TEAM SAN JOSE

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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CONTENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Team San Jose (the Organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Team San Jose as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Petrinovich Pugh & Company, LLP

Petrinovich Pugh & Company, LLP

San Jose, California
January 8, 2015

TEAM SAN JOSE

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	$ 1,214,185	$ 2,182,258
Investments	462,425	462,233
Accounts receivable, net	346,758	433,505
Related party receivables	237,078	72,187
Prepaid expenses	67,644	21,338
Total current assets	2,328,090	3,171,521
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	(204,458)	(201,168)
Net property and equipment	17,770	21,060
Security deposits	4,032	2,900
	$ 2,349,892	$ 3,195,481
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 353,451	$ 172,597
Related party payables	56,969	647,914
Accrued expenses	542,005	542,246
Deferred revenues	84,263	135,279
Total current liabilities	1,036,688	1,498,036
Total liabilities	1,036,688	1,498,036
Net assets:		
Unrestricted:		
Undesignated	885,807	1,235,581
Board designated	427,397	461,864
Total unrestricted net assets	1,313,204	1,697,445
	$ 2,349,892	$ 3,195,481

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

TEAM SAN JOSE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Revenues:		
City of San Jose	$ 4,915,745	$ 3,834,248
Management and incentive fees	500,000	150,000
Sponsorship	605,550	-
Convention services	244,441	314,231
Membership	162,319	142,742
Visitor services	33,118	34,588
Investment return	635	1,303
Revenues before donated products and services	6,461,808	4,477,112
Donated products and services	93,528	83,136
Total revenues	6,555,336	4,560,248
Expenses:		
Convention marketing and promotion	4,190,106	2,880,861
General and administrative	1,643,241	1,308,513
Management services	740,035	289,082
Convention services	130,896	116,597
Visitor services	141,771	61,346
Expenses before donated products and services	6,846,049	4,656,399
Donated products and services	93,528	83,136
Total expenses	6,939,577	4,739,535
Change in net assets	(384,241)	(179,287)
Net assets, beginning of year	1,697,445	1,876,732
Net assets, end of year	$ 1,313,204	$ 1,697,445

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

TEAM SAN JOSE

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ (384,241)	$ (179,287)
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation	3,291	5,453
Allowance for doubtful accounts	4,249	(27,750)
Net realized and unrealized loss on investments	92	34
Changes in certain current assets and liabilities:		
Accounts receivable	82,498	246,539
Related party receivables	(164,891)	93,754
Prepaid expenses	(46,306)	21,694
Accounts payable	180,854	68,541
Related party payables	(590,945)	(6,437)
Accrued expenses	(241)	8,550
Deferred revenues	(51,016)	64,707
Net cash (used for) provided by operating activities	(966,656)	295,798
Cash flows from investing activities:		
Increase in security deposit	(1,132)	-
Purchases of investments	(285)	(401,378)
Proceeds from sale of investments	-	400,000
Net cash used for investing activities	(1,417)	(1,378)
Net (decrease) increase in cash and cash equivalents	(968,073)	294,420
Cash and cash equivalents, beginning of year	2,182,258	1,887,838
Cash and cash equivalents, end of year	$ 1,214,185	$ 2,182,258

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Organization: Team San Jose, Inc. was formed in December 2003 in response to a request for proposal by the City of San Jose (the City) for the management and operations of the convention center, which was formerly managed by the City's Department of Convention, Arts and Entertainment. 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. The reserve is the minimum of one month's operating expenses. As of June 30, 2013, $461,864 had been set aside as a specific reserve for use during the year ended June 30, 2014. Similarly, as of June 30, 2014, $427,397 had been specifically set aside for use for year ending June 30, 2015.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk: Financial instruments which may potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The federally insured limit is $250,000. As of June 30, 2014 and 2013, the Organization had approximately $665,000 and $1,432,000, 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.

Revenue Recognition: The Organization recognizes revenue from the following sources:

City of San Jose: The Organization receives a majority of its revenues from the City of San Jose. The Organization had an agreement with the City of San Jose effective January 1, 2012 through June 30, 2014. Under the agreement, payments were made to the Organization based upon the budget as approved by the City of San Jose. Revenues were recognized based upon the approved budget over the contract year. This agreement has been extended through June 30, 2019.

Management and Incentive Fees: Per an agreement with the City of San Jose noted above, the Organization receives two fees (an executive management fee and an incentive fee) from the City of San Jose to operate the San Jose McEnery Convention Center. Under the Organization's agreement, a fixed management fee is paid to the Organization based upon the Organization's budget as approved by the City of San Jose, with additional incentive fees paid based on the Organization's performance in the prior year. The executive management fee and incentive fees are recorded as revenue and recognized based upon the approved budget evenly over the fiscal year. The executive management fee amounted to $150,000 during the years ended June 30, 2014 and 2013. The incentive fee amounted to $350,000 during the year ended June 30, 2014. For the year ended June 30, 2013, the Organization did not qualify to receive an incentive fee.

Sponsorship: Sponsorship relates to a one-time source of revenue earned from companies who sponsored the grand opening gala of the convention center expansion and renovation.

Convention and Visitors Services: Convention and visitors services 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.

Donated Products and Services: 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, 2014 and 2013, the Organization received free use of its facilities from the City of San Jose. The Organization has valued the use of the facilities at $7,794 per month and has recorded it in donated products and services.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Investments: 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 value 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 $4,393 and $144 as of June 30, 2014 and 2013, respectively.

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, 2014 and 2013, depreciation expense was $3,291 and $5,453, respectively.

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 2010 and forward remain subject to examination by the Internal Revenue Service. The Organization's California income tax returns for the tax years 2009 and forward remain subject to examination by the Franchise Tax Board.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Organization did not have unrecognized tax benefits as of June 30, 2014 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, 2014, 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 $770,731 and $586,024 for the years ended June 30, 2014 and 2013, 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.

Reclassification: 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.

Subsequent Events: ASC 85-10-05, *Subsequent Events,* requires additional disclosure for events or transactions that occur after the balance sheet date. The Organization has no material subsequent events as of January 8, 2015. The Organization has not evaluated subsequent events after this date in the statements presented.

NOTE B - INVESTMENTS

Investments consist of the following:

	2014	2013
Money Market mutual funds	$ 457,425	$ 457,233
Partnership interest in TSJ Events, LLC	5,000	5,000
	$ 462,425	$ 462,233

These investments are unrestricted. Investment return is classified as unrestricted in the statement of activities and changes in net assets.

NOTE B - INVESTMENTS (CONTINUED)

The following schedule summarizes the investment return:

	2014	2013
Interest income	$ 727	$ 1,337
Realized and unrealized loss	(92)	(34)
	$ 635	$ 1,303

There was no investment expense related to the above investments for the years ended June 30, 2014 and 2013.

NOTE C - ACCRUED EXPENSES

Accrued expenses consist of the following:

	2014	2013
Vacation	$ 206,617	$ 279,743
Employee incentives	309,153	213,467
Other	26,235	49,036
	$ 542,005	$ 542,246

NOTE D - COMMITMENTS

The Organization leases certain office equipment under non-cancelable operating lease agreements that periodically expire through the year ending June 30, 2017. Future minimum lease payments for all leases are as follows:

2015	$ 24,617
2016	18,590
2017	3,571
	$ 46,778

The Organization occupied a building owned by the City of San Jose, for which the Organization was not charged rent through 2014. The fair market value of the free rent has been valued at $93,528 and $83,136 for the years ended June 30, 2014 and 2013, respectively, and has been recorded in donated products and services revenue and expense.

NOTE D - COMMITMENTS (CONTINUED)

Committed subsidies represent amounts which the Organization has committed for certain outside events that will occur between 2013 and 2021. Subsidies will be paid using future operating funds. The Organization has committed approximately $395,000 and $324,800 for these events for the years ended June 30, 2014 and 2013, respectively. These balances have not been accrued for the years ended June 30, 2014 and 2013 and will be expensed when the event occurs.

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 $106,000 and $86,000 for the years ended June 30, 2014 and 2013, respectively.

NOTE F - RELATED PARTY TRANSACTIONS

San Jose Hotels, Inc:

The Organization provides accounting and other administrative services to San Jose Hotels, Inc. (SJHI), a related party. During the years ended June 30, 2014 and 2013, the Organization charged SJHI $25,395 and $29,064, respectively, for administrative services. The Organization is reimbursed for certain direct costs incurred. Additionally, the Organization recorded approximately $288,000 of sponsorship revenue and convention, marketing and promotion expense related to promotional expenses incurred and paid by SJHI benefitting the Organization. The Organization has receivables from SJHI in the amounts of $26,827 and $35,886 as of June 30, 2014 and 2013, respectively. In addition, the Organization had payables to SJHI in the amount of $193 and $76 as of June 30, 2014 and 2013, respectively.

Team San Jose Convention & Cultural Facilities:

The Organization provides marketing, promotional, sales support, and destination planning services to Team San Jose Convention & Cultural Facilities (CCF), an affiliated activity. The expense reimbursement totaled $401,144 and $409,622 for the years ended June 30, 2014 and 2013, respectively. The Organization has receivables from CCF in the amounts of $210,251 and $36,301 as of June 30, 2014 and 2013, respectively, related to the reimbursement of wages and related expenses for services provided to CCF. The total wage reimbursement equaled $315,933 and $264,073 for the years ended June 30, 2014 and 2013, respectively. Additionally, the Organization collects ticket proceeds on behalf of CCF, which is recorded as a related party payable. The Organization has payables to CCF in the amount of $54,203 and $626,015 as of June 30, 2014 and 2013, respectively, primarily related to ticket proceeds collected.

NOTE F - RELATED PARTY TRANSACTIONS (CONTINUED)

TSJ EVENTS, LLC:
On March 19, 2009, the Organization established TSJ Events, LLC to provide food and beverages at convention center events. The Organization is the only member of TSJ Events, LLC, and, as such, has controlling interest in the operations of the entity. The Chief Operating Officer of the Organization has been designated as the manager of TSJ Events, LLC. TSJ Events, LLC is blended with CCF as its sole purpose is to provide a vehicle for licensing CCF's liquor sales. Per the Operating Agreement between the Organization and TSJ Events, LLC, all revenue and expenses from activities performed by TSJ Events, LLC are allocated to CCF. The Organization reimburses TSJ Events, LLC for services provided in connection with food and beverage services during events. The Organization has payables to TSJ Events, LLC in the amount of $2,573 and $21,823 as of June 30, 2014 and 2013, respectively. The total amount reimbursed was $13,224 and $86,653 for the years ended June 30, 2014 and 2013, 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.

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, 2014:

Money market funds: Valued at quoted prices in active markets for identical assets as of June 30, 2014 and 2013.

Partnership interest in TSJ Events, LLC: Valued at cost as of June 30, 2014 and 2013 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, 2014.

	Level 1	Level 2	Level 3	Total
Money market funds	$ 457,425	$ -	$ -	$ 457,425
Partnership interest in TSJ Events, LLC	-	-	5,000	5,000
	$ 457,425	$ -	$ 5,000	$ 462,425

The Organization's level 3 assets for the year ended June 30, 2014 did not change from the balance at June 30, 2013.

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, 2013.

	Level 1	Level 2	Level 3	Total
Money market funds	$ 457,233	$ -	$ -	$ 457,233
Partnership interest in TSJ Events, LLC	-	-	5,000	5,000
	$ 457,233	$ -	$ 5,000	$ 462,233

The Organization's level 3 assets for the year ended June 30, 2013 did not change from the balance at June 30, 2012.

For the year ended June 30, 2013, transfers out of Level 2 were made as a result of sales of certificates of deposit subsequently deposited into money market fund accounts.