

TEAM SAN JOSE

Independent Auditor's Report and
Financial Statements
For the Years Ended June 30, 2024 and 2023

TEAM SAN JOSE
For the Years Ended June 30, 2024 and 2023

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Team San Jose, which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Team San Jose as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Team San Jose and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Team San Jose's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Team San Jose's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Team San Jose's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Team San Jose's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Macias Gini & O'Connell LLP

Walnut Creek, California

September 26, 2024

TEAM SAN JOSE
Statements of Financial Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,581,820	\$ 1,251,265
Restricted cash	778,600	1,991,081
Accounts receivable	475	-
Prepaid expenses	193,418	193,507
Inventory	9,768	10,395
Related party receivable	1,578,733	2,070,093
Total current assets	4,142,814	5,516,341
Property and equipment, net	2,117	3,221
Total assets	<u>\$ 4,144,931</u>	<u>\$ 5,519,562</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 492,698	\$ 8,892
Accrued expenses and other current liabilities	958,230	861,225
Accounts payable - event related	778,600	1,991,081
Total liabilities	2,229,528	2,861,198
Net Assets		
Without donor restrictions:		
Undesignated	1,328,281	2,004,902
Board designated	587,122	653,462
Total net assets	1,915,403	2,658,364
Total liabilities and net assets	<u>\$ 4,144,931</u>	<u>\$ 5,519,562</u>

See accompanying notes to the financial statements.

TEAM SAN JOSE
Statements of Activities
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Revenues and Support:		
City of San Jose:		
Convention and visitors bureau services revenue	\$ 6,046,707	\$ 6,259,324
Incentive fees	250,000	250,000
Donated use of facilities	177,204	168,707
Convention services	10,490	13,785
Visitor services	152,799	174,030
Administrative fees	24,000	24,000
Investment income, net	4,005	2,578
Total revenues and support	<u>6,665,205</u>	<u>6,892,424</u>
Expenses:		
Program services:		
Convention marketing and promotion	2,196,084	1,826,903
Convention services	222,290	204,068
Support services:		
General and administrative	2,823,411	2,333,229
Sales and management services	2,166,381	1,540,093
Total expenses	<u>7,408,166</u>	<u>5,904,293</u>
Change in Net Assets	(742,961)	988,131
Net Assets:		
Net assets without donor restrictions, beginning of year	<u>2,658,364</u>	<u>1,670,233</u>
Net assets without donor restrictions, end of year	<u>\$ 1,915,403</u>	<u>\$ 2,658,364</u>

See accompanying notes to the financial statements.

TEAM SAN JOSE
Statement of Functional Expenses
For the Year Ended June 30, 2024

	Program Services		Support Services		
	Convention Marketing and Promotion	Convention Services	General and Administrative	Sales and Management Services	Total
Salaries and Benefits	\$ 266,782	\$ 152,566	\$ 2,177,754	\$ 1,878,164	\$ 4,475,266
Cost of Sales	-	64,780	-	-	64,780
Advertising	463,088	-	-	-	463,088
Community Service and Brochures	2,493	-	-	-	2,493
Marketing	1,362,915	-	60,500	71,407	1,494,822
Promotional/Other S&M	628	-	-	35,000	35,628
Professional Services	-	-	68,790	12,000	80,790
Telephone	4,140	4,944	12,759	11,132	32,975
Travel Expense	48,317	-	62,799	128,670	239,786
Recruiting and Training	3,667	-	14,774	-	18,441
Office Expenses and Supplies	1,667	-	88,068	6,171	95,906
Donated use of Facilities	-	-	177,204	-	177,204
Dues & Subscription	42,387	-	105,911	23,837	172,135
Depreciation Expense	-	-	1,104	-	1,104
Insurance Expense	-	-	31,364	-	31,364
Other Expense	-	-	22,384	-	22,384
Total expenses	<u>\$ 2,196,084</u>	<u>\$ 222,290</u>	<u>\$ 2,823,411</u>	<u>\$ 2,166,381</u>	<u>\$ 7,408,166</u>
Percent of Expenses	<u>30%</u>	<u>3%</u>	<u>38%</u>	<u>29%</u>	<u>100%</u>

See accompanying notes to the financial statements.

TEAM SAN JOSE
Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program Services		Support Services		
	Convention Marketing and Promotion	Convention Services	General and Administrative	Sales and Management Services	Total
Salaries and Benefits	\$ 95,705	\$ 116,650	\$ 1,764,940	\$ 1,305,787	\$ 3,283,082
Cost of Sales	-	84,075	-	-	84,075
Advertising	371,025	-	-	-	371,025
Community Service and Brochures	12,915	-	-	-	12,915
Marketing	1,226,908	-	55,000	57,028	1,338,936
Promotional/Other S&M	-	-	-	21,424	21,424
Professional Services	-	-	80,278	11,000	91,278
Telephone	2,797	3,343	16,505	12,044	34,689
Travel Expense	29,501	-	36,615	113,767	179,883
Recruiting and Training	541	-	49	302	892
Office Expenses and Supplies	2,183	-	84,551	3,510	90,244
Donated use of Facilities	-	-	168,707	-	168,707
Dues & Subscription	85,124	-	71,339	15,222	171,685
Depreciation Expense	-	-	2,092	-	2,092
Insurance Expense	-	-	24,774	-	24,774
Other Expense	204	-	28,379	9	28,592
Total expenses	<u>\$ 1,826,903</u>	<u>\$ 204,068</u>	<u>\$ 2,333,229</u>	<u>\$ 1,540,093</u>	<u>\$ 5,904,293</u>
Percent of Expenses	<u>31%</u>	<u>3%</u>	<u>40%</u>	<u>26%</u>	<u>100%</u>

See accompanying notes to the financial statements.

TEAM SAN JOSE
Statements of Cash Flows
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Change in net assets	\$ (742,961)	\$ 988,131
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	1,104	2,092
Change in operating assets and liabilities		
Accounts Receivable	(475)	38,800
Prepaid expenses	89	(22,052)
Inventory	627	1,505
Related party receivable	491,360	(1,760,191)
Accounts payable	483,806	(18,545)
Accrued expenses and other current liabilities	97,005	(155,957)
Deferred revenue	-	(43,000)
Accounts payable - event related	(1,212,481)	870,736
Net cash used in operating activities	<u>(881,926)</u>	<u>(98,481)</u>
Net decrease in cash, cash equivalents and restricted cash	(881,926)	(98,481)
Cash, cash equivalents and restricted cash, beginning of year	<u>3,242,346</u>	<u>3,340,827</u>
Cash, cash equivalents and restricted cash, end of year	<u><u>\$ 2,360,420</u></u>	<u><u>\$ 3,242,346</u></u>
Cash and cash equivalents	\$ 1,581,820	\$ 1,251,265
Restricted cash	<u>778,600</u>	<u>1,991,081</u>
Total cash, cash equivalents and restricted cash	<u><u>\$ 2,360,420</u></u>	<u><u>\$ 3,242,346</u></u>

See accompanying notes to the financial statements.

TEAM SAN JOSE
Notes to the Financial Statements
For the Years Ended June 30, 2024 and 2023

NOTE 1 – NATURE OF ACTIVITIES

Team San Jose (the Organization) was formed in December 2003 in response to a request for proposal by the City of San José (the City) for the management and operations of the convention center. The Organization is incorporated as a nonprofit corporation in the state of California to advertise, promote, and publicize San José, California as a site for meetings, conventions, conferences, trade shows, and other events at the City's facilities and area hotels in a manner that results in a positive economic impact for the City. The Organization promotes the City as a destination for business and leisure travel.

The Organization participates in and coordinates activities with the City's Office of Economic Development and other City agencies related to the branding of the City for the purpose of local, national, and international identity. The Organization also manages a Convention and Visitor Bureau (CVB) Advisory Group with other organizations that support economic development, communications, and marketing in the City in order to develop and provide input and suggestions that support and cross-promote San José as a destination. Under an agreement with the City, certain expenditures made by the Organization in connection with its activities are reimbursed by the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization segregates its assets, liabilities and operations into two categories: without donor restrictions and with donor restrictions. The Organization's net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions consist of net assets for which there are no donor-imposed restrictions, or such donor-imposed restrictions were temporary and expired during the current or previous periods.

Net assets with donor restriction consist of amounts receivable or received that are restricted for specific purposes or for subsequent periods. Some contributions received from donors are required to be maintained in perpetuity, while others expire over time or when the donor-imposed restrictions are satisfied. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction.

Undesignated Net Assets

Undesignated net assets are the cumulative excess of revenues and support over expenses since the inception of the Organization, unless designated by the Board of Directors (the Board).

TEAM SAN JOSE
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Board Designated Net Assets

Board designated net assets are net assets without donor restrictions and designated by the Board as a reserve for unexpected changes in the economy, contracts, or specific projects. The reserve is the minimum of one month's operating expenses based on next year's budgeted operating expenses. The Board designated net assets at June 30, 2024 and 2023, were \$587,122 and \$653,462, respectively.

Revenue Recognition

The Organization determines revenue recognition for its revenue-generating activities in accordance with accounting principles generally accepted in the United States of America. Those standards require the Organization apply the following steps:

- Identification of the contract or agreement with a grantor or customer
- Identification of the performance obligations in the contract or agreement
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract or agreement
- Recognition of revenues when, or as, the Organization satisfies a performance obligation

The Organization receives a majority of its revenues and support from the City. The Organization has a convention and visitors bureau services agreement (the Agreement) with the City, effective through June 30, 2029. Under the Agreement, payments are made to the Organization based upon its annual operating budget approved by the City. Revenues were recognized based upon the approved budget over the contract years presented.

Under a separate management agreement with the City, the Organization receives incentive fees from the City to operate the San José McEnery Convention Center, the City's cultural facilities and the San José Visitors Bureau. Under the Organization's agreement, incentive fees paid are based on the Organization's performance in the prior year. Incentive fees were \$250,000 for the years ended June 30, 2024 and 2023.

Convention and visitor services revenues include rental and registration services. The revenues are recognized when the services are provided.

Membership fees, which are included in visitor services revenue, are recognized as revenue ratably over the period of the membership. Deferred revenue is a contract liability consisting of membership dues billed or paid but not recognized as revenues.

TEAM SAN JOSE
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Nonfinancial Assets

The Organization may receive various donated products and services in connection with providing services to its members. Donated products and services are recorded at their estimated fair value. During the year ended June 30, 2024 and 2023, there were no donated products and services provided to the Organization.

The Organization receives free use of its facilities from the City, which is recorded as donated use of facilities. The Agreement with the City provides the Organization with office space and equipment to enable it to perform its obligations. The Organization occupied a building owned by the City, for which it had not been charged rent. The terms for the office space used may be revised or canceled by the City during the term of the Agreement. Therefore, the Organization recorded the fair value of the free rent received. For the year ended June 30, 2024 and 2023, the Organization recognized the fair value of contributed use of the City's facilities in the amount of \$177,204 and \$168,707, respectively. Fair value is based on the fair market price of a similar office space owned and leased out by the City.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of revenues, support and expenses in the financial statements and related notes. Actual results could differ from those estimates.

Cash Equivalents

The Organization considers all short-term, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2024 and 2023, the Organization did not have any cash equivalents.

Restricted Cash

Restricted cash consists of prepaid ticket sales collected on behalf of other organizations for which there is an offsetting liability on the statement of financial position. Restricted cash at June 30, 2024 and 2023 were \$778,600 and \$1,991,081, respectively.

Investments and Investment Income

Investments are reported at fair value based on quoted market prices. Investment income is recorded on the accrual method of accounting and dividends are recorded at the ex-dividend date. Unrealized gains and losses are included in investment income. At June 30, 2024 and 2023, the Organization did not have any investments.

TEAM SAN JOSE
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist primarily of cash, cash equivalents, investments, and accounts receivable. The Organization maintains its cash with three major financial institutions. The Federal Deposit Insurance Corporation insures deposits up to \$250,000 at each institution. The Organization is exposed to credit risk in the event of default by the domestic financial institution to the extent cash are in excess of the amount insured. Cash totaling \$1,865,153 and \$2,620,070 are uninsured at June 30, 2024 and 2023, respectively. The Organization's cash, cash equivalents and investments are managed by the Organization's Board of Directors and Finance Committee.

The Organization estimates the collectability of its accounts receivable based on payment due dates and provides an allowance for potential credit losses as necessary. Historically, such losses have been within management's expectations.

Property and Equipment

The Organization capitalizes property and equipment acquisitions over \$5,000. Property and equipment are stated at cost and depreciated over the estimated useful life between three and five years using the straight-line method. Leasehold improvements are amortized over their estimated useful life of 15 years using the straight-line method.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and state franchise taxes under Section 23701d of the California Revenue and Taxation Code.

The Organization uses the "more likely than not" criterion for recognizing the income tax benefit of its income tax exempt status and establishing measurement criteria for liabilities resulting from the loss of that status. The Organization believes its income tax filing positions will be sustained upon examination and, accordingly, has not recorded any accruals for interest and penalties at June 30, 2024 and 2023 for uncertain income tax positions. In the event the Organization should need to recognize interest and penalties related to unrecognized tax liabilities, this amount will be recorded as an accrued liability and an increase to income tax expense.

Although the Organization is recognized as tax exempt, it is still liable for income tax on its unrelated business taxable income (UBTI). The Organization does not believe it has UBTI that would have resulted in an income tax liability at June 30, 2024 and 2023.

The Organization's federal exempt organization business income tax return (Form 990) is subject to examination, generally for three years after it is filed with the Internal Revenue Service. The Organization's California exempt organization business income tax return is subject to examination, generally for four years after it is filed with the Franchise Tax Board.

TEAM SAN JOSE
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising, Marketing and Promotions

Advertising and marketing expenses consist of collateral, brochures, promotional materials and special promotions. The Organization expenses advertising and marketing costs as incurred. Advertising and marketing expenses were \$1,957,910 and \$1,709,961 for the years ended June 30, 2024 and 2023, respectively.

Statements of Functional Expenses

The costs of providing the Organization's various programs and services have been summarized on a functional basis in the statements of functional expenses. Direct expenses are allocated to the related program or service benefited. Indirect expenses are allocated to programs and services based on operating expenses incurred and management's estimates of time and effort. The expenses allocated include personnel, dues and subscriptions, and marketing costs.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The table below represents assets available for general expenses within twelve months at June 30:

	2024	2023
Cash and cash equivalents	\$ 1,581,820	\$ 1,251,265
Accounts receivable	475	-
Related party receivable	1,578,733	2,070,093
Total	<u>\$ 3,161,028</u>	<u>\$ 3,321,358</u>

The Organization monitors liquidity and the availability of its resources on an ongoing basis to ensure adherence to donor restrictions, contractual commitments and legal requirements for the use of funds.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2024	2023
Computers and equipment	\$ 203,151	\$ 203,151
Furniture and fixtures	90,245	90,245
Leasehold improvements	24,509	24,509
Total	317,905	317,905
Accumulated depreciation and amortization	(315,788)	(314,684)
Property and equipment, net	<u>\$ 2,117</u>	<u>\$ 3,221</u>

TEAM SAN JOSE
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Indemnification Agreements

Pursuant to the Agreement with the City, the Organization defends, indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the City, its officers, agents and employees, with respect to its services under the Agreement. The term of the indemnifications is generally perpetual any time after execution of the Agreement. The maximum potential amount of future payments the Organization could be required to make under the indemnifications is unlimited. The Organization has never incurred costs to defend lawsuits or settle claims related to the indemnification agreements. As a result, the Organization believes the estimated fair value of potential indemnification obligations is minimal at June 30, 2024 and 2023.

The Organization also indemnifies its officers, directors, employees and other agents for certain events or occurrences, subject to certain limits, while the individuals are or were serving at its request in such capacity. The term of the indemnification period is for the individual's lifetime. The maximum amount of potential future indemnification is unlimited; however, the Organization has a director and officer insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Organization believes the fair value of potential indemnification obligations is minimal.

Legal

In the normal course of business, the Organization may receive inquiries or become involved in legal disputes that are not covered by insurance. The Organization is not aware of any legal claims at June 30, 2024 and 2023, in the opinion of management, any liabilities resulting from potential future claims would not have a material adverse effect on the Organization's financial position or results of operations.

NOTE 6 – EMPLOYEE RETIREMENT PLAN

The Organization has a 401(k) plan (the Plan) to provide defined contribution retirement benefits for all employees meeting certain employment service requirements. Participants may contribute a portion of their compensation to the Plan, up to a prescribed maximum, subject to limitations under the Code. The Organization may make matching or discretionary contributions. The Organization's contributions were \$139,391 and \$113,884 for the years ended June 30, 2024 and 2023, respectively.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Organization provides accounting and other administrative services to San Jose Hotels, Inc. (SJHI), a related party. The Organization charged SJHI \$24,000 for the years ended June 30, 2024 and 2023 for the administrative services. The Organization is also reimbursed for certain direct costs incurred. The Organization has a receivable from SJHI of \$14,219 and \$1,266 as of June 30, 2024 and 2023, respectively.

The Organization provides accounting and other administrative services to the Convention and Cultural Facilities (CCF), a related party. In addition, the City has an agreed upon resource allocation between the Organization and CCF. The Organization had net allocation expenses of (\$1,150,360) and (\$1,046,068) for the years ended June 30, 2024 and 2023, respectively. The Organization is also reimbursed for certain direct costs incurred. The Organization has a net receivable from CCF of \$71,807 and \$6,503 as of June 30, 2024 and 2023, respectively.

TEAM SAN JOSE
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

NOTE 7 – RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to incentive fees and donated use of facilities, in accordance with the Agreement, the Organization receives contributions from the City for operations. The contributions from the City were \$6,046,707 and \$6,259,324, respectively, for the year ended June 30, 2024 and 2023. The Organization has a net receivable from the City of \$1,492,707 and \$2,062,324 as of June 30, 2024 and 2023, respectively.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 26, 2024, which is the date the financial statements were approved by the Organization and available to be issued.