

**TEAM SAN JOSE**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Team San Jose  
San Jose, California

We have audited the accompanying statements of financial position of Team San Jose (the Organization) as of June 30, 2012 and 2011 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 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 as of June 30, 2012 and 2011 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

San Jose, California  
January 14, 2013

**TEAM SAN JOSE**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2012 AND 2011**

<b>ASSETS</b>	2012	2011
Current assets:		
Cash and cash equivalents	\$ 1,887,838	\$ 1,163,475
Investments	460,889	460,705
Accounts receivable, net	637,168	105,110
Related party receivables	165,224	25,159
Prepaid expenses	43,032	17,349
Total current assets	3,194,151	1,771,798
Property and equipment:		
Leasehold improvements	24,509	24,509
Furniture and equipment	93,364	93,364
Computer equipment	104,355	104,355
	222,228	222,228
Less accumulated depreciation	(195,715)	(190,205)
Net property and equipment	26,513	32,023
Security deposits	2,900	-
	\$ 3,223,564	\$ 1,803,821
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 27,689	\$ 19,714
Related party payables	31,838	14,053
Accrued expenses	1,216,733	371,884
Deferred revenues	70,572	93,531
Total current liabilities	1,346,832	499,182
Total liabilities	1,346,832	499,182
Net assets:		
Unrestricted:		
Undesignated	1,477,787	980,609
Board designated	398,945	324,030
Total unrestricted net assets	1,876,732	1,304,639
	\$ 3,223,564	\$ 1,803,821

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

**TEAM SAN JOSE**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>		
City of San Jose	\$ 4,138,792	\$ 3,796,517
Management and incentive fees	500,000	400,000
Convention services	276,968	180,705
Membership	137,643	154,665
Visitor services	36,431	22,370
Investment return	1,097	1,442
Revenues before donated products and services	<u>5,090,931</u>	<u>4,555,699</u>
Donated products and services	83,136	94,836
Total revenues	<u>5,174,067</u>	<u>4,650,535</u>
 <b>Expenses:</b>		
Convention marketing and promotion	3,108,154	2,756,402
General and administrative	992,792	1,269,593
Management services	272,813	430,342
Convention services	77,072	90,631
Visitor services	68,007	37,282
Interest expense	-	571
Expenses before donated products and services	<u>4,518,838</u>	<u>4,584,821</u>
Donated products and services	83,136	94,836
Total expenses	<u>4,601,974</u>	<u>4,679,657</u>
 Total increase (decrease) in net assets	 572,093	 (29,122)
 Net assets, beginning of year	 <u>1,304,639</u>	 <u>1,333,761</u>
 Net assets, end of year	 <u>\$ 1,876,732</u>	 <u>\$ 1,304,639</u>

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

**TEAM SAN JOSE**  
**STATEMENTS OF CASH FLOWS**  
**JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 572,093	\$ (29,122)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	5,510	18,407
Allowance for doubtful accounts	(27,615)	17,446
Net realized and unrealized loss on investments	62	1,568
Changes in certain current assets and liabilities:		
Accounts receivable	(504,443)	268,278
Related party receivables	(140,065)	142,411
Prepaid expenses	(25,683)	23,395
Accounts payable	7,975	(103,983)
Related party payables	17,785	13,067
Accrued expenses	844,849	(10,414)
Deferred revenues	(22,959)	(7,225)
Net cash provided by operating activities	<u>727,509</u>	<u>333,828</u>
Cash flows from investing activities:		
(Increase) decrease in security deposit	(2,900)	1,638
Proceeds from sale of investments	400,913	500,000
Purchases of property and equipment	-	(16,568)
Purchases of investments	(401,159)	(183,003)
Net cash (used for) provided by investing activities	<u>(3,146)</u>	<u>302,067</u>
Cash flows from financing activities:		
Principal payments on capital lease obligations	-	(12,531)
Net cash used for financing activities	<u>-</u>	<u>(12,531)</u>
Net increase in cash and cash equivalents	724,363	623,364
Cash and cash equivalents, beginning of year	<u>1,163,475</u>	<u>540,111</u>
Cash and cash equivalents, end of year	<u>\$ 1,887,838</u>	<u>\$ 1,163,475</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest on capital lease obligations	<u>\$ -</u>	<u>\$ 571</u>

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

**TEAM SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**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 (the Organization). The Organization is 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.

***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.

***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. Effective June 30, 2012, the reserve was changed from the budgeted loss of the following fiscal year plus one month's operating expenses to the minimum of one month's operating expenses. As of June 30, 2011, \$324,030 had been set aside as a specific reserve for use during the year ended June 30, 2012. Similarly, as of June 30, 2012, \$398,945 has been specifically set aside for use for year ending June 30, 2013.

**TEAM SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 part of the Transaction Guarantee Program, an opt out was available beginning July 1, 2010 for all noninterest-bearing accounts. The financial institutions used by the Organization have not opted out of the Transaction Guarantee Program. As of June 30, 2012 and 2011, the Organization had approximately \$1,137,000 and \$591,000, 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.

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, 2014. 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.

Management and Incentive Fees: The Organization has a new agreement with the City of San Jose effective January 1, 2012 through June 30, 2014. Per the new agreement, 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. Under the old agreement, incentive payments were made to the Organization based on performance using a weighted scoring measure. Under the new agreement, a fixed management fee is paid to the Organization based upon its budget as approved by the City of San Jose, with additional incentive fees paid based on performance in the prior year. Revenues are recognized based upon the approved budget over the contract year. 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 \$150,000 during the year ended June 30, 2012. The incentive fee amounted to \$350,000 and \$400,000 during the years ended June 30, 2012 and 2011, respectively.

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

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



**TEAM SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue Recognition (continued):

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, 2012 and 2011, 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.

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. The allowance for doubtful accounts was approximately \$28,000 and \$56,000 as of June 30, 2012 and 2011.

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, 2012 and 2011, depreciation expense was \$5,510 and \$18,407, respectively.

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, 2012 and 2011, no impairment of assets was recorded.

**TEAM SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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.

The Organization has 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 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 2008 and forward remain subject to examination by the Internal Revenue Service. The Organization's California income tax returns for the tax years 2007 and forward remain subject to examination by the Franchise Tax Board.

The Organization did not have unrecognized tax benefits as of June 30, 2012 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, 2012, the Organization believes that there is no interest or penalty 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 \$322,000 and \$285,000 for the years ended June 30, 2012 and 2011, 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.

*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. The Organization has no material subsequent events as of January 14, 2013. The Company has not evaluated subsequent events after this date in the statements presented.

**TEAM SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE B - INVESTMENTS**

Investments consist of the following:

	<u>2012</u>	<u>2011</u>
Money market fund	\$ 55,951	\$ 455,705
Certificates of deposit	399,938	-
TSJ Events, LLC	<u>5,000</u>	<u>5,000</u>
	<u>\$ 460,889</u>	<u>\$ 460,705</u>

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:

	<u>2012</u>	<u>2011</u>
Interest income	\$ 1,159	\$ 3,010
Realized and unrealized loss	<u>(62)</u>	<u>(1,568)</u>
	<u>\$ 1,097</u>	<u>\$ 1,442</u>

There was no investment expense related to the above investments for the years ended June 30, 2012 and 2011.

**NOTE C - ACCRUED EXPENSES**

Accrued expenses consist of the following:

	<u>2012</u>	<u>2011</u>
Vacation	\$ 242,884	\$ 175,535
Bonuses and incentives	254,416	97,619
Ticket sales liability	622,951	-
Other	<u>96,482</u>	<u>98,730</u>
	<u>\$ 1,216,733</u>	<u>\$ 371,884</u>

**TEAM SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**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. Future minimum lease payments for all leases are as follows:

Year ending June 30,		
2013	\$	15,007
2014		<u>3,447</u>
	<u>\$</u>	<u>18,454</u>

The Organization occupied a building owned by the City of San Jose, which the Organization was not charged rent through 2012. The fair market value of the free rent has been valued at \$83,136 for the years ended June 30, 2012 and 2011 and has been recorded in donated products and services revenue and expense. Additional rent expense charged to operations (for off-site record management) was approximately \$4,000 for the years ended June 30, 2012 and 2011, respectively.

Committed subsidies represent amounts which the Organization has committed for certain outside events that will occur between 2012 and 2018. Subsidies will be paid using future operating funds. As of the year ended June 30, 2012, the Organization has committed approximately \$307,000 for these events.

**NOTE E – PENSION 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 \$75,000 and \$71,000 for the years ended June 30, 2012 and 2011, 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 also reimbursed for certain direct costs incurred. During the years ended June 30, 2012 and 2011, the Organization charged SJHI \$56,154 and \$21,440, respectively, for administrative services. The Organization has receivables from SJHI in the amounts of \$16,596 and \$17,143 as of June 30, 2012 and 2011, respectively.

## TEAM SAN JOSE

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

#### NOTE F - RELATED PARTY TRANSACTIONS (CONTINUED)

The Organization provides marketing, promotional, sales support, and destination planning services to Team San Jose Convention & Cultural Facilities (CCF), an affiliated activity. The Organization has receivables from CCF in the amounts of \$148,629 and \$53,301 as of June 30, 2012 and 2011, respectively, related to the reimbursement of wages and related expenses for services provided to CCF. In addition, the Organization has a payable to CCF in the amount of \$3,156 as of June 30, 2011.

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 General Manager of the Organization has been designated as the manager of TSJ Events, LLC. The Organization reimburses TSJ Events, LLC for services provided in connection with food and beverage services during events. The Organization has net payables to TSJ Events, LLC in the amount of \$31,838 and \$10,897 as of June 30, 2012 and 2011, respectively.

#### 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.

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.

**TEAM SAN JOSE**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

**NOTE G - FAIR VALUE MEASUREMENTS (CONTINUED)**

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, 2012:

*Money market funds:* Valued at quoted prices in active markets for identical assets as of June 30, 2012, and 2011.

*Certificates of deposit:* Valued at the deposit account balance as no discounts for credit quality or liquidity were determined to be applicable.

*Partnership investment:* Valued at cost as of June 30, 2012, and 2011 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.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2012.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 55,951	\$ -	\$ -	\$ 55,951
Certificates of deposit	-	399,938	-	399,938
Partnership interest	-	-	5,000	5,000
	<u>\$ 55,951</u>	<u>\$ 399,938</u>	<u>\$ 5,000</u>	<u>\$ 460,889</u>

The Organization's level 3 assets for the year ended June 30, 2012 did not change from the balance at June 30, 2011.

**TEAM SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**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, 2011.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 455,705	\$ -	\$ -	\$ 455,705
Partnership interest	-	-	5,000	5,000
	<u>\$ 455,705</u>	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ 460,705</u>

For the year ended June 30, 2012, transfers out of Level 1 were made as a result of sales of money market funds used to purchase investments in certificates of deposit.