

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Team San Jose, Inc. dba San Jose Convention & Visitors Bureau
San Jose, California

We have audited the accompanying statements of financial position of Team San Jose, Inc. dba San Jose Convention & Visitors Bureau (the Organization) as of June 30, 2009 and 2008 and the combined related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Organization. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Team San Jose, Inc. dba San Jose Convention & Visitors Bureau as of June 30, 2009 and 2008 and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note A to the financial statements, San Jose Convention & Visitors Bureau and Team San Jose, Inc. merged and combined their operations in the year ended June 30, 2009. The merger was accounted for using the pooling of interest method of accounting. The June 30, 2008 financial statements have been restated to reflect the combined financial position, statements of activities and changes in net assets and cash flows.

Petrinovich Pugh & Company, LLP

San Jose, California
February 5, 2010

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

ASSETS	<u>2009</u>	<u>Restated 2008</u>
Current assets:		
Cash and cash equivalents	\$ 775,269	\$ 1,646,876
Investments	970,774	710,658
Accounts receivable, net of allowance for doubtful accounts of \$29,170 and \$7,445, respectively	281,030	118,691
Other receivables	15,851	3,392
Prepaid expenses	56,861	81,206
Total current assets	<u>2,099,785</u>	<u>2,560,823</u>
Property and equipment:		
Leasehold improvements	7,941	7,941
Furniture and equipment	88,767	163,896
Computer equipment	104,650	104,650
	<u>201,358</u>	<u>276,487</u>
Less accumulated depreciation	(149,948)	(201,773)
Net property and equipment	<u>51,410</u>	<u>74,714</u>
Security deposits	<u>1,638</u>	<u>1,638</u>
	<u>\$ 2,152,833</u>	<u>\$ 2,637,175</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 188,541	\$ 195,943
Income tax payable	-	48,401
Accrued expenses	630,817	735,927
Customer deposits	-	1,000
Deferred revenues	113,036	142,735
Current portion of capital lease obligations	17,020	15,102
Total current liabilities	<u>949,414</u>	<u>1,139,108</u>
Capital lease obligations, less current portion	12,531	29,551
Net assets:		
Unrestricted:		
Undesignated	468,933	783,643
Board designated	721,955	684,873
Total unrestricted net assets	<u>1,190,888</u>	<u>1,468,516</u>
	<u>\$ 2,152,833</u>	<u>\$ 2,637,175</u>

See accompanying independent auditors' report and notes to financial statements.

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>Restated 2008</u>
Revenues:		
City of San Jose	\$ 5,560,608	\$ 5,851,918
Convention services	343,261	476,028
Membership	154,699	154,716
Management fee	150,000	162,500
Other income	64,000	10,848
Visitor services	52,651	157,111
Investment income	5,248	27,726
Revenues before donated products and services	<u>6,330,467</u>	<u>6,840,847</u>
Donated products and services	94,836	94,836
Total revenues	<u>6,425,303</u>	<u>6,935,683</u>
Expenses:		
Convention marketing and promotion	3,686,809	3,893,051
General and administrative	2,459,937	2,248,758
Convention services	187,400	207,436
Visitor services	149,716	154,711
Team San Jose expenses	119,682	128,502
Income tax expense	-	48,401
Interest expense	4,551	-
Expenses before donated products and services	<u>6,608,095</u>	<u>6,680,859</u>
Donated products and services	94,836	94,836
Total expenses	<u>6,702,931</u>	<u>6,775,695</u>
Total (decrease) increase in net assets	(277,628)	159,988
Net assets, beginning of year	<u>1,468,516</u>	<u>1,308,528</u>
Net assets, end of year	<u>\$ 1,190,888</u>	<u>\$ 1,468,516</u>

See accompanying independent auditors' report and notes to financial statements.

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>Restated 2008</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (277,628)	\$ 159,988
Adjustments to reconcile (decrease) increase in net assets to net cash (used for) provided by operating activities:		
Depreciation	26,550	103,654
Allowance for doubtful accounts	21,725	(21,851)
Net realized and unrealized loss	9,297	-
Changes in certain current assets and liabilities:		
Accounts receivable	(184,064)	182,876
Other receivables	(12,459)	28,026
Prepaid expenses	24,345	(34,545)
Accounts payable	(7,402)	(34,860)
Income tax payable	(48,401)	48,401
Accrued expenses	(105,110)	174,476
Customer deposits	(1,000)	-
Deferred revenues	(29,699)	(15,296)
Net cash (used for) provided by operating activities	<u>(583,846)</u>	<u>590,869</u>
Cash flows from investing activities:		
Proceeds from sale of investments	33,389	-
Purchases of property and equipment	(3,246)	(7,081)
Purchases of investments	(302,802)	(25,793)
Decrease in security deposits	-	1,810
Net cash used for investing activities	<u>(272,659)</u>	<u>(31,064)</u>
Cash flows from financing activities:		
Principal payments on capital lease obligations	<u>(15,102)</u>	<u>(24,206)</u>
Net cash used for financing activities	<u>(15,102)</u>	<u>(24,206)</u>
Net (decrease) increase in cash and cash equivalents	(871,607)	535,599
Cash and cash equivalents, beginning of year	<u>1,646,876</u>	<u>1,111,277</u>
Cash and cash equivalents, end of year	<u>\$ 775,269</u>	<u>\$ 1,646,876</u>

See accompanying independent auditors' report and notes to financial statements.

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>Restated 2008</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 48,301	\$ -
Interest on capital lease obligations	<u>4,551</u>	<u>6,362</u>
	<u>\$ 52,852</u>	<u>\$ 6,362</u>

Supplemental disclosures of non-cash flow investing and financing activities:

During the years ended June 30, 2009 and 2008, the Organization wrote off \$78,375 and \$178,079 in fully depreciated assets, respectively.

See accompanying independent auditors' report and notes to financial statements.

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Organization: On February 1, 2009, the San Jose Convention & Visitors Bureau and Team San Jose, Inc. merged and now operate under the name Team San Jose, Inc. dba San Jose Convention & Visitors Bureau (the Organization). The Organization is organized and incorporated as a nonprofit corporation in the state of California to promote San Jose, California as a site for meetings, conventions, trade shows, as a destination for pleasure travel and to manage the convention and cultural services of the San Jose McEnery Convention Center. Under an agreement with the City of San Jose, certain expenditures made by the Organization in connection with its activities are reimbursed by the City of San Jose.

The financial statements of both entities have been combined under the pooling of interests method of accounting as of June 30, 2009 and 2008, under Accounting Principles Board (APB) Opinion No. 16, "Business Combinations." Assets, liabilities and net asset accounts have been combined. In addition, the financial statements as of June 30, 2008 have been restated to reflect the combined financial positions, statements of activities and changes in net assets and cash flows of both entities, in order to show comparative financial statements. There was no amount paid to any one of the entities and there were no shares of stock issued as a result of the merger.

Summarized financial information for both Team San Jose, Inc and San Jose Convention & Visitors Bureau, as of June 30, 2008, were as follows:

	Team San Jose, Inc.	San Jose Convention & Visitor's Bureau	Combined Total
Gross revenues	\$ 162,500	\$ 6,773,183	\$ 6,935,683
Total expenses	<u>176,903</u>	<u>6,598,792</u>	<u>6,775,695</u>
Net (loss) income	<u>\$ (14,403)</u>	<u>\$ 174,391</u>	<u>\$ 159,988</u>
Net assets	\$ 315,390	\$ 1,153,126	\$ 1,468,516
Total assets	\$ 381,158	\$ 2,256,017	\$ 2,637,175

Basis of Presentation: The financial statements are prepared using the accrual basis of accounting and in accordance with Statements of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Accordingly, the classification of the Organization's net assets and its revenues and expenditures is based on the existence or absence of donor-imposed restrictions. The provisions of this standard require amounts of each of three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in the statement of financial position and the change in each of those classes of net assets be presented in the statement of activities. To date, there have been no permanently or temporarily restricted assets received. Unrestricted net assets represent the portion of expendable funds that are available for support of the Organization's operations.

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued): The Organization has the following categories of unrestricted net assets:

Operating Funds: Operating funds are the cumulative excess of revenues over expenditures, less current board designated funds and committed funds, since the inception of the Organization.

Board Designated Funds: Board designated funds are unrestricted net assets designated by the Board of Directors as a reserve for unexpected changes in the economy, changes in contracts or specific projects. The reserve is based upon the cumulative excess of revenues over expenditures to a minimum of one month's operating expenses. As of June 30, 2008, \$684,873 had been set aside as a specific reserve for use during the year ended June 30, 2009. During the year ended June 30, 2009, this reserve has been utilized by the net loss incurred for the year. Similarly, as of June 30, 2009, \$721,955 has been specifically set aside for use for year ending June 30, 2010.

Cash Equivalents: For purposes of the statements of financial position and cash flows, the Organization considers all highly liquid debt instruments with insignificant interest rate risk and with maturities of less than ninety days to be cash equivalents.

Investment Securities: The financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Realized gains or losses resulting from the sale of securities are calculated on an adjusted cost basis. Adjusted cost basis for this purpose is the market value of the security at the beginning of the year, or the cost if purchased during the year. Unrealized gains or losses are based on the difference between adjusted cost basis and the market value of the security. Dividends and interest income are accrued when earned.

Concentration of Credit Risk: Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash and cash equivalents and accounts receivable. The Organization has deposits with a financial institution in excess of \$100,000, the federally insured limit. As of June 30, 2009 and 2008, the Organization had approximately \$275,000 and \$1,397,000, respectively, in deposits in excess of the federally insured limit. (The federally insured limit was increased to \$250,000 effective October 3, 2008). Risk associated with cash and cash equivalents is mitigated by maintaining deposits with credit worthy financial institutions. Accounts receivable mainly consist of amounts due from public members, contract revenue from the City of San Jose and management fees from the City of San Jose to manage the Convention & Cultural facilities of the San Jose McEnery Convention Center. The Organization grants credit to its members, substantially all of whom are located in the Santa Clara County area. Allowances are made for any receivables which are considered to be uncollectible.

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition:

City of San Jose: The Organization receives a majority of its revenues from the City of San Jose. The Organization has an agreement with the City of San Jose through June 30, 2010. Under the agreement, payments are made to the Organization based upon its budget as approved by the City of San Jose. Revenues are recognized based upon the approved budget over the contract year.

The Organization also receives a management fee from the City of San Jose to operate the San Jose McEnery Convention Center. The Organization has an agreement with the City of San Jose through June 30, 2014. Under the agreement, fixed payments are made to the Organization based upon its budget as approved by the City of San Jose. Revenues are recognized based upon the approved budget over the contract year.

Membership Renewal: Membership renewal fees are recognized as revenue ratably over the period of the membership. Deferred revenues consist of membership dues billed but not recognized as revenue.

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

Donated Products and Service: The Organization receives various donated products and services in connection with providing services to its members. Donated products and services are recorded at their estimated fair market value. During the fiscal years ended June 30, 2009 and 2008, the Organization received free use of its facilities from the City of San Jose. The Organization has valued the use of the facilities at \$6,928 per month and has recorded it in donated products and services. In addition, during the years ended June 30, 2009 and 2008, the Organization also received free usage of the Event Business Management Software from the City of San Jose. The Organization has valued the use of the software at \$975 per month and has recorded it in donated products and services.

Accounts Receivable: The Organization uses the allowance method of accounting for losses arising from uncollectible accounts receivable. Under this method, accounts receivable are written off to allowance for doubtful accounts in the period they are deemed to be uncollectible. An allowance for doubtful accounts is computed based upon historical data and management estimates of uncollectible accounts.

Property and Equipment: Property and equipment are stated at cost and depreciated over the estimated useful life between three and seven years using the straight-line method. Major repairs or replacements of property and equipment are capitalized. Maintenance, repairs and minor replacements are charged to operations as incurred. For the years ended June 30, 2009 and 2008, depreciation expense was \$26,550 and \$103,654, respectively.

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising: Advertising expense consists of collateral, brochures, promotional materials and special promotions. The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was approximately \$254,000 and \$340,000 for the years ended June 30, 2009 and 2008, respectively.

Income Taxes: The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(6) and State of California Revenue and Taxation Code 23701(e). Therefore, no provision for income taxes has been provided in the financial statements. The Organization has elected to defer the application of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," in accordance with FSP FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," which delays the effective date to fiscal years beginning after December 15, 2008. The Organization continues to follow FAS 5, "Accounting for Contingencies," until it adopts FIN 48.

The Organization accrued a state tax liability in the amount of \$48,401 as of June 30, 2008 due to not having a proper non-profit exemption from the State of California. The Organization subsequently received non-profit designation from the Internal Revenue Service and State of California dating back to the beginning of its existence. The Organization is entitled to a refund of taxes already paid in the amount of \$38,411 and a forgiveness of taxes and fees in the amount of \$9,990 as of June 30, 2009.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Impairment of Long-Lived Assets: The Organization accounts for impairment of assets under *Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets,"* which requires the Organization to review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of the asset is determined not to be recoverable, a write down to fair value is recorded. During the years ended June 30, 2009 and 2008, no impairment of assets was recorded.

Fair Value Measurements: In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which permits the delayed application of FASB Statement No. 157, *Fair Value Measurements and Disclosures*, for nonfinancial assets and nonfinancial liabilities except those items that are recognized or disclosed at fair value in the financial statements on a recurring (at least annual) basis. The Organization has long-lived assets (furniture and equipment) at June 30, 2009 for which fair value has been evaluated and SFAS No. 157 has not been applied.

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE B - COMMITMENTS

The Organization leases certain office equipment under non-cancelable operating lease agreements that periodically expire through the year ending June 30, 2010. In addition, the Organization leases office equipment under a non-cancelable capital lease agreement that bears interest at 12% and expires on February 15, 2011. Future minimum lease payments for all leases are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
Year ending June 30,		
2010	\$ 19,653	\$ 23,195
2011	<u>13,102</u>	<u>-</u>
	32,755	<u>\$ 23,195</u>
Amounts representing interest	<u>(3,204)</u>	
Present value of net minimum lease payments	29,551	
Less current portion	<u>(17,020)</u>	
	<u>\$ 12,531</u>	

Equipment capitalized under capital leases, net of the provision for the loss on abandonment of computer software, at June 30 is as follows:

	<u>2009</u>	<u>2008</u>
Equipment	\$ 62,368	\$ 123,961
Less accumulated depreciation	<u>(36,381)</u>	<u>(80,798)</u>
	<u>\$ 25,987</u>	<u>\$ 43,163</u>

The Organization moved to a building owned by the City of San Jose at which the Organization will not be charged rent through 2010. The fair market value of the free rent has been valued at \$83,136 for the years ended June 30, 2009 and 2008 and has been recorded in donated products and services revenue and expense. Rent expense charged to operations were approximately \$5,000 and \$38,000 for the years ended June 30, 2009 and 2008, respectively.

Committed subsidies represent amounts which the Organization has committed for certain outside events that will occur between 2008 and 2016. Subsidies will be paid using future operating funds. As of the year ended June 30, 2009, the Organization has committed approximately \$452,000 for these events.

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE C - 401(k) PLAN

The Organization has a 401(k) Plan (the Plan) which allows eligible participants to contribute a percentage of compensation, up to a prescribed maximum, subject to the limitations of Internal Revenue Code Section 401(k). Eligible employees are those who are at least 18 years of age and have completed 250 hours of service within a Plan year. The Plan provides for the Organization to make matching or discretionary contributions. The Organization's contributions were approximately \$152,000 and \$132,400 for the years ended June 30, 2009 and 2008, respectively.

NOTE D - RELATED PARTY TRANSACTIONS

The Organization provides accounting and other administrative services to San Jose Hotels, Inc. (SJHI), a related party. The Organization is reimbursed for direct costs incurred, but is not reimbursed for staff time. During the years ended June 30, 2009 and 2008, the Organization charged SJHI \$24,000 for administrative services. The Organization had a receivable from SJHI in the amount of \$5,031 and \$683 as of June 30, 2009 and 2008, respectively, which is included in accounts receivable and other receivables, respectively.

For the year ended June 30, 2009, total expenses related to joint marketing expenses paid to SJHI amounted to \$66,743.

NOTE E - ACCRUED EXPENSES

Accrued expenses consist of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Bonuses	\$ 378,078	\$ 399,870
Vacation	207,409	204,910
Miscellaneous	<u>45,330</u>	<u>131,147</u>
	<u>\$ 630,817</u>	<u>\$ 735,927</u>

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE F - FAIR VALUE MEASUREMENTS

During the year ended June 30, 2009, the Organization measures assets at fair value using Statement of Financial Accounting Standards No. 157 (SFAS 157) "*Fair Value Measurements*." SFAS 157 defines fair value 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."

FASB Statement No. 157 also establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. These would include U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 - Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include third party pricing services for identical or similar assets or liabilities.
- Level 3 - Inputs are unobservable inputs for the asset or liability. These include option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2009.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 251,392	\$ -	\$ -	\$ 251,392
Certificates of deposit	-	714,382	-	714,382
Partnership interest	-	-	5,000	5,000
Total investments at fair value	\$ 251,392	\$ 714,382	\$ 5,000	\$ 970,774

TEAM SAN JOSE, INC. dba SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE G - SUBSEQUENT EVENTS

Effective for financial periods ending after June 15, 2009, FAS 165 requires additional disclosure for events or transactions that occur after the balance sheet date. The Organization has no subsequent events as of February 5, 2010. The Organization has not evaluated subsequent events after this date in the statements presented.