Team San Jose

Financial Statements

June 30, 2015 and 2014

Frank, Rimerman + Co. LLP

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 statement of financial position as of June 30, 2015, and the related statements of activities and change in net assets, and cash flows for the year 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 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 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, 2015, and the change 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.

Prior Period Financial Statements

The financial statements of Team San Jose as of and for the year ended June 30, 2014 were audited by other auditors whose report dated January 8, 2015, expressed an unmodified opinion on those statements.

Frank, Rimerman & Co. LLP

San Jose, California
January 27, 2016

Team San Jose
Statements of Financial Position

	June 30, 2015	June 30, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,702,091	$ 1,671,610
Accounts receivable, net of allowance for doubtful accounts of $8,390 ($4,393 in 2014)	158,741	307,135
Related party receivables	167,325	254,177
Prepaid expenses and other current assets	84,101	76,676
Total current assets	3,112,258	2,309,598
Property and Equipment, net	24,775	17,770
Total assets	$ 3,137,033	$ 2,327,368
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 87,824	$ 276,478
Related party payables	121,230	56,969
Accrued expenses and other current liabilities	911,222	596,454
Deferred revenue	95,245	84,263
Total liabilities	1,215,521	1,014,164
Commitments and Contingencies (Notes 4 and 6)		
Net Assets		
Unrestricted:		
Undesignated	1,400,028	885,807
Board designated	521,484	427,397
Total net assets	1,921,512	1,313,204
Total liabilities and net assets	$ 3,137,033	$ 2,327,368

See Notes to Financial Statements

Team San Jose
Statements of Activities and Change in Net Assets

	Years Ended December 31, 2015	2014
Revenues and Support		
City of San Jose:		
Convention and visitors bureau service revenue	$ 5,383,259	$ 4,915,745
Management and incentive fees	350,000	500,000
Donated use of facilities	103,920	93,528
Convention services	311,897	244,441
Membership	164,438	162,319
Visitor services	29,422	33,118
Administrative fees	24,000	-
Investment income	277	635
Sponsorship	-	605,550
Total revenues and support	6,367,213	6,555,336
Expenses		
Convention marketing and promotion	3,255,444	4,240,466
General and administrative	1,491,767	1,488,328
Management services	404,689	740,035
Convention services	298,725	202,403
Visitor services	204,360	174,817
Donated use of facilities	103,920	93,528
Total expenses	5,758,905	6,939,577
Change in Net Assets	608,308	(384,241)
Net Assets, beginning of year	1,313,204	1,697,445
Net Assets, end of year	$ 1,921,512	$ 1,313,204

See Notes to Financial Statements

Team San Jose
Statements of Cash Flows

	Years Ended June 30, 2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ 608,308	$ (384,241)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,712	3,291
Change in allowance for doubtful accounts	3,997	4,249
Changes in operating assets and liabilities:		
Accounts receivable	144,397	82,498
Related party receivables	86,852	(164,891)
Prepaid expenses and other current assets	(7,425)	(47,438)
Accounts payable	(188,654)	180,854
Related party payables	64,261	(590,945)
Accrued expenses and other current liabilities	314,768	(241)
Deferred revenue	10,982	(51,016)
Net cash provided by (used in) operating activities	1,040,198	(967,880)
Cash Flows from Investing Activities		
Purchase of property and equipment	(9,717)	(285)
Net cash used in investing activities	(9,717)	(285)
Net Increase (Decrease) in Cash and Cash Equivalents	1,030,481	(968,165)
Cash and Cash Equivalents, beginning of year	1,671,610	2,639,775
Cash and Cash Equivalents, end of year	$ 2,702,091	$ 1,671,610

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. Investments and certain cash balances at June 30, 2015 and 2014 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 to 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, 2015, $521,484 has been specifically set aside for use for the year ending June 30, 2016 ($427,397 at June 30, 2014 for use during the year ended June 30, 2015).

Revenue Recognition:

The Organization receives a majority of its revenues and support from the City. The Organization has a convention and visitor services bureau services 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 $350,000 in 2015 ($350,000 in 2014). The Organization also had an agreement with the City through June 30, 2014, under which a fixed management fee was paid to the Organization for its services. The executive management fee is recorded as revenue and recognized based upon the approved budget ratably over the fiscal year. The incentive fee is recorded as revenue upon the completion of the City's annual performance audit and the City's approval of such audit, which occurs in the fiscal year following the service period. The executive management fee was $150,000 for the year ended June 30, 2014.

Sponsorship relates to a one-time source of revenue earned from companies that sponsored the grand opening gala of the convention center expansion and renovation held during the year ended June 30, 2014.

2. Significant Accounting Policies (continued)

Revenue Recognition: (continued)

Convention and visitors services revenue include housing and registration services. The revenue is recognized when service is provided.

Membership fees are recognized as revenue ratably over the period of the membership. Deferred revenue consists of membership dues billed but not recognized as revenue.

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 value. During the years ended June 30, 2015 and 2014, 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 $103,920 for the year ended June 30, 2015 ($93,528 for the year ended June 30, 2014), 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 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.

2. Significant Accounting Policies (continued)

Concentrations of Credit Risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Organization maintains its cash accounts at two major commercial banks and a major brokerage firm. The Organization's cash and cash equivalents at the major commercial banks generally exceed the amount insured by the Federal Deposit Insurance Corporation. The Organization's cash equivalents and investments held at the major brokerage firm are insured by the Securities Investor Protection Corporation.

Property and Equipment:

The Organization capitalizes property and equipment acquisitions over $5,000. Property and equipment are 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.

Although an 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 Accounting Standards Codification Topic 740 to account for uncertainty in income taxes. The Organization assessed all income tax positions taken where the statute of limitation remained 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 at June 30, 2015. The Organization does not anticipate any significant increases or decreases to unrecognized income tax benefits during the next 12 months.

2. Significant Accounting Policies (continued)

Advertising:

Advertising expense consists of collateral, brochures, promotional materials and special promotions. The Organization expenses advertising costs as incurred. Advertising expense was $541,000 and $771,000 for the years ended June 30, 2015 and 2014, respectively.

Reclassifications:

Certain prior year balances have been reclassified to conform to current year presentation of the Statements of Financial Position.

Recent Accounting Pronouncement Not Yet Effective:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. This standard outlines a single comprehensive model for entities to use in accounting for revenue 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.

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.

3. Property and Equipment

Property and equipment consist of the following at June 30:

	2015	2014
Computer and equipment	$ 173,647	$ 163,930
Furniture and fixtures	33,789	33,789
Leasehold improvements	24,509	24,509
	231,945	222,228
Accumulated depreciation and amortization	(207,170)	(204,458)
Property and equipment, net	$ 24,775	$ 17,770

4. Commitments and Contingencies

Subsidy Commitments:

The Organization has committed for certain outside events that will occur between fiscal years 2016 and 2019. Subsidies will be paid using future operating funds. At June 30, 2015, the Organization has committed approximately $250,000 for these events ($395,000 at June 30, 2014). These balances have not been accrued for the years ended June 30, 2015 and 2014 and will be expensed when the events occur.

Indemnifications:

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 indemnification agreement 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 indemnification agreement is unlimited. The Organization has never incurred costs to defend lawsuits or settle claims related to the indemnification agreement to date. As a result, the Organization believes the estimated fair value of the indemnification agreement 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 these indemnification agreements 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 consolidated 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 Internal Revenue Code. The Organization may make matching or discretionary contributions. The Organization's contributions were $121,000 in 2015 ($106,000 in 2014).

6. Related Parties

The Organization provides accounting and other administrative services to San Jose Hotels, Inc. (SJHI), a related party. In 2015, the Organization charged SJHI $24,000 ($25,000 in 2014) for administrative services. The Organization is also reimbursed for certain direct costs incurred. In 2014, the Organization recorded approximately $288,000 of sponsorship revenue and convention, marketing and promotion expense related to promotional expenses incurred and paid by SJHI benefitting the Organization; no such transactions was recorded in 2015. The Organization has a receivable from SJHI of $37,000 at June 30, 2015 ($27,000 at June 30, 2014). In addition, the Organization owes SJHI $1,000 at June 30, 2015.

The Organization provides marketing, promotional, sales support, and destination planning services to Team San Jose Convention & Cultural Facilities (CCF), an affiliated entity. The expenses reimbursed by CCF totaled $756,000 for the year ended June 30, 2015 ($401,000 in 2014). The Organization has a receivable from CCF of $129,000 at June 30, 2015 ($210,000 at June 30, 2014) related to wages and related expenses for services provided to CCF. Total wages reimbursed were $383,000 for the year ended June 30, 2015 ($316,000 in 2014). Additionally, the Organization collects ticket proceeds on behalf of CCF, which is also recorded as a related party payable. The Organization owed CCF $121,000 at June 30, 2015 ($54,000 at June 30, 2014) primarily related to ticket proceeds collected.

On March 19, 2009, the Organization established TSJ Events, LLC to provide food and beverages at convention center events. The Organization is the only member of TSJ Events, LLC, and, as such, has controlling interest in the operations of the entity. The Chief Operating Officer of the Organization has been designated as the manager of TSJ Events, LLC. TSJ Events, LLC is blended with CCF as its sole purpose is to provide a vehicle for licensing CCF's liquor sales. Per the Operating Agreement between the Organization and TSJ Events, LLC, all revenue and expenses from activities performed by TSJ Events, LLC are allocated to CCF. The Organization reimburses TSJ Events, LLC for services provided in connection with food and beverage services during events. The Organization did not reimburse TSJ Events, LLC any amounts and had no payable to TSJ Events, LLC as of June 30, 2015 ($13,000 and $3,000, respectively, as of June 30, 2014). TSJ Events' activities are not deemed material to the Organization to require consolidation in the Organization's 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.