

SAN JOSE CONVENTION & VISITORS BUREAU

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

SAN JOSE CONVENTION & VISITORS BUREAU

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PETRINOVICH PUGH & COMPANY, LLP
Certified Public Accountants & 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, 2007 and 2006 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, 2007 and 2006 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
September 27, 2007

SAN JOSE CONVENTION & VISITORS BUREAU

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2007 AND 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 781,484	\$ 739,050
Marketable securities	684,865	413,770
Accounts receivable, net of allowance for doubtful accounts of \$29,296 and \$35,806, respectively	279,716	84,001
Other receivables	31,418	39,950
Inventories	-	14,976
Prepaid expenses	46,661	40,326
Total current assets	<u>1,824,144</u>	<u>1,332,073</u>
Property and equipment:		
Property and equipment	292,284	280,897
Computer equipment	155,203	92,835
	<u>447,487</u>	<u>373,732</u>
Less accumulated depreciation	(276,200)	(236,541)
Net furniture and equipment	<u>171,287</u>	<u>137,191</u>
Security deposits	<u>3,448</u>	<u>1,711</u>
Total assets	<u>\$ 1,998,879</u>	<u>\$ 1,470,975</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 230,803	\$ 123,739
Accrued expenses	52,050	10,139
Accrued bonuses	369,716	252,619
Accrued vacation	139,685	118,747
Customer deposits	1,000	1,400
Deferred revenues	158,031	171,412
Current portion of capital lease obligations	24,206	47,689
Total current liabilities	<u>975,491</u>	<u>725,745</u>
Capital lease obligations, less current portion	44,653	10,806
Net assets:		
Unrestricted:		
Undesignated	459,174	276,803
Board designated	519,561	457,621
Total unrestricted net assets	<u>978,735</u>	<u>734,424</u>
Total liabilities and net assets	<u>\$ 1,998,879</u>	<u>\$ 1,470,975</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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
City of San Jose	\$ 5,452,740	\$ 4,669,116
Convention services	481,591	377,911
Membership	160,420	141,325
Visitor services	61,379	106,880
Interest	21,095	12,112
Revenues before donated products and services	<u>6,177,225</u>	<u>5,307,344</u>
Donated products and services	94,836	94,863
Total revenues	<u>6,272,061</u>	<u>5,402,207</u>
Expenses:		
Convention marketing and promotion	3,575,652	3,448,418
General and administrative	1,887,083	1,466,069
Convention services	260,625	215,875
Visitor services	194,034	234,143
Public affairs	10,214	21,482
Interest	5,306	9,015
Loss on abandonment of computer software	-	13,565
Membership	-	12,000
Expenses before donated products and services	<u>5,932,914</u>	<u>5,420,567</u>
Donated products and services	94,836	94,863
Total expenses	<u>6,027,750</u>	<u>5,515,430</u>
Total increase (decrease) in net assets	244,311	(113,223)
Net assets, beginning of year	<u>734,424</u>	<u>847,647</u>
Net assets, end of year	<u>\$ 978,735</u>	<u>\$ 734,424</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, 2007 AND 2006

	2007	2006
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 244,311	\$ (113,223)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	39,659	39,825
Allowance for doubtful accounts	(5,712)	798
Loss on abandonment of computer software	-	13,565
Changes in certain current assets and liabilities:		
Accounts receivable	(190,003)	114,662
Other receivables	8,532	(850)
Inventories	14,976	20,958
Prepaid expenses	(6,335)	(4,954)
Accounts payable	107,064	(124,183)
Accrued expenses	41,911	(31,926)
Accrued bonuses	117,097	40,955
Accrued vacation	20,938	18,128
Customer deposits	(400)	400
Deferred revenues	(13,381)	65,146
Net cash provided by operating activities	378,657	39,301
Cash flows from investing activities:		
(Purchases) disposition of marketable securities, net	(271,095)	137,962
Purchases of furniture and equipment	(11,388)	(33,951)
Increase in security deposits	(1,737)	-
Net cash (used for) provided by investing activities	(284,220)	104,011
Cash flows from financing activities:		
Principal payments on capital lease obligations	(52,003)	(43,330)
Net cash used for financing activities	(52,003)	(43,330)
Net increase in cash and cash equivalents	42,434	99,982
Cash and cash equivalents, beginning of year	739,050	639,068
Cash and cash equivalents, end of year	\$ 781,484	\$ 739,050

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, 2007 AND 2006

Supplemental disclosure of cash flow information:

	<u>2007</u>	<u>2006</u>
Cash paid during the year for interest on capital lease obligations	<u>\$ 6,451</u>	<u>\$ 9,295</u>

Supplemental disclosures of non-cash flow information:

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

During the year ended June 30, 2006, the Bureau transferred projects in progress in the amount of \$14,677 to office furniture and fixtures.

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

SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

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, 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, 2006, \$78,000 had been set aside as a specific reserve for use during the year ended June 30, 2007. During the year ended June 30, 2007, this reserve has not been utilized. Similarly, as of June 30, 2007, \$66,000 has been specifically set aside for use for year ending June 30, 2008.

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.

SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

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, 2007 and 2006, the Bureau received rent 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, 2007 and 2006, 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, 2007 and 2006, the Bureau had approximately \$681,000 and \$639,000 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 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.

SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories: Inventories consist of promotional items for the City of San Jose and are stated at the lower of cost, determined by the first-in, first-out method, or market. During the year ended June 30, 2007, the Bureau changed its accounting method for inventories whereby they are charged to expense when purchased. The change in the accounting method did not have a material effect on the financial statements.

Furniture and Equipment: Furniture 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 furniture and equipment are capitalized. Maintenance, repairs and minor replacements are charged to operations as incurred. For the years ended June 30, 2007 and 2006, depreciation expense was \$39,659 and \$39,825, 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 year ended June 30, 2007, there was no impairment related loss recorded. During the year ended June 30, 2006, in conjunction with the implementation of new computer software, the Bureau recognized a loss on the abandonment of the prior software program in the amount of approximately \$14,000.

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.

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 \$168,000 and \$316,000 for the years ended June 30, 2007 and 2006, 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.

SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE B - MARKETABLE SECURITIES

As of June 30, 2007 and 2006, marketable securities consisted primarily of money market mutual funds, valued at cost, which approximated fair market value. Included in marketable securities at June 30, 2007 and 2006 is commercial paper with a face amount of \$50,000 that is recorded at its fair market value of \$45,040 and \$42,900, respectively.

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 computers and office equipment under non-cancelable capital lease agreements that bear interest between 9% and 15% and expire on various dates through February 28, 2011. Future minimum lease payments for all leases at June 30, 2007 are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2008	\$ 30,684	\$ 57,415
2009	19,653	35,354
2010	19,653	23,195
2011	<u>13,102</u>	<u>-</u>
	83,092	<u>\$ 115,964</u>
Amounts representing interest	<u>(14,233)</u>	
Present value of net minimum lease payments	68,859	
Less current portion	<u>(24,206)</u>	
	<u>\$ 44,653</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, 2007 and 2006 and has been recorded in donated products and services revenue and expense. Rent expenses charged to operations were approximately \$54,000 and \$28,000 for the years ended June 30, 2007 and 2006, respectively.

SAN JOSE CONVENTION & VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE C - COMMITMENTS (CONTINUED)

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

	<u>2007</u>	<u>2006</u>
Equipment	\$ 123,961	\$ 61,593
Less accumulated depreciation	<u>(68,686)</u>	<u>(43,893)</u>
	<u>\$ 55,275</u>	<u>\$ 17,700</u>

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 6 months of service. The Plan provides for the Bureau to make matching or discretionary contributions. The Bureau's contributions were approximately \$82,300 and \$90,700 for the years ended June 30, 2007 and 2006, respectively.

NOTE E - RELATED PARTY TRANSACTIONS

The City of San Jose and Team San Jose, Inc. (TSJ) 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 years ended June 30, 2007 and 2006, the Bureau charged TSJ \$0 and \$3,155, respectively, for administrative services. The Bureau has a receivable from TSJ in the amount of \$4,644 as of June 30, 2007 which is included in other receivable.

The Bureau also provides accounting and other administrative services to San Jose Hotels, Inc. (SJHI). The Bureau is reimbursed for direct costs incurred, but is not reimbursed for staff time. During the years ended June 30, 2007 and 2006, the Bureau charged SJHI \$24,000 and nothing, respectively, for administrative services. During the years ended June 30, 2007 and 2006, the Bureau has a receivable from SJHI in the amount of \$26,090 and \$33,268, respectively, which is included in other receivables.