

To the Board of Directors of the  
San Jose Arena Authority

We have compiled the accompany statement of financial position of the San Jose Arena Authority (a non-profit corporation) as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the income tax basis of accounting.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

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COSTANTINI, DANNA, IMMER & REYNOLDS

October 26, 2011

**SAN JOSE ARENA AUTHORITY**  
**(A Non-Profit California Corporation)**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2011**

**ASSETS**

<b>Current Assets:</b>	
Cash	\$ 56,872
Prepaid expenses	3,804
Other receivable	<u>1,757</u>
Total Current Assets	62,433
Office Equipment, Furniture and Fixtures, Net of Accumulated Depreciation of \$58,406	<u>4,869</u>
Total Assets	<u>\$ 67,302</u>

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities:</b>	
Accounts payable	\$ 750
Accrued liabilities	<u>19,982</u>
Total Current Liabilities	<u>20,732</u>
<b>Net Assets:</b>	
Unrestricted	28,995
Temporarily restricted	<u>17,575</u>
Total Net Assets	<u>46,570</u>
Total Liabilities and Net Assets	<u>\$ 67,302</u>

See accompanying notes to financial statements

**SAN JOSE ARENA AUTHORITY**  
**(A Non-Profit California Corporation)**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and Revenues:</b>			
City of San Jose	\$ -	\$ 220,865	\$ 220,865
Arena seat revenue	5,030	-	5,030
Interest income	11	363	374
Donated services	3,203	-	3,203
Satisfaction of purpose restrictions	<u>228,836</u>	<u>(228,836)</u>	<u>-</u>
Total Support and Revenues	<u>237,080</u>	<u>(7,608)</u>	<u>229,472</u>
<b>Expenses:</b>			
Program expenses:			
Oversite of Arena	58,739	-	58,739
Ticket Distribution	21,645	-	21,645
Community Programs	22,856	-	22,856
Sports Hall of Fame	38,753	-	38,753
Oversite of Ice Center	37,953	-	37,953
Oversite of Stadium	47,441	-	47,441
Administrative	<u>6,117</u>	<u>-</u>	<u>6,117</u>
Total Expenses	<u>233,504</u>	<u>-</u>	<u>233,504</u>
Increase in Net Assets	3,576	(7,608)	(4,032)
<b>Net Assets:</b>			
Beginning of year	<u>25,419</u>	<u>25,183</u>	<u>50,602</u>
End of Year	<u>\$ 28,995</u>	<u>\$ 17,575</u>	<u>\$ 46,570</u>

See accompanying notes to financial statements

**SAN JOSE ARENA AUTHORITY**  
**(A Non-Profit California Corporation)**  
**For the Year Ended June 30, 2011**  
**STATEMENT OF FUNCTIONAL EXPENSES**

	Program Services						Total	
	Oversite of Arena	Ticket Distribution	Community Programs	Sports Hall of Fame	Oversite of Ice Center	Oversite of Stadium		Administrative Expenses
Wages	\$ 41,980	\$ 15,789	\$ 15,024	\$ 13,993	\$ 27,986	\$ 34,983	\$ 2,345	\$ 152,100
Payroll taxes and employee benefits	7,995	3,007	2,861	2,665	5,330	6,663	447	28,968
Vehicle	720	120	240	240	480	600	0	2,400
Accounting	1,504	566	538	501	1,003	1,254	84	5,450
Board and staff development	0	0	0	0	0	0	1,073	1,073
Promotion	208	0	0	0	0	0	207	415
Community relations	0	0	2,500	0	0	0	0	2,500
Contract labor	99	421	36	33	66	83	102	840
Sports Hall of Fame plaque production	0	0	0	19,776	0	0	0	19,776
Scholarships	0	0	0	0	0	0	0	0
Depreciation	541	204	194	181	361	451	30	1,962
Insurance	2,000	752	716	667	1,334	1,667	112	7,248
Equipment rental	765	288	274	255	509	637	43	2,771
Office supplies	862	324	309	287	575	719	48	3,124
Telephone	308	116	110	104	206	257	17	1,118
Miscellaneous	155	58	54	51	103	127	8	556
Donated services	1,602	0	0	0	0	0	1,601	3,203
<b>Total Expenses</b>	<b>\$ 58,739</b>	<b>\$ 21,645</b>	<b>\$ 22,856</b>	<b>\$ 38,753</b>	<b>\$ 37,953</b>	<b>\$ 47,441</b>	<b>\$ 6,117</b>	<b>\$ 233,504</b>

See accompanying notes to financial statements

**SAN JOSE ARENA AUTHORITY**  
**(A Non-Profit California Corporation)**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2011**

<b>Cash Flows From Operating Activities:</b>		
Decrease in Net Assets		\$ (4,032)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,962	
Prepaid expenses	1,124	
Other receivable	(1,756)	
Accounts payable	19	
Accrued liabilities	<u>(2,790)</u>	
Net Cash Used By Operating Activities		(5,473)
 <b>Cash Flows From Investing Activities</b>		 -
 <b>Cash Flows From Financing Activities</b>		 <u>-</u>
Net Decrease in Cash		(5,473)
 <b>Cash:</b>		
Beginning of year		<u>62,345</u>
End of Year		<u>\$ 56,872</u>

See accompanying notes to financial statements

**SAN JOSE ARENA AUTHORITY**  
**(A Non-Profit California Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2011**  
(See Independent Accountant's Compilation Report)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization:**

The San Jose Arena Authority (the SJAA) was formed by resolution of the San Jose City Council to represent the City's interest in the oversight and operation of HP Pavilion at San Jose. The SJAA also serves as the City's community liaison concerning the day-to-day management and operation of HP Pavilion at San Jose. Additionally, the SJAA was designated by the San Jose City Council to evaluate the operations and management of Sharks Ice at San Jose and San Jose Municipal Stadium.

**Basis of Accounting:**

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**Support and Revenues:**

The majority of support and revenues are received from the City of San Jose for the operation of San Jose Arena Authority.

**Recognition of Donor Restrictions:**

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Office Equipment, Furniture and Fixtures:**

Office furniture and equipment is recorded at cost. Depreciation is computed on a straight-line basis over estimated useful lives of 5-20 years.

**Accrued Vacation:**

Vacation pay is accrued for full-time, salaried employees based upon their length of service at the following:

<u>Service</u>	<u>Vacation Days</u>
1-3 years	10 days
3-5 years	15 days
5-10 years	20 days
After 10 years and there after	25 days

There is no maximum amount of accrued vacation. Accrued vacation represents vacation carried, but not taken as of June 30, 2011 and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of June 30, 2011 was \$11,619.

**Income Taxes:**

The organization is a non-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**SAN JOSE ARENA AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended June 30, 2011**  
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**Use of Estimates:**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates under different assumptions of conditions.

**Functional Allocation of Expenses:**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Cash and Cash Equivalents:**

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less. Fair value approximates carrying amounts.

**Recent Accounting Pronouncements:**

The Financial Accounting Standards Board ("FASB") implemented the FASB Accounting Standards Codification (Codification) effective July 1, 2009. The Codification has become the source of authoritative Generally Accepted Accounting Principles ("GAAP") recognized by FASB to be applied to nongovernmental entities. On the effective date of the Codification, the Codification superseded all then existing accounting and reporting standards. All other non-grand-fathered accounting literature not included in the Codification has become non-authoritative. References to GAAP included in the FASB Codification are noted as Accounting Standards Codification ("ASC").

Following the effective date of the Codification, FASB will not release new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts, but instead will issue Accounting Standards Updates. Updates will not be considered authoritative in their own right, but will serve only to update the Codification, provide background information about the guidance in the Codification, and provide the basis for the conclusions on the changes in the Codification.

In July 2006, the Financial Accounting Standards Board issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), subsequently included in the Codification as ASC 740. In December 2008, the FASB deferred the effective date of FIN 48 for nonpublic enterprises to the annual financial statements for fiscal years beginning after December 15, 2007. ASC 740 establishes standards for the recognition of income taxes for tax positions taken in income tax returns. Management of the Company has adopted the provisions of ASC 740; there was no impact on its combined balance sheet or combined statement of income.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"), subsequently included in the Codification as ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not

**SAN JOSE ARENA AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended June 30, 2011**  
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require any new fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007, except for non-financial assets and liabilities measured at fair value on a non-recurring basis for which the effective date will be for fiscal years beginning after November 15, 2008. The adoption of ASC 820 for financial assets and liabilities and non-financial assets did not have an impact on the Company's financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* – including an amendment of FASB Statement No. 115 (“FAS 159”) (effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007), subsequently included in the Codification as ASC 825. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The management of the Company have evaluated ASC 825 and there was no impact on its combined financial position or results of combined operations.

**NOTE 2 – FAIR VALUE MEASUREMENTS**

Effective May 1, 2008, the Society and the Foundation adopted Statement No. 157, *Fair Value Measurements*, Statement of Financial Accounting Standards No. 157 (FAS 157), subsequently included in the Codification as ASC 820. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows.

**Level 1** – Inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

**Level 2** – Inputs other than quoted prices within Level 1 that are observable, either directly or indirectly. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

**Level 3** – Inputs are unobservable. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models discounts cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The carrying amounts of cash approximate fair value because of the short maturity of these financial instruments. The Company's financial instruments at June 30, 2011 are summarized as follows:

<u>Assets</u>	<u>Fair Value</u>	<u>Level 1</u>
Cash	\$56,872	\$56,872

**SAN JOSE ARENA AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended June 30, 2011**  
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**NOTE 3 - OFFICE EQUIPMENT, FURNITURE AND FIXTURES**

Office equipment, furniture and fixtures, and office improvements consist of the following at June 30, 2011:

Equipment	\$ 9,814
Furniture and fixtures/office improvements	<u>53,461</u>
	63,275
Less accumulated depreciation	<u>58,406</u>
	<u>\$ 4,869</u>

**NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2011 are available for the following purposes or periods:

Sports Hall of Fame program	\$ 0
Scholarship program	6,919
Oversite of Arena, Sharks Ice and Municipal Stadium	<u>10,656</u>
	<u>\$ 17,575</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

Purpose restriction accomplished:	
Sports Hall of Fame program	\$ 18,312
Oversite of Arena, Sharks Ice and Municipal Stadium	<u>210,524</u>
Total purpose restrictions released	<u>\$ 228,836</u>

**NOTE 5 - OPERATING LEASE**

The Organization leases office equipment under a non-cancelable agreement which require minimum lease payments plus sales tax. Lease payments for equipment for the year ended June 30, 2011 totaled \$2,771.

Future lease payments are as follows:

Year Ended	
<u>December 31,</u>	
2012	\$ 2,884
2013	2,884
2014	2,884
2015	2,884
2016	<u>1,924</u>
	<u>\$ 13,460</u>

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**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2011**  
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**NOTE 6 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 26, 2011, the date on which the financial statements were available to be issued.