

SAN JOSE HOTELS, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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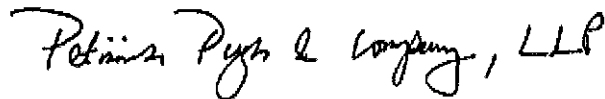
INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Jose Hotels, Inc.
San Jose, California

We have audited the accompanying statements of financial position of the San Jose Hotels, Inc. as of June 30, 2008 and 2007 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the San Jose Hotels, Inc. 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 audit 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 Hotels, Inc. as of June 30, 2008 and 2007 and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



Petrinovich Pugh & Company, LLP

San Jose, California
October 31, 2008

SAN JOSE HOTELS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 1,017,027	\$ 296,256
Accounts receivable	558,560	404,038
Other receivable	29,759	-
Prepaid expenses	<u>26,253</u>	<u>144,930</u>
Total current assets	1,631,599	845,224
Investment securities	942,153	964,524
Furniture and equipment, net	<u>48,098</u>	<u>-</u>
	<u>\$ 2,621,850</u>	<u>\$ 1,809,748</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 76,861	\$ 59,950
Other payable	17,000	21,840
Accrued expenses	<u>9,958</u>	<u>5,973</u>
Total current liabilities	103,819	87,763
Net assets:		
Unrestricted:		
Operating funds	1,234,556	498,965
Board designated	<u>1,283,475</u>	<u>1,223,020</u>
Total unrestricted net assets	<u>2,518,031</u>	<u>1,721,985</u>
	<u>\$ 2,621,850</u>	<u>\$ 1,809,748</u>

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

SAN JOSE HOTELS, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Revenues:		
Room fees	\$ 1,960,970	\$ 1,950,862
Interest	41,191	14
Unrealized gain on investments	20,586	-
Total revenues	<u>2,022,747</u>	<u>1,950,876</u>
Expenses:		
Promotions	858,944	764,141
Sponsorships	292,720	15,000
General and administrative	75,037	51,293
Interest	-	3,234
Total expenses	<u>1,226,701</u>	<u>833,668</u>
Total increase in net assets	796,046	1,117,208
Net assets, beginning of year	<u>1,721,985</u>	<u>604,777</u>
Net assets, end of year	<u>\$ 2,518,031</u>	<u>\$ 1,721,985</u>

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

SAN JOSE HOTELS, INC.

STATEMENTS OF CASH FLOWS

JUNE 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Increase in net assets	\$ 796,046	\$ 1,117,208
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	9,520	-
Unrealized gain on investments	(20,586)	-
Changes in certain assets and liabilities		
Accounts receivable	(154,522)	244,372
Other receivable	(29,759)	-
Prepaid expenses	118,677	(144,930)
Accounts payable	16,911	59,950
Other payable	(4,840)	21,840
Accrued expenses	3,985	(37,660)
Net cash provided by operating activities	735,432	1,260,780
Cash flows from investing activities:		
Proceeds from sale of investments	144,000	-
Purchases of investments	(101,043)	(964,524)
Purchases of furniture and equipment	(57,618)	-
Net cash used for investing activities	(14,661)	(964,524)
Net increase in cash and cash equivalents	720,771	296,256
Cash and cash equivalents, beginning of year	296,256	-
Cash and cash equivalents, end of year	\$ 1,017,027	\$ 296,256

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

SAN JOSE HOTELS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Organization: San Jose Hotels, Inc. (SJHI) was organized and incorporated as a nonprofit entity in the state of California on November 1, 2005. SJHI was formed for the purpose of improving and promoting tourism in San Jose, California through the operation of a tourism business improvement district and the creation and operation of other tourism promotion activities.

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 SJHI's operations.

The SJHI 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 SJHI.

Board Designated Funds: Board designated funds are unrestricted net assets designated by the Board of Directors as a reserve for future sponsorships of events to be taken place in San Jose, California. Funds are considered to be board designated at the point in which the Board of Directors has approved a sponsorship and a contract has been signed with the client. As of June 30, 2008 and 2007, the Board had designated \$1,283,475 and \$1,223,020 respectively, for this purpose.

Cash and Cash Equivalents: For purposes of the statements of financial position and cash flows, SJHI considers all highly liquid debt instruments with insignificant interest rate risk and with maturities of less than ninety days to be cash equivalents.

Accounts Receivable: SJHI 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. As of June 30, 2008 and 2007, there has been no allowance for doubtful accounts, respectively.

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. Accumulated depreciation was \$9,520 and \$0 as of June 30, 2008 and 2007, respectively.

SAN JOSE HOTELS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities: The financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities and change in net assets.

Revenue Recognition – Hotel Business Improvement District/City of San Jose: On January 10, 2006, SJHI entered into an agreement (the Agreement) with the City of San Jose (the City). Under the Agreement, all hotels operating within the Hotel Business Improvement District (HBID) will be charged a flat fee per occupied room, per night. The fee ranges from \$0.75 to \$2.00 depending on the zone in which the hotel is located. The City handles the collection of the fees and administration of the HBID. Revenues are recognized upon collection of the fees by the hotels. The Agreement automatically renews when the City accepts the proposed budget from SJHI for each fiscal year. The Agreement is terminable with a ninety day written notice by either party.

Concentration of Credit Risk: Financial instruments that potentially subject SJHI to concentration of credit risk consist principally of cash and cash equivalents and accounts receivable. The SJHI has deposits with a financial institution in excess of \$100,000, the federally insured limit as of June 30, 2008 and 2007. (The federally insured limit temporarily increased from \$100,000 to \$250,000 effective October 3, 2008 through December 31, 2009.) Risk associated with cash and cash equivalents is mitigated by maintaining deposits with credit worthy financial institutions. As of June 30, 2008 and 2007, SJHI had approximately \$917,000 and \$196,000 respectively, in deposits in excess of the federally insured limit. Accounts receivable consist of amounts due from the City of San Jose. SJHI collections are only from hotels located in the hotel business improvement district in San Jose.

Advertising: Advertising expense consists of market research and branding, collateral, print and web advertising, brochures, promotional materials, participation in trade shows and special promotions, which include sales missions and familiarization trips to promote San Jose in other cities around the United States. SJHI follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was approximately \$859,000 and \$759,000 for the years ended June 30, 2008 and 2007, respectively.

Income Taxes: SJHI 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 HOTELS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE B - APPROVED SPONSORSHIPS

The Board of Directors of SJHI approved sponsorships and signed agreements for these future events as of June 30, 2008. These sponsorships have been reflected as board designated funds in the statement of financial position and will be accrued into the statement of activities at the event date as follows:

	<u>Amount</u>	<u>Event Date</u>
US Fencing Super National Championships	\$ 15,000	06/27/08 to 07/10/08
NVIDIA - NVISION 2008	90,000	08/22/08 to 08/28/08
Generation of Youth for Christ	33,600	12/17/08 to 12/22/08
Software Engineering Institute - SEPG Annual Conference	44,000	03/20/09 to 03/28/09
CMP Media - Embedded Systems Conference	40,000	03/27/09 to 04/04/09
Presbyterian Church - 2009 Big Tent Event	50,000	06/25/09 to 06/28/09
American Trucking Association	75,000	08/17/09 to 08/22/09
League of California Cities	35,000	09/16/09 to 09/18/09
Optical Society of America	38,225	05/13/10 to 05/21/10
Aglow International - 2010 Annual Conference	90,000	09/29/10 to 10/04/10
Armed Forces Communication & Electronic Association	80,000	10/28/10 to 11/04/10
Association for Molecular Pathology	83,050	11/16/10 to 11/21/10
FCRC: The ACM Federated Computing Research Conference	50,000	06/04/11 to 06/11/11
Cardinal Health	175,000	07/17/11 to 07/24/11
CA Association for Bilingual Education	24,000	02/28/12 to 03/05/12
American Telemedicine Association	80,000	04/26/12 to 05/01/12
Optical Society of America	25,000	05/04/12 to 05/11/12
Generation Youth Conference	33,600	12/18/12 to 12/23/12
California Park and Recreation Society	52,000	03/02/13 to 03/09/13
Word Science Fiction Society	50,000	08/27/13 to 09/02/13
Airports Council International - Annual Conference & Exposition	75,000	09/19/13 to 09/25/13
CA State PTA - PTA Annual Conference	<u>45,000</u>	04/25/17 to 04/30/17
	<u>\$1,283,475</u>	

SAN JOSE HOTELS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE B - APPROVED SPONSORSHIPS (CONTINUED)

The Board of Directors of SJHI approved sponsorships and signed agreements for these future events as of June 30, 2007. These sponsorships have been reflected as board designated funds in the statement of financial position and will be accrued into the statement of activities at the event date as follows:

	<u>Amount</u>	<u>Event Date</u>
US Taekwondo Union	\$ 50,000	07/08/07 to 07/17/07
United States Water Polo	15,000	07/27/07 to 08/05/07
USA Gymnastics	30,000	08/16/07 to 08/18/07
Rock and Roll Marathon 2007	75,000	10/11/07 to 10/14/07
Microsoft Office - 2008 System Developers Conference	40,000	02/09/08 to 02/13/08
Optical Society of America	24,000	05/01/08 to 05/09/08
US Fencing Super National Championships	15,000	06/27/08 to 07/10/08
North American Roller Hockey Championship	65,000	07/10/08 to 07/27/08
NVIDIA - NVISION 2008	75,000	08/22/08 to 08/28/08
Association for Supervision & Curriculum Development	45,000	10/23/08 to 10/27/08
Generation of Youth for Christ	33,600	12/17/08 to 12/22/08
Cardinal Health	100,000	07/16/09 to 07/24/09
American Trucking Association	35,000	08/17/09 to 08/22/09
League of California Cities	35,000	09/16/09 to 09/18/09
Professional Association of SQL Servers	35,000	11/15/09 to 11/20/09
National Intramural Recreational Sports Association	46,000	04/05/10 to 04/10/10
Optical Society of America	38,225	05/13/10 to 05/21/10
Association for Molecular Pathology	83,050	11/16/10 to 11/21/10
National Center for State Courts	110,000	09/11/11 to 09/16/11
CA Association for Bilingual Education	24,000	02/28/12 to 03/05/12
Optical Society of America	25,000	05/04/12 to 05/11/12
Aircraft Owners & Pilots Association	95,545	10/22/12 to 10/28/12
Generation Youth Conference	33,600	12/18/12 to 12/23/12
World Science Fiction Society	50,000	08/27/13 to 09/02/13
CA State PTA - PTA Annual Conference	<u>45,000</u>	04/25/17 to 04/30/17
	<u>\$1,223,020</u>	

SAN JOSE HOTELS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE C - INVESTMENT SECURITIES

Investment securities are stated at fair value and consist primarily of certificates of deposits and U.S. Treasury notes. Cost and fair values of investments at June 30, 2008 and 2007, are as follows:

<u>June 30, 2008</u>	<u>Cost</u>	<u>Unrealized Appreciation</u>	<u>Fair Value</u>
Certificate of deposits	\$ 606,056	\$ -	\$ 606,056
U.S. Treasury notes	<u>315,511</u>	<u>20,586</u>	<u>336,097</u>
	<u>\$ 921,567</u>	<u>\$ 20,586</u>	<u>\$ 942,153</u>
<u>June 30, 2007</u>	<u>Cost</u>	<u>Unrealized Appreciation</u>	<u>Fair Value</u>
Certificate of deposits	\$ 699,875	\$ -	\$ 699,875
U.S. Treasury notes	<u>264,649</u>	<u>-</u>	<u>264,649</u>
	<u>\$ 964,524</u>	<u>\$ -</u>	<u>\$ 964,524</u>

Investment securities are carried in the financial statements at fair value. Net unrealized gains on investment securities in the amount of \$20,586 and \$0 for the years ended June 30, 2008 and 2007, respectively, have been included in the statement of activities and changes in net assets. These funds represent board designated amounts set aside in the current year for the purpose of providing an income stream for approved sponsorships.

NOTE D - RELATED PARTY TRANSACTIONS

Accounting and other administrative services are provided by San Jose Convention and Visitors Bureau (the Bureau), a related party. The Bureau is reimbursed for direct costs incurred but is not reimbursed for staff time. As of June 30, 2008 and 2007, SJHI has a payable to the Bureau in the amount of \$2,000 and \$21,840, respectively. Total accounting expenses paid to the Bureau amounted to \$24,000 for the years ended June 30, 2008 and 2007.

As of June 30, 2008, SJHI has a payable to Team San Jose, a related party, in the amount of \$15,000 relating to a sponsorship event expense.

As of June 30, 2008, SJHI has a receivable from the Bureau in the amount of \$29,759 relating to a joint marketing event with the Bureau. This amount is included in other receivable.