Team San Jose

Financial Statements

June 30, 2018 and 2017

Frank, Rimerman + Co. LLP

Certified
Public
Accountants

Palo Alto
San Francisco
San Jose
St. Helena

Board of Directors
Team San Jose
San Jose, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Team San Jose, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and change in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Team San Jose as of June 30, 2018 and 2017, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frank, Rimerman & Co. LLP

San Jose, California
December 18, 2018

Team San Jose
Statements of Financial Position

	June 30, 2018	June 30, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,754,696	$ 4,207,201
Restricted cash	748,563	500,722
Accounts receivable, net of allowance for doubtful accounts of $3,303 ($416 in 2017)	440,025	63,896
Prepaid expenses	224,460	319,458
Investments	2,970,000	1,540,000
Related party receivable, net	12,042	-
Total current assets	8,149,786	6,631,277
Property and Equipment, net	41,214	56,450
Total assets	$ 8,191,000	$ 6,687,727
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 842,961	$ 1,046,318
Accrued expenses and other current liabilities	887,441	986,376
Deferred revenue	410,358	280,176
Related party payable, net	-	959
Total liabilities	2,140,760	2,313,829
Commitments and Contingencies (Note 4)		
Net Assets		
Unrestricted:		
Undesignated	4,976,647	3,513,459
Board designated	1,073,593	860,439
Total net assets	6,050,240	4,373,898
Total liabilities and net assets	$ 8,191,000	$ 6,687,727

See Notes to Financial Statements

Team San Jose
Statements of Activities and Change in Net Assets

	Years Ended June 30, 2018	2017
Revenues and Support		
City of San Jose:		
Convention and visitors bureau service revenue	$ 7,955,250	$ 7,772,748
Management and incentive fees	200,000	200,000
Donated use of facilities	132,249	125,743
Convention services	828,310	713,553
Visitor services	417,269	354,314
Administrative fees	24,000	24,000
Investment income	48,080	11,721
Total revenues and support	9,605,158	9,202,079
Expenses		
Convention marketing and promotion	4,750,787	5,274,497
General and administrative	2,170,592	2,101,501
Management services	129,844	146,323
Convention services	552,043	493,843
Visitor services	193,301	234,974
Donated use of facilities	132,249	125,743
Total expenses	7,928,816	8,376,881
Change in Net Assets	1,676,342	825,198
Net Assets, beginning of year	4,373,898	3,548,700
Net Assets, end of year	$ 6,050,240	$ 4,373,898

Team San Jose
Statements of Cash Flows

	Years Ended June 30, 2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 1,676,342	$ 825,198
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	21,705	19,908
Change in allowance for doubtful accounts	2,887	(1,442)
Changes in operating assets and liabilities:		
Restricted cash	(247,841)	152,871
Accounts receivable	(379,016)	234,534
Prepaid expenses	94,998	(156,339)
Related party receivable, net	(12,042)	44,058
Accounts payable	(203,357)	304,827
Accrued expenses and other current liabilities	(98,935)	54,144
Deferred revenue	130,182	188,556
Related party payable, net	(959)	959
Net cash provided by operating activities	983,964	1,667,274
Cash Flows from Investing Activities		
Purchase of investments	(1,430,000)	(1,535,000)
Purchase of property and equipment	(6,469)	-
Net cash used in investing activities	(1,436,469)	(1,535,000)
Net Increase (Decrease) in Cash and Cash Equivalents	(452,505)	132,274
Cash and Cash Equivalents, beginning of year	4,207,201	4,074,927
Cash and Cash Equivalents, end of year	$ 3,754,696	$ 4,207,201

See Notes to Financial Statements

1. Nature of Activities

Team San Jose (the Organization) was formed in December 2003 in response to a request for proposal by the City of San Jose (the City) for the management and operations of the convention center. The Organization is incorporated as a nonprofit corporation in the state of California to advertise, promote, and publicize San Jose, California as a site for meetings, conventions, conferences, trade shows, and other events at the City's facilities and area hotels in a manner that results in a positive economic impact for the City. The Organization promotes the City as a destination for business and leisure travel.

The Organization participates in and coordinates activities with the City's Office of Economic Development, and other City agencies, related to the branding of the City for the purpose of local, national, and international identity. The Organization also manages a Convention & Visitor Bureau (CVB) Advisory Group with other organizations that support economic development, communications, and marketing in the City in order to develop and provide input and suggestions that support and cross-promote San Jose as a destination. Under an agreement with the City, certain expenditures made by the Organization in connection with its activities are reimbursed by the City.

2. Significant Accounting Policies

Basis of Presentation:

The Organization segregates its assets, liabilities and operations into three categories: unrestricted, temporarily restricted and permanently restricted. The Organization's net assets and changes therein are classified and reported as follows:

> Unrestricted net assets consist of net assets for which there are no donor-imposed restrictions or such donor-imposed restrictions were temporary and expired during the current or previous years. Certain cash balances at June 30, 2018 and 2017 were designated for specific purposes by the Board of Directors (the Board) and are reflected as designated unrestricted net assets.
>
> Temporarily restricted assets are those whose use is restricted by the donor, based on time or purpose.
>
> Permanently restricted assets are those assets restricted by the donor for a specific use in perpetuity.

To date, there have been no permanently or temporarily restricted assets.

2. Significant Accounting Policies (continued)

Undesignated Net Assets:

Undesignated net assets are the cumulative excess of revenues and support over expenditures since the inception of the Organization, less current Board designated net assets.

Board Designated Net Assets:

Board designated net assets are unrestricted net assets designated by the Board as a reserve for unexpected changes in the economy, changes in contracts or specific projects. The reserve is the minimum of one month's operating expenses. At June 30, 2018, $1,073,593 has been designated for use for the year ending June 30, 2019 ($860,439 at June 30, 2017 for use during the year ended June 30, 2018).

Revenue Recognition:

The Organization receives a majority of its revenues and support from the City. The Organization has a convention and visitors services bureau agreement (the Agreement) with the City, effective through June 30, 2019. Under the Agreement, payments were made to the Organization based upon its annual operating budget approved by the City. Revenues were recognized based upon the approved budget over the contract years presented. The Agreement automatically renews for two additional five year terms through June 30, 2029, subject to the Organization meeting stated performance obligations.

Under a separate management agreement with the City, the Organization receives an incentive fee from the City to operate the San Jose McEnery Convention Center, cultural facilities and the San Jose Visitors Bureau. Under the Organization's agreement, incentive fees paid are based on the Organization's performance in the prior year. The incentive fee amounted to $200,000 for the year ended June 30, 2018 ($200,000 for the year ended June 30, 2017).

Convention and visitor services revenue includes housing and registration services. The revenue is recognized when service is provided.

Membership fees, which are included in visitor services revenue, are recognized as revenue ratably over the period of the membership. Deferred revenue consists of membership dues billed but not recognized as revenue.

2. Significant Accounting Policies (continued)

In-Kind Donations:

The Organization may receive various donated products and services in connection with providing services to its members. Donated products and services are recorded at their estimated fair values. During the years ended June 30, 2018 and 2017, the Organization received free use of its facilities from the City, which is recorded as donated support and expense.

The Agreement with the City provides the Organization with office space and equipment to enable it to perform its obligations. The Organization occupies a building owned by the City, for which it has not been charged rent. The terms for office space used may be revised or canceled by the City during the term of the Agreement. Therefore, the Organization records the fair value of the free rent received on an annual basis. The City has valued the donated rent at $132,249 for the year ended June 30, 2018 ($125,743 for the year ended June 30, 2017), which has been recorded as donated use of facilities and rent expense.

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, disclosure of contingent assets and liabilities and reported amounts of revenues, support and expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents:

The Organization considers all short-term, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash:

Restricted cash consists of prepaid ticket sales collected on behalf of other organizations for which an offsetting liability is included in accounts payable.

2. Significant Accounting Policies (continued)

Investments and Investment Income:

Investments in marketable securities and money market funds are reported at fair value based on quoted market prices. Certificates of deposit that have original maturities of greater than three months are included in investments and are reported at fair value based on cost and accumulated interest. Investment income is recorded on the accrual basis and dividends are recorded at the ex-dividend date. Unrealized gains and losses are included in investment income.

Concentrations of Credit Risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, investments, and accounts receivable. The Organization maintains its cash accounts at two major commercial banks and a major brokerage firm. The Organization's cash deposits at each major commercial bank are insured by the Federal Deposit Insurance Corporation up to $250,000. The Organization's cash equivalents and investments held at the major brokerage firm are insured by the Securities Investor Protection Corporation up to $500,000.

The Organization estimates the collectability of its accounts receivable based on payment due dates and provides an allowance for potential credit losses as necessary. Historically, such losses have been within management's expectations.

Property and Equipment:

The Organization capitalizes property and equipment acquisitions over $5,000. Property and equipment is stated at cost and depreciated over the estimated useful life between three and five years using the straight-line method. Leasehold improvements are amortized over their estimated useful lives of 15 years using the straight-line method.

Income Taxes:

The Organization has been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (Code) as an organization described in Section 501(c)(6) of the Code. The Organization is also exempt from California income taxes under Section 23701(e) of the California Revenue and Taxation Code.

2. Significant Accounting Policies (continued)

Income Taxes: (continued)

Although the Organization is recognized as tax exempt, it is still liable for tax on its unrelated business taxable income (UBTI). The Organization does not believe it has UBTI that will result in an income tax liability. The Organization's federal exempt organization business income tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

The Organization applies the provisions set forth in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, to account for the uncertainty in income taxes. The Organization assessed all income tax positions taken where the statute of limitations remains open. The Organization believes that its tax filing positions will be sustained upon tax examinations; therefore, no liability for unrecognized income tax benefits has been recorded through June 30, 2018. The Organization does not anticipate any significant increases or decreases to unrecognized income tax benefits during the next 12 months.

Advertising:

Advertising expense consists of collateral, brochures, promotional materials and special promotions. The Organization expenses advertising costs as incurred. Advertising expense was $1,697,000 and $2,002,000 for the years ended June 30, 2018 and 2017, respectively.

Fair Value of Measurements:

The Organization uses a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The three-level hierarchy prioritizes within the measurement of fair value, the use of market-based information over entity-specific information. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing assets or liabilities are not necessarily an indication of the risk associated with those assets or liabilities.

2. Significant Accounting Policies (continued)

Fair Value of Measurements: (continued)

The three-level hierarchy for fair value measurements is defined as follows:

Level I: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level II: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly.

Level III: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. At June 30, 2018, all of the Organization's investments are certificates of deposits and are classified as Level I investments under the fair value hierarchy.

Recent Accounting Pronouncements Not Yet Effective:

Presentation of Financial Statements:

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* The standard changes the financial reporting for not-for-profit organizations by reducing the number of net asset classes from three to two ("with donor restrictions" and "without donor restrictions"); requiring expenses to be reported by function and nature; and providing disclosures on the entity's operating measures and liquidity. ASU 2016-14 is effective for the Organization as of July 1, 2018 and requires a retrospective transition approach for its adoption. The Organization is currently evaluating the impact of ASU 2016-14 on its financial statements and related disclosures.

Revenue:

In May 2014, FASB issued ASC Topic 606, *Revenue from Contracts with Customers*. This standard outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services.

2. Significant Accounting Policies (continued)

Revenue: (continued)

The standard will replace most existing revenue recognition guidance generally accepted in the United States of America. Topic 606 is effective for the Organization as of July 1, 2019 and permits the use of either a retrospective or cumulative effect transition method. The Organization has not selected a transition method and is currently evaluating the effect Topic 606 will have on its financial statements and related disclosures.

Restricted Cash:

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, which addresses the classification and presentation of restricted cash on the statement of cash flows, and disclosure of the nature of the restrictions in the footnotes. The standard is effective for the Organization as of July 1, 2019, with early adoption permitted using a retrospective transition method. The Organization is currently evaluating the effect ASU 2016-18 will have on its financial statements and related disclosures.

3. Property and Equipment

Property and equipment consists of the following at June 30:

	2018	2017
Computers and equipment	$ 180,116	$ 173,647
Furniture and fixtures	90,245	90,245
Leasehold improvements	24,509	24,509
	294,870	288,401
Accumulated depreciation and amortization	(253,656)	(231,951)
Property and equipment, net	$ 41,214	$ 56,450

4. Commitments and Contingencies

Subsidy Commitments:

The Organization has committed for certain outside events that will occur between years ending June 30, 2019 and 2023 (between years ending June 30, 2018 and 2022 at June 30, 2017). Subsidies will be paid using future operating funds. At June 30, 2018, the Organization has committed approximately $188,000 for these events ($303,000 at June 30, 2017). These balances have not been accrued for the years ended June 30, 2018 and 2017 and will be expensed when the events occur.

Indemnification Agreements:

Pursuant to the Agreement with the City, the Organization defends, indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the City, its officers, agents and employees, with respect to its services under the Agreement. The term of the indemnifications is generally perpetual any time after execution of the Agreement. The maximum potential amount of future payments the Organization could be required to make under the indemnifications is unlimited. The Organization has never incurred costs to defend lawsuits or settle claims related to the indemnification agreements to date. As a result, the Organization believes the estimated fair value of potential indemnification obligations is minimal.

The Organization also indemnifies its officers, directors, employees and other agents for certain events or occurrences, subject to certain limits, while the individuals are or were serving at its request in such capacity. The term of the indemnification period is for the individual's lifetime. The maximum amount of potential future indemnification is unlimited; however, the Organization has a director and officer insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Organization believes the fair value of potential indemnification obligations is minimal.

Legal:

In the normal course of business, the Organization may receive inquiries or become involved in legal disputes that are not covered by insurance. In the opinion of management, any potential liabilities resulting from such claims would not have a material adverse effect on the Organization’s financial position or results of operations.

5. Employee Retirement Plan

The Organization has a 401(k) plan (the Plan) to provide defined contribution retirement benefits for all employees meeting certain employment service requirements. Participants may contribute a portion of their compensation to the Plan, up to a prescribed maximum, subject to limitations under the Code. The Organization may make matching or discretionary contributions. The Organization's contributions were $167,000 for the year ended June 30, 2018 ($160,000 for the year ended June 30, 2017).

6. Related Party Transactions

The Organization provides accounting and other administrative services to San Jose Hotels, Inc. (SJHI), a related party. The Organization charged SJHI $24,000 for the year ended June 30, 2018 ($24,000 for the year ended June 30, 2017) for administrative services. The Organization is also reimbursed for certain direct costs incurred. The Organization has a receivable from SJHI of $12,000 and no amount owed to SJHI at June 30, 2018 ($5,000 and $6,000, respectively, at June 30, 2017 which were netted in the financial statements.)

7. Subsequent Events

Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were approved by the Organization and available to be issued.