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

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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CONTENTS

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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, 2010 and 2009 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 auditing standards generally accepted in the United States of America. 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 position of Team San Jose, Inc. dba San Jose Convention & Visitors Bureau as of June 30, 2010 and 2009 and the changes in their net assets and their cash flows for the years then ended in conformity with auditing standards generally accepted in the United States of America.

Petrinovich Pugh & Company, LLP

Petrinovich Pugh & Company, LLP

San Jose, California
December 7, 2010

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

ASSETS	2010	2009
Current assets:		
Cash and cash equivalents	$ 540,111	$ 775,269
Accounts receivable, net of allowance for doubtful accounts of $38,063 and $29,170, respectively	390,834	281,030
Other receivables	167,570	15,851
Prepaid expenses	40,744	56,861
Investments	779,270	970,774
Total current assets	1,918,529	2,099,785
Property and equipment:		
Leasehold improvements	7,941	7,941
Furniture and equipment	93,364	88,767
Computer equipment	104,355	104,650
	205,660	201,358
Less accumulated depreciation	(171,798)	(149,948)
Net property and equipment	33,862	51,410
Security deposits	1,638	1,638
	$ 1,954,029	$ 2,152,833
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 124,683	$ 188,541
Accrued expenses	382,298	630,817
Deferred revenues	100,756	113,036
Current portion of capital lease obligations	12,531	17,020
Total current liabilities	620,268	949,414
Capital lease obligations, less current portion	-	12,531
Net assets:		
Unrestricted:		
Undesignated	768,083	468,933
Board designated	565,678	721,955
Total unrestricted net assets	1,333,761	1,190,888
	$ 1,954,029	$ 2,152,833

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

JUNE 30, 2010 AND 2009

	2010	2009
Revenues:		
City of San Jose	$ 3,846,575	$ 5,560,608
Convention services	274,429	343,261
Membership	154,682	154,699
Management fee	150,000	150,000
Other income	48,637	64,000
Visitor services	30,125	52,651
Investment return	8,501	5,248
Revenues before donated products and services	4,512,949	6,330,467
Donated products and services	94,836	94,836
Total revenues	4,607,785	6,425,303
Expenses:		
Convention marketing and promotion	2,605,302	3,686,809
General and administrative	1,511,854	2,459,937
Convention services	146,867	187,400
Visitor services	66,581	149,716
Other expense	36,839	119,682
Interest expense	2,633	4,551
Expenses before donated products and services	4,370,076	6,608,095
Donated products and services	94,836	94,836
Total expenses	4,464,912	6,702,931
Total increase (decrease) in net assets	142,873	(277,628)
Net assets, beginning of year	1,190,888	1,468,516
Net assets, end of year	$ 1,333,761	$ 1,190,888

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

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

STATEMENTS OF CASH FLOWS

JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 142,873	$ (277,628)
Adjustments to reconcile increase (decrease) in net assets to net cash used for operating activities:		
Depreciation	26,315	26,550
Allowance for doubtful accounts	8,893	21,725
Net unrealized and realized loss	1,260	9,297
Changes in certain current assets and liabilities:		
Accounts receivable	(118,697)	(184,064)
Other receivables	(151,719)	(12,459)
Prepaid expenses	16,117	24,345
Accounts payable	(63,858)	(7,402)
Accrued expenses	(248,519)	(105,110)
Deferred revenues	(12,280)	(29,699)
Income tax payable	-	(48,401)
Customer deposits	-	(1,000)
Net cash used for operating activities	(399,615)	(583,846)
Cash flows from investing activities:		
Proceeds from sale of investments	560,000	33,389
Purchases of property and equipment	(8,762)	(3,246)
Purchases of investments	(369,761)	(302,802)
Net cash provided by (used for) investing activities	181,477	(272,659)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(17,020)	(15,102)
Net cash used for financing activities	(17,020)	(15,102)
Net decrease in cash and cash equivalents	(235,158)	(871,607)
Cash and cash equivalents, beginning of year	775,269	1,646,876
Cash and cash equivalents, end of year	$ 540,111	$ 775,269

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

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

STATEMENTS OF CASH FLOWS

JUNE 30, 2010 AND 2009

	2010	2009
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest on capital lease obligations	$ 2,633	$ 4,551
Income taxes	-	48,301
	$ 2,633	$ 52,852

Supplemental disclosure of non-cash investing and financing activities:

During the years ended June 30, 2010 and 2009, the Organization wrote off $4,465 and $78,375, respectively, in fully depreciated assets.

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

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.

As of June 30, 2009, the financial statements of both entities have been combined under the pooling of interests method of accounting, under Accounting Principles Board (APB) Opinion No. 16, *Business Combinations* (noted in ASC 105-10-70 to be "grandfathered" into the FASB Accounting Standards Codification). Assets, liabilities and net asset accounts have been combined. 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.

New Accounting Pronouncement: In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-01 (formerly FASB No. 168), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* The Accounting Standards Codification (ASC) is the single source of authoritative non-governmental U.S. Generally Accepted Accounting Principles (GAAP). The ASC does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents are superseded and all other accounting literature not included in the Codification is considered non-authoritative. The ASC was effective for financial statements issued for periods ending after September 15, 2009. The adoption of ASU No. 2009-01 did not have a material impact on the results of operations or financial position of the Organization as it only required changes to GAAP references in the financial statements.

Basis of Presentation: The financial statements are prepared using the accrual basis of accounting and in accordance with ASC Subtopic 958-205, *Presentation of Financial Statements for Not-for-Profit Entities.* 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.

The Organization has the following categories of unrestricted net assets:

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued):

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, 2009, $721,955 had been set aside as a specific reserve for use during the year ended June 30, 2010. During the year ended June 30, 2010, this reserve has not been utilized. Similarly, as of June 30, 2010, $565,678 has been specifically set aside for use for year ending June 30, 2011.

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 $250,000, the federally insured limit. Certain non-interest bearing accounts have unlimited coverage. As of June 30, 2010 and 2009, the Organization had approximately $271,000 and $275,000, respectively, in deposits in excess of the federally insured limit. 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.

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 December 31, 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 has an agreement with the City of San Jose effective July 1, 2009 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. The Organization receives two fees (executive management fee and an incentive fee) from the City of San Jose to operate the San Jose McEnery Convention Center. The executive management fee is a reimbursement of salary for the executive staff of the Organization, which has been recorded as a reduction of general and administrative expenses on the statements of activities and changes in net assets. The executive management fee amounted to $663,321 as of June 30, 2010. The incentive fee amounted to $150,000 as of June 30, 2010.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued):

> *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, 2010 and 2009, 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, 2010 and 2009, 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.

Cash Equivalents: For purposes of the statements of financial position and cash flows, the Organization considers all highly liquid instruments with original maturity of ninety days or less to be cash equivalents.

Investment Securities: The financial statements are prepared in accordance with ASC Subtopic 958-320, *Investments - Debt and Equity Securities Held by Not-for-Profit Entities*. Under ASC Subtopic 958-320, 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. Realized and unrealized gains and losses are included in investment return in the statements of activities and changes in net assets. Dividends and interest income are accrued when earned.

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, 2010 and 2009, depreciation expense was $26,315 and $26,550, respectively.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets: The Organization accounts for impairment of assets under ASC 360-10-45, *Property, Plant and Equipment - Other Presentation Matters,* 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, 2010 and 2009, no impairment of assets was recorded.

Income Taxes: The Organization is exempt from taxation on its nonprofit activity under Internal Revenue Code Section 501(c)(6) and California Revenue and Taxation Code Section 23701(e). The Organization is subject to tax on income unrelated to its exempt activities.

On July 1, 2009, the Organization adopted ASC 740-10-25, *Recognition of Income Taxes,* which clarifies the accounting for uncertainty in income taxes recognized in the Organization 's financial statements in accordance with ASC 740-10-25 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740-10-25 also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of ASC 740-10-25 did not have a material effect on the Organization.

The Organization files income tax returns in the U.S. federal jurisdiction and the state of California. The Organization 's federal income tax returns for the tax years 2006 and forward remain subject to examination by the Internal Revenue Service. The Organization 's California income tax returns for the tax years 2005 and forward remain subject to examination by the Franchise Tax Board.

The Organization did not have unrecognized tax benefits as of June 30, 2010 and does not expect this to change significantly over the next 12 months. In connection with the adoption of ASC 740-10-25, the Organization will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of June 30, 2010, the Organization believes that there are no interests or penalties to accrue related to uncertain tax positions.

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 $325,000 and $782,000 for the years ended June 30, 2010 and 2009, respectively.

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.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications: Certain amounts in the June 30, 2009 financial statements have been reclassified to conform to the June 30, 2010 presentation. There was no impact to net assets as a result of these reclassifications.

NOTE B - INVESTMENTS

Investments consist of the following:

	2010	2009
Money market fund	$ 621,153	$ 251,392
Certificates of deposit	153,117	714,382
TSJ Events, LLC	5,000	5,000
	$ 779,270	$ 970,774

These investments are unrestricted. Investment return is classified as unrestricted in the statement of activities and changes in net assets. The following schedule summarizes the investment return:

	2010	2009
Interest income	$ 9,761	$ 9,983
Realized and unrealized loss	(1,260)	(4,735)
	$ 8,501	$ 5,248

There was no investment expense related to the above investments for the years ended June 30, 2010 and 2009.

NOTE C - ACCRUED EXPENSES

Accrued expenses consist of the following:

	2010	2009
Vacation	$ 194,729	$ 207,409
Bonuses	104,449	378,078
Miscellaneous	83,120	45,330
	$ 382,298	$ 630,817

NOTE D - COMMITMENTS

The Organization leases certain office equipment under non-cancelable operating lease agreements that periodically expire through the year ending June 30, 2014. 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:

	Capital Leases	Operating Leases
Year ending June 30,		
2011	$ 13,102	$ 10,553
2012	-	10,553
2013	-	8,281
2014	-	555
	13,102	$ 29,942
Amounts representing interest	(571)	
Present value of net minimum lease payments	12,531	
Less current portion	(12,531)	
	$ -	

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

	2010	2009
Equipment	$ 62,368	$ 62,368
Less accumulated depreciation	(50,934)	(36,381)
	$ 11,434	$ 25,987

The Organization occupied a building owned by the City of San Jose, which the Organization was not charged rent through 2010. The fair market value of the free rent has been valued at $83,136 for the years ended June 30, 2010 and 2009 and has been recorded in donated products and services revenue and expense. Rent expense charged to operations was approximately $6,000 and $5,000 for the years ended June 30, 2010 and 2009, respectively.

Committed subsidies represent amounts which the Organization has committed for certain outside events that will occur between 2010 and 2016. Subsidies will be paid using future operating funds. As of the year ended June 30, 2010, the Organization has committed approximately $352,000 for these events.

NOTE E - 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 $89,000 and $152,000 for the years ended June 30, 2010 and 2009, respectively.

NOTE F - 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, 2010 and 2009, the Organization charged SJHI $24,000 for administrative services. For the year ended June 30, 2009, total expenses related to joint marketing expenses paid to SJHI amounted to $66,743. The Organization has receivables from SJHI in the amounts of $2,000 and $5,031 as of June 30, 2010 and 2009, respectively, which are included in accounts receivable and other receivables, respectively.

The Organization has receivables from Team San Jose Convention & Cultural Facilities (CCF), an affiliated activity, in the amounts of $167,570 and $12,821 as of June 30, 2010 and 2009, respectively, which are included in other receivables. The Organization has a payable to CCF in the amount of $986 as of June 30, 2010.

NOTE G - FAIR VALUE MEASUREMENTS

ASC 820-10, *Fair Value Measurements and Disclosures*, 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

NOTE G - FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2010:

Money market funds: Valued at quoted prices in active markets for identical assets as of June 30, 2010.

Certificates of deposit: Valued at quoted prices in inactive markets for identical assets as of June 30, 2010.

Partnership investment: Valued at cost as of June 30, 2010 which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE G - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2010.

	Level 1	Level 2	Level 3	Total
Money market funds	$ 621,153	$ -	$ -	$ 621,153
Certificates of deposit	-	153,117	-	153,117
Partnership interest	-	-	5,000	5,000
	$ 621,153	$ 153,117	$ 5,000	$ 779,270

The Organization's level 3 assets for the year ended June 30, 2010 did not change from the balance at June 30, 2009.

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

	Level 1	Level 2	Level 3	Total
Money market funds	$ 251,392	$ -	$ -	$ 251,392
Certificates of deposit	-	714,382	-	714,382
Partnership interest	-	-	5,000	5,000
	$ 251,392	$ 714,382	$ 5,000	$ 970,774

NOTE H - SUBSEQUENT EVENTS

Effective for financial periods ending after June 15, 2009, ASC Subtopic 855-10, *Subsequent Events,* requires additional disclosure for events or transactions that occur after the statement of financial position date. On August 18, 2010, the City of San Jose notified the Organization that it was in default of their management agreement. As a result of this notice, the City has commissioned two audits of the Organization. If the Organization didn't respond to the specific corrective actions in the notice of default, the City of San Jose had the right to begin steps of termination per the agreement. As of the financial statement issuance date, no notice of termination has been given, nor is there an indication it will be given. In addition, the City of San Jose approved direction to begin steps to create an RFP process to evaluate options regarding the future management of the Convention Center and Cultural Facilities. The Organization has not evaluated subsequent events after this date in the statements presented.