

SAN JOSE CONVENTION & VISITORS BUREAU

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

SAN JOSE CONVENTION & VISITORS BUREAU

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CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4-5
Notes to Financial Statements	6-10



PETRINOVICH PUGH & CO LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Jose Convention & Visitors Bureau
San Jose, California

We have audited the accompanying statements of financial position of the San Jose Convention & Visitors Bureau as of June 30, 2008 and 2007 and the 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 San Jose Convention & Visitors Bureau. 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 the San Jose Convention & Visitors Bureau as of June 30, 2008 and 2007 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.

Petrinovich Pugh & Company, LLP

San Jose, California
October 31, 2008

SAN JOSE CONVENTION & VISITORS BUREAU

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2008 AND 2007

ASSETS	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 1,265,718	\$ 781,484
Marketable securities	710,658	684,865
Accounts receivable, net of allowance for doubtful accounts of \$7,445 and \$29,296, respectively	118,691	279,716
Other receivables	3,392	31,418
Prepaid expenses	<u>81,206</u>	<u>46,661</u>
Total current assets	2,179,665	1,824,144
Property and equipment:		
Leasehold improvements	7,941	-
Furniture and equipment	163,896	292,284
Computer equipment	<u>104,650</u>	<u>155,203</u>
	276,487	447,487
Less accumulated depreciation	<u>(201,773)</u>	<u>(276,200)</u>
Net property and equipment	74,714	171,287
Security deposits	<u>1,638</u>	<u>3,448</u>
	<u>\$ 2,256,017</u>	<u>\$ 1,998,879</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 178,576	\$ 230,803
Accrued expenses	131,147	52,050
Accrued bonuses	399,870	369,716
Accrued vacation	204,910	139,685
Customer deposits	1,000	1,000
Deferred revenues	142,735	158,031
Current portion of capital lease obligations	<u>15,102</u>	<u>24,206</u>
Total current liabilities	1,073,340	975,491
Capital lease obligations, less current portion	29,551	44,653
Net assets:		
Unrestricted:		
Undesignated	468,253	459,174
Board designated	<u>684,873</u>	<u>519,561</u>
Total unrestricted net assets	1,153,126	978,735
	<u>\$ 2,256,017</u>	<u>\$ 1,998,879</u>

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

SAN JOSE CONVENTION & VISITORS BUREAU
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Revenues:		
City of San Jose	\$ 5,851,918	\$ 5,452,740
Convention services	476,028	481,591
Membership	154,716	160,420
Visitor services	157,111	61,379
Interest income	27,726	21,095
Other income	10,848	-
Revenues before donated products and services	<u>6,678,347</u>	<u>6,177,225</u>
Donated products and services	94,836	94,836
Total revenues	<u>6,773,183</u>	<u>6,272,061</u>
Expenses:		
Convention marketing and promotion	3,893,051	3,602,234
General and administrative	2,248,757	1,942,302
Convention services	207,437	273,707
Visitor services	154,711	109,365
Interest expense	-	5,306
Expenses before donated products and services	<u>6,503,956</u>	<u>5,932,914</u>
Donated products and services	94,836	94,836
Total expenses	<u>6,598,792</u>	<u>6,027,750</u>
Total increase in net assets	174,391	244,311
Net assets, beginning of year	<u>978,735</u>	<u>734,424</u>
Net assets, end of year	<u>\$ 1,153,126</u>	<u>\$ 978,735</u>

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

SAN JOSE CONVENTION & VISITORS BUREAU

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Increase in net assets	\$ 174,391	\$ 244,311
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	103,654	39,659
Allowance for doubtful accounts	(21,851)	(5,712)
Changes in certain current assets and liabilities:		
Accounts receivable	182,876	(190,003)
Other receivables	28,026	8,532
Inventories	-	14,976
Prepaid expenses	(34,545)	(6,335)
Accounts payable	(52,227)	107,064
Accrued expenses	79,097	41,911
Accrued bonuses	30,154	117,097
Accrued vacation	65,225	20,938
Customer deposits	-	(400)
Deferred revenues	(15,296)	(13,381)
Net cash provided by operating activities	539,504	378,657
Cash flows from investing activities:		
Purchases of marketable securities	(25,793)	(271,095)
Purchases of property and equipment	(7,081)	(11,388)
Decrease (increase) in security deposits	1,810	(1,737)
Net cash used for investing activities	(31,064)	(284,220)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(24,206)	(52,003)
Net cash used for financing activities	(24,206)	(52,003)
Net increase in cash and cash equivalents	484,234	42,434
Cash and cash equivalents, beginning of year	781,484	739,050
Cash and cash equivalents, end of year	\$ 1,265,718	\$ 781,484

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

SAN JOSE CONVENTION & VISITORS BUREAU
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

Supplemental disclosure of cash flow information:

	<u>2008</u>	<u>2007</u>
Cash paid during the year for interest on capital lease obligations	<u>\$ 6,362</u>	<u>\$ 6,451</u>

Supplemental disclosures of non-cash flow information:

During the year ended June 30, 2008, the Bureau wrote off \$178,079 in fully depreciated assets.

During the year ended June 30, 2007, the Bureau entered into a \$62,367 capital lease obligation for property and equipment.

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

SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Organization: The San Jose Convention & Visitors Bureau (the Bureau) was organized and incorporated as a nonprofit entity in the state of California in May, 1984. The Bureau was formed for the purpose of promoting San Jose, California as a site for meetings, conventions, and trade shows and as a destination for pleasure travel. Under an agreement with the City of San Jose (the Agreement), certain expenditures made by the Bureau in connection with its activities are reimbursed by the City of San Jose.

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 Bureau's operations.

The Bureau 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 Bureau.

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. In addition, as of June 30, 2007, \$66,000 had been set aside as a specific reserve for use during the year ended June 30, 2008. During the year ended June 30, 2008, this reserve has not been utilized. Similarly, as of June 30, 2008, \$180,125 has been specifically set aside for use for year ending June 30, 2009.

Cash Equivalents: For purposes of the statements of financial position and cash flows, the Bureau 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 statement 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. Dividends and interest income are accrued when earned.

SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition:

City of San Jose: The Bureau receives a majority of its revenues from the City of San Jose. On June 23, 2000, the Bureau entered into an agreement with the City of San Jose (the Agreement), which covered the period of July 1, 2000 through June 30, 2005. On June 30, 2005, the Agreement was extended for an additional term of five years and will expire on June 30, 2010. Under the Agreement, payments are made to the Bureau based upon the Bureau's budget as approved by the City of San Jose. Revenues are recognized based upon the approved budget over the contract year.

Membership Dues: Membership dues 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 Bureau 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, 2008 and 2007, the Bureau received free use of its facilities from the City of San Jose. The Bureau 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, 2008 and 2007, the Bureau also received free usage of the Event Business Management Software from the City of San Jose. The Bureau has valued the use of the software at \$975 per month and has recorded it in donated products and services.

Concentration of Credit Risk: Financial instruments that potentially subject the Bureau to concentration of credit risk consist principally of cash and cash equivalents and accounts receivable. The Bureau has deposits with a financial institution in excess of \$100,000, the federally insured limit. As of June 30, 2008 and 2007, the Bureau had approximately \$1,232,000 and \$681,000, 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 and contract revenue from the City of San Jose. The Bureau 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.

Accounts Receivable: The Bureau 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.

SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2008 and 2007, depreciation expense was \$103,654 and \$39,659, respectively.

Impairment of Long-Lived Assets and Loss on Abandonment of Computer Software: The Bureau has adopted Financial Accounting Standards Board Statement 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FASB 144). Under FASB 144, the Bureau reviews long-lived assets for impairment when circumstances indicate that the carrying amount of an asset may not be recoverable based upon undiscounted future cash flows of an asset. If the carrying amount of an asset is determined not to be recoverable, a write down to fair value is recorded. During the years ended June 30, 2008 and 2007, there were no impairment related losses recorded.

Advertising: Advertising expense consists of collateral, brochures, promotional materials and special promotions. The Bureau follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was approximately \$340,000 and \$168,000 for the years ended June 30, 2008 and 2007, respectively.

Income Taxes: The Bureau 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.

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.

Reclassifications: Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation of the current year financial statements.

NOTE B - MARKETABLE SECURITIES

As of June 30, 2008 and 2007, marketable securities consisted primarily of money market mutual funds, valued at cost, which approximated fair market value. Included in marketable securities at June 30, 2008 and 2007 is commercial paper with a face amount of \$50,000 that is recorded at its fair market value of \$42,400 and \$45,040, respectively.

SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE C - COMMITMENTS

The Bureau leases certain office equipment under non-cancelable operating lease agreements that periodically expire through the year ending June 30, 2010. In addition, the Bureau 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,		
2009	\$ 19,653	\$ 35,353
2010	19,653	23,195
2011	<u>13,102</u>	<u>-</u>
	52,408	<u>\$ 58,548</u>
Amounts representing interest	<u>(7,755)</u>	
Present value of net minimum lease payments	44,653	
Less current portion	<u>(15,102)</u>	
	<u>\$ 29,551</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>2008</u>	<u>2007</u>
Equipment	\$ 123,961	\$ 123,961
Less accumulated depreciation	<u>(80,798)</u>	<u>(68,686)</u>
	<u>\$ 43,163</u>	<u>\$ 55,275</u>

The Bureau moved to a building owned by the City of San Jose at which the Bureau 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, 2008 and 2007 and has been recorded in donated products and services revenue and expense. Rent expenses charged to operations were approximately \$38,000 and \$54,000 for the years ended June 30, 2008 and 2007, respectively.

SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE C - COMMITMENTS (CONTINUED)

Committed subsidies represent amounts which the Bureau 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, 2008, the Bureau has committed approximately \$716,000 for these events.

NOTE D - 401(k) PLAN

The Bureau 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 Bureau to make matching or discretionary contributions. The Bureau's contributions were approximately \$132,400 and \$82,300 for the years ended June 30, 2008 and 2007, respectively.

NOTE E - RELATED PARTY TRANSACTIONS

The City of San Jose and Team San Jose, Inc. (TSJ), a related party, entered into an agreement whereby TSJ will manage the operation of the San Jose Convention Center and Cultural Facilities. The Bureau is a party to the agreement and is required to provide accounting and administrative services to TSJ. The Bureau is not reimbursed for staff time, but is reimbursed for direct costs incurred. During the year ended June 30, 2008, total reimbursements from TSJ amounted to \$78,679. The Bureau had receivables from TSJ in the amount of \$1,425 and \$4,644 as of June 30, 2008 and 2007, respectively, which are included in other receivables.

As of June 30, 2008, the Bureau has a payable to TSJ in the amount of \$35,519, which is included in accounts payable, for expenses related to an event subsidy. For the year ended June 30, 2008, total expenses related to event subsidies paid to TSJ amounted to \$135,252.

The Bureau also provides accounting and other administrative services to San Jose Hotels, Inc. (SJHI), a related party. The Bureau is reimbursed for direct costs incurred, but is not reimbursed for staff time. During the years ended June 30, 2008 and 2007, the Bureau charged SJHI \$24,000 for administrative services. The Bureau had a receivable from SJHI in the amount of \$2,000 and \$26,090 as of June 30, 2008 and 2007, respectively, which is included in accounts receivable and other receivables, respectively.

The Bureau has a payable to SJHI in the amount of \$29,759 as of June 30, 2008, which is included in accrued expenses, for joint marketing expenses. For the year ended June 30, 2008, total expenses related to joint marketing expenses paid to SJHI amounted to \$38,576.