT OF CASH FLOWS

Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in Net Assets	\$ 63,181
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
(Increase) Decrease in Assets:	
Accounts Receivable	(5,000)
Prepaid Expenses	(1,066)
Increase (Decrease) in Liabilities:	
Accounts Payable	(12,220)
Accrued Expenses	<u>(31,438)</u>
Net Cash Provided by Operating Activities	<u>13,457</u>
INCREASE IN CASH AND CASH EQUIVALENTS	13,457
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>241,306</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 254,763</u>

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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 - The Association follows standards of accounting and financial reporting for voluntary health and welfare organizations 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 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.

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.

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):

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

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

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

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

Subsequent Events - Management of the Association has evaluated events and transactions subsequent to June 30, 2011 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, 2011. Subsequent events have been evaluated through the date the financial statements became available to be issued, August 24, 2011.

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. The Agreement will terminate on December 31, 2012. Any subsequent renewals will require a new management plan, petition and mail-ballot process.

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

SAN JOSE DOWNTOWN PROPERTY OWNERS' ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SAN JOSE DOWNTOWN ASSOCIATION MANAGEMENT FEE:

The Association entered into an agreement with San Jose Downtown Association to receive management services. The agreement shall run from January 28, 2008 to January 31, 2013. The entities have separate boards of directors and operate as separate entities. As a fee for the management services, the Association will pay 9.1% of the total revenue received by PBID. The fee is payable semi-annually. As of June 30, 2011, the Association incurred expenses from this agreement totaling \$208,704.

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 original agreement ran through January 13, 2010, and allowed for 3 additional one year term renewals. 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 was extended to January 13, 2011, and was then renewed for an additional year through January 13, 2012.