

**SAN JOSE CONVENTION AND  
CULTURAL FACILITIES**  
(An Activity of the City of San José)

Independent Auditor's Report and  
Financial Statements  
For the Year Ended June 30, 2014

**SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

For the Year Ended June 30, 2014

*Table of Contents*

	<i>Page</i>
<b>Independent Auditor's Report</b> .....	1
<b>Financial Statements:</b>	
Statement of Net Position.....	3
Statement of Revenues, Expenses and Changes in Net Position .....	4
Statement of Cash Flows.....	5
Notes to Financial Statements .....	6
<b>Supplementary Information:</b>	
Budgetary Comparison Schedule .....	13
Note to the Budgetary Comparison Schedule .....	14

## Independent Auditor's Report

City Council  
City of San José, California

We have audited the accompanying financial statements of the San José Convention and Cultural Facilities (the Center), an activity of the City of San José (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

### *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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 of 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 the Center as of June 30, 2014, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

*Basis of Presentation*

As discussed in Note 1 to the financial statements, the financial statements of the Center are intended to present the financial position and the changes in financial position and cash flows of only that portion of the City's financial statements that is attributable to the transactions of the Center. The Center is reported within the City's special revenue funds; however, for purposes of this presentation, management reports it as an enterprise fund to comply with contractual requirements. The financial statements of the Center do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014, and the changes in its financial position and, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the financial statements. The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Macias Gini & Connell LLP*

Walnut Creek, California

October 3, 2014

# SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Net Position

June 30, 2014

## Assets:

### Current assets:

Cash and cash equivalents	\$ 777,119
Accounts receivable, net of allowance of \$448,872	2,352,715
Accounts receivable - City of San José	202,357
Accounts receivable - Team San Jose	58,961
Inventories	85,589
Prepaid expenses	73,597
Other assets	170,079
Restricted cash and investments	<u>3,742,711</u>
Total current assets	<u>7,463,128</u>

### Capital assets:

Construction in progress	150,523
Depreciable capital assets, net	<u>3,434,748</u>
Total capital assets	<u>3,585,271</u>
Total assets	<u>11,048,399</u>

## Liabilities:

### Current liabilities:

Accounts payable	1,776,100
Accounts payable - City of San José	139,234
Accounts payable - Team San Jose	65,541
Accrued liabilities	2,492,384
Unearned revenue	<u>1,784,122</u>
Total current liabilities	<u>6,257,381</u>

## Net Position:

Net investment in capital assets	3,585,271
Unrestricted	<u>1,205,747</u>
Total net position	<u>\$ 4,791,018</u>

See accompanying notes to financial statements.

# SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2014

## Operating revenues:

Building rental	\$ 5,428,565
Food and beverage services	13,767,102
Commission revenues	1,688,369
Event electrical/utility services	461,053
Audio/visual services	278,914
Ticketing services	286,406
Telecommunications services	84,627
Equipment rentals	60,839
Event production labor revenues	6,613,118
Other revenues	2,921
Less: City of San José credits for facility usage	<u>(137,380)</u>
Total operating revenues	<u>28,534,534</u>

## Operating expenses:

Administrative and general salaries - Team San Jose	12,026,058
Cost of event production labor	6,227,291
Utilities	2,733,494
Food and beverage costs	2,610,688
Bad debt expense	20,457
Contracted outside services	3,282,787
Professional services	732,839
Operating supplies	458,318
Depreciation	817,166
Repairs and maintenance	1,310,042
Insurance	271,666
City of San José oversight	1,085,998
Ticketing costs	71,886
Workers' compensation insurance premiums	909,267
Fire insurance	225,504
Management fee - Team San Jose	1,080,791
Equipment rentals	146,168
Repairs and maintenance - City of San José funded	1,616,024
Other expenses	<u>1,419,557</u>
Total operating expenses	<u>37,046,001</u>
Operating loss	(8,511,467)

## Nonoperating revenues:

Contributions from City of San José	<u>8,472,803</u>
Change in net position	(38,664)

## Net Position:

Beginning of year	<u>4,829,682</u>
End of year	<u>\$ 4,791,018</u>

See accompanying notes to financial statements.

## SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Cash Flows

For the Year Ended June 30, 2014

Cash flows from operating activities:	
Cash receipts from customers	\$ 28,140,224
Cash payments to suppliers for goods and services	(17,260,280)
Cash payments to employees for services	(17,085,492)
	<hr/>
Net cash used in operating activities	(6,205,548)
Cash flows from noncapital financing activities:	
Contributions from the City of San José	8,472,803
Cash flows from capital and related financing activities:	
Purchase of capital assets	(933,283)
	<hr/>
Net cash from capital and related financing activities	(933,283)
Change in cash and cash equivalents	1,333,972
Cash and cash equivalents, beginning of year	3,185,858
	<hr/>
Cash and cash equivalents, end of year	\$ 4,519,830
	<hr/> <hr/>
Reconciliation to the statement of net position:	
Cash and cash equivalents	\$ 777,119
Restricted cash and investments	3,742,711
	<hr/>
Cash and cash equivalents, end of year	\$ 4,519,830
	<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (8,511,467)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	817,166
Changes in assets and liabilities:	
Accounts receivable	(305,017)
Inventories	77,410
Prepaid expenses	(30,208)
Other assets	5,884
Accounts payable	387,543
Accrued liabilities	1,421,977
Unearned revenue	(68,836)
	<hr/>
Net cash used in operating activities	\$ (6,205,548)
	<hr/> <hr/>
Noncash capital and related financing activities:	
Reclass of deposit to capital assets	\$ (1,636,788)
Change in capital related accounts payable	\$ 27,124

See accompanying notes to financial statements.

## **SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

Notes to Financial Statements

For the Year Ended June 30, 2014

### **NOTE 1 – DESCRIPTION OF OPERATIONS**

The San José Convention and Cultural Facilities (the Center) consists of the San José McEnery Convention Center (the main facility), City National Civic, Parkside Hall, Center for the Performing Arts, California Theatre, South Hall and Montgomery Theater. These seven venues offer facilities for trade show exhibits, conventions, corporate meetings, consumer shows and performing arts events. The City of San José (the City) selected Team San Jose to manage the operations of the Center (see Note 5). The Team San Jose management office is located in the west portion of the main facility, which is located at 408 Almaden Boulevard, San José, California.

The Center's financial statements are intended to present the financial position and the changes in financial position and cash flows of only that portion of the City's financial statements that is attributable to the Center's operating transactions. The Center's operating transactions are reported within the City's special revenue funds; however, for purposes of this presentation management has elected to report it as an enterprise fund to comply with contractual requirements. The contractual requirements focus on the operations of the Center and as such the City has not included the Center's main building, improvements, and related depreciation in the Center's financial statements in accordance with an enterprise fund presentation under accounting principles generally accepted in the United States of America. These assets and related debt, except for the California Theatre and South Hall, which were transferred to the San José Successor Agency from the Redevelopment Agency during fiscal year 2013, are reported as part of the City's government-wide financial statements. In addition, revenues earned from the City for services provided by the Center are eliminated and are reported as City of San José credits for facility usage in the accompanying statement of revenues, expenses and changes in net position, as they do not qualify as operating revenues as defined by the Management Agreement (the Agreement). The financial statements of the Center do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014 and the changes in its financial position and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) *Basis of Presentation and Accounting***

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, and relates to the timing of measurements made, regardless of the measurement focus applied. The Center is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

#### **(b) *Cash and Cash Equivalents***

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents and are carried at fair value.

#### **(c) *Accounts Receivable***

The accounts receivable balance at June 30, 2014, is reported net of an allowance for estimated uncollectible amounts. Management estimated the uncollectible amounts to be \$448,872 at June 30, 2014 using its allowance calculation methodology that is based on historical write-off rates and comparable industry standards.



## **SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2014

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) *Inventories***

Inventories consist of food and beverage supplies that are stated at the lower of cost (first-in, first-out method) or market.

**(e) *Capital Assets***

Capital assets and intangible assets are stated at cost, if purchased or at fair value on the date received, if donated. Management has established a capitalization threshold of \$5,000 per item or an aggregate purchase of related items of \$5,000 or more, with a useful life greater than one year. Depreciation and amortization are provided on a straight-line basis over the estimated useful life of each class of depreciable assets. Estimated useful lives are generally five to ten years for computer and network equipment, furniture and fixtures, machinery and equipment, and building improvements.

**(f) *Compensated Absences***

Under Team San Jose's agreement with UNITE HERE, Local 19, and its salaried staff, employees are permitted to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in accordance with the terms of the agreements with its employee groups. At June 30, 2014, the Center recorded \$542,106 of accrued vacation payable as part of accrued liabilities.

**(g) *Unearned Revenue***

Unearned revenue primarily represents deposits received in advance for Center services to be provided in the future. Revenues will be recognized when the service is performed. If an event is cancelled, the amount may be forfeited or refunded to the customer in accordance with contractual terms.

**(h) *Operating Revenues and Expenses***

The Center defines its operating revenues as charges for services, which are revenues derived from building rental, event production labor revenues, audio/visual services, electrical/utility services, equipment rental, food and beverage services, concessions, networking services, telecommunication services, and other services. Revenues earned from the City for these services are eliminated and are reported as City of San José credits for facility usage in the accompanying statement of revenues, expenses and changes in net position, as they do not qualify as operating revenues as defined by the Management Agreement (the Agreement). All other revenue not derived from these sources, such as the City's operating subsidies, are classified as non-operating in the accompanying statement of revenues, expenses and changes in net position.

**SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2014

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) Net Position**

Net position is classified in the following two components:

*Net Investment in Capital Assets* consists of the Center's capital assets net of related accumulated depreciation.

*Unrestricted net position* consists of the remaining balance of net position not subject to the aforementioned categorization.

When both restricted and unrestricted resources are available for use, it is the Center's policy to use unrestricted resources first and then restricted resources, as they are needed.

**(j) Use of Estimates**

The financial statements require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

The Center's cash and cash equivalents consist of the following at June 30, 2014:

Cash and cash equivalents:	
Operating accounts	\$ 655,371
Payroll account	90,448
Receipts accounts	3,742,711
Petty cash	<u>31,300</u>
Total cash and cash equivalents	<u><u>\$ 4,519,830</u></u>

**(a) Nature of Bank Accounts**

The Center maintains all of its funds as cash deposits. The operating account is owned by the City, but is in the name of Team San Jose and is used to disburse funds for operations or for capital outlays under the direction of Team San Jose. The receipts account is in the name of the City of San José and is under the custodianship of the City. All revenues collected by the Center are deposited into the receipts account and the City disburses funds from the receipts account to the operating account as funding requests are made by Team San Jose.

**SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2014

**NOTE 3 – CASH AND CASH EQUIVALENTS**

**(b) Custodial Credit Risk**

At year-end, the net carrying amount of the Center’s operating account was \$655,371, which is reported as part of cash and cash equivalents, and the bank balance was \$918,978. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. The carrying amount of the Center’s payroll account was \$90,448 and the bank balance was \$94,582. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. At year-end, the carrying amount of the Center’s receipts account was \$3,742,711 and the bank balance was \$3,692,514. The difference between the bank balance and the carrying amount represents deposits in transit. The amounts placed on deposit with the bank were covered by federal depository insurance or were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institutions’ trust department or agent in the City’s name.

**NOTE 4 – CAPITAL ASSETS**

The following is a summary of the changes in capital assets for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
<i>Non-depreciable capital assets:</i>					
Construction in progress	\$ 279,733	\$ 3,794	\$ -	\$ (133,004)	\$ 150,523
<i>Depreciable capital assets:</i>					
Computer and network equipment	867,166	6,837	-	14,405	888,408
Machinery and equipment	695,026	197,166	-	-	892,192
Furniture and fixtures	223,151	2,339,584	-	118,599	2,681,334
Other improvements	2,222,952	22,690	(27,124)	-	2,218,518
Total depreciable capital assets	4,008,295	2,566,277	(27,124)	133,004	6,680,452
<i>Less accumulated depreciation:</i>					
Computer and network equipment	(501,851)	(149,285)	-	-	(651,136)
Machinery and equipment	(422,240)	(83,415)	-	-	(505,655)
Furniture and fixtures	(126,699)	(363,570)	-	-	(490,269)
Other improvements	(1,377,748)	(220,896)	-	-	(1,598,644)
Total accumulated depreciation	(2,428,538)	(817,166)	-	-	(3,245,704)
Depreciable capital assets, net	1,579,757	1,749,111	(27,124)	133,004	3,434,748
Total capital assets, net	\$ 1,859,490	\$ 1,752,905	\$ (27,124)	\$ -	\$ 3,585,271

The significant increase during the fiscal year ending June 30, 2014 is due to purchases of furniture and fixtures for the newly renovated convention center.

## **SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2014

### **NOTE 5 – SIGNIFICANT AGREEMENTS WITH OUTSIDE PARTIES**

#### Team San Jose

Team San Jose, Inc., a public benefit corporation, was formed in December 2003 in response to the City's request for proposals for the management and operations of the Center. Team San Jose integrates key community stakeholders to create an innovative governance model. The City entered into a Management Agreement (the Agreement) with Team San Jose to operate and manage the Center. The original term of the Agreement was for the five-year period from July 1, 2004 through June 30, 2009, unless sooner terminated, as provided for in the Agreement. On August 13, 2009, the City exercised its option to extend the original term for one additional five-year period through June 30, 2014. On June 17, 2014, the City and Team San Jose entered into a new agreement relating to the continuation of operation and management of the Center. The new contract has a five-year term from July 1, 2014 through June 30, 2019, with a provision for automatic renewal for an additional 5-year term ending June 30, 2024.

As compensation for the services rendered by Team San Jose pursuant to the Agreement, the City pays Team San Jose a Fixed Executive Management Fee of \$600,000 to provide reimbursement for a portion of the expenses incurred for salaries, wages, taxes and benefits for executive staff, a Fixed Minimum Management Fee of \$12,500 per calendar month in consideration of the management services provided by Team San Jose, and an Incentive Fee, which is based on the extent to which Team San Jose meets the Incentive Fee Measure criteria.

#### The San José Convention and Visitors Bureau

The San José Convention and Visitors Bureau (CVB) was established as a nonprofit, 501(c)6 organization in 1984. On June 22, 2004, the City amended and restated the agreement between the City and the CVB to reflect the change in management and operation of the Center from the City's Department of Convention, Arts and Entertainment to Team San Jose.

The mission of the CVB is to enhance the image and economic well-being of the City by taking the leadership role in marketing the City as a globally recognized destination. The CVB provides marketing, promotion and sales support services for the convention center and cultural facilities and provides full service destination planning to meeting planners, tour operators, and individual visitors. The CVB occupies office space at no cost in the San José Convention Center and provides financial and human resource staff to Team San Jose.

The CVB receives 3% of the City's 10% Transient Occupancy Tax (TOT), commonly referred to as the "hotel tax", which supports the operations of the CVB. The TOT is paid by guests of hotels, motels and other similar structures designed for tourist lodging within the San José region. Additionally, the CVB receives supplemental funding through annual partner/advocate fees in which convention hotel partners and tourism advocates (e.g. area restaurants, attractions, shopping, transportation and lodging) contribute.

#### TSJ Events, LLC

On March 19, 2009, Team San Jose established TSJ Events, LLC, in the State of California to provide food and beverages at events catered by the Center. Team San Jose is the only member of TSJ Events, LLC, and, as such, has a controlling interest in the operations of the entity. The Chief Executive Officer of Team San Jose has been designated as the manager of TSJ Events, LLC. Per the Operating Agreement between Team San Jose and TSJ Events, LLC, all revenues and expenses from activities performed by TSJ Events, LLC will be allocated to the Center. TSJ Events, LLC is blended with the Center as its sole purpose is to provide a vehicle for licensing the Center's liquor sales.

## SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2014

### NOTE 5 – SIGNIFICANT AGREEMENTS WITH OUTSIDE PARTIES (continued)

#### Hilton Supply Management

On December 21, 2009, Team San Jose entered into an agreement with Hilton Supply Management (HSM), a subsidiary of Hilton Hotels Corporation, to manage the procurement process, including bids, audits and suppliers. The Center is required to purchase at least 90% of its requirements for goods and services such as food and beverage, operating supplies and engineering services through HSM. HSM does not receive a fee from the Center, but the Center benefits from better pricing by combining its purchases. The agreement is in effect through June 30, 2014, with the option to continue on a month to month basis thereafter. Team San Jose is currently on a month to month basis while working towards renewal of the agreement.

### NOTE 6 – CONTRIBUTIONS FROM CITY OF SAN JOSE FUNDS

In order for the Center to continue its operations, it relies on the City for operating contributions. The operating loss for the year was \$8,511,467, inclusive of \$2,926,066 in building upgrades and major repairs, which required operating cash contribution totaling \$8,472,803 from the City. The City uses a portion of TOT from its Transient Occupancy Tax Special Revenue Fund to fund these contributions. Accordingly, any significant changes in the TOT or a decision to change the amount of support could greatly affect the Center's ability to continue as a going concern.

Prior to the completion of the main facility renovation project in October 2013, the Center required a significant FF&E investment in order to meet the Center's business needs. During fiscal year 2013, the City advanced a total of \$2,500,000 in FF&E funds to the Center's operating account. The balance of FF&E funds held in the Center's operating account at June 30, 2014 is as follows:

FF&E funds from the City:	
Original funding	\$ 300,000
Additional funding approved by the City	<u>2,200,000</u>
Total FF&E funds from the City	<u>2,500,000</u>
Uses of FF&E funds:	
FY 2013 Payments to vendors on deposit (other assets)	(1,636,788)
FY 2013 Purchases of furniture, fixture and equipment	(118,599)
FY 2014 Purchases of furniture, fixture and equipment	<u>(713,246)</u>
Total uses of FF&E funds to date	<u>(2,468,633)</u>
FF&E funds held in operating account	<u>\$ 31,367</u>

## SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2014

### NOTE 7 – CLAIMS AND LITIGATION

The Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Center funds the costs of salaries and benefits, including the cost of workers' compensation premiums for Team San Jose employees. Team San Jose is required to purchase commercial insurance, as specified in the Management Agreement. The coverage provided by commercial insurance and excess coverage as of June 30, 2014 is as follows:

Provider	Type of Coverage	Coverage	
		Amount	Deductible
Philadelphia Indemnity Insurance Company	Automobile	\$ 1,000,000	\$ 500
RSUI Indemnity Company	Directors & Officers Liability	\$ 2,000,000	\$ 15,000
Hiscox	Crime - Employee Dishonesty	\$ 1,000,000	\$ 5,000
Lloyd's of London	Crime - ERISA	\$ 1,000,000	n/a
State Compensation Insurance Fund	Workers' Compensation-California	\$ 1,000,000	n/a
Harford Insurance	Workers' Compensation-Other	\$ 1,000,000	n/a
Philadelphia Indemnity Insurance Company	General Liability	\$ 2,000,000	n/a
Philadelphia Indemnity Insurance Company	Excess/Umbrella Liability	\$ 4,000,000	n/a
Landmark American Insurance	Miscellaneous Professional Liability	\$ 2,000,000	\$ 2,500
Allied World National Assurance Company	Privacy Liability & Network Risk	\$ 1,000,000	\$ 2,500
Philadelphia Indemnity Insurance Company	Property	\$ 653,000	\$ 1,000

Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Center. In the opinion of management, such claims, if disposed of unfavorably, would not have a material adverse effect on the financial position or changes in financial position of the Center and are considered in the City's loss reserves. During the past three years, there have been no instances where the amount of claim settlements exceeded insurance coverage, nor have there been any significant reductions of insurance coverage.

**SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

Budgetary Comparison Schedule

For the Year Ended June 30, 2014

	Budget		Actual	Variance
	Original	Final		
<b>Operating revenues:</b>				
Building rental	\$ 4,832,223	\$ 5,194,000	\$ 5,428,565	\$ 234,565
Food and beverage services	10,326,558	13,750,000	13,767,102	17,102
Commission revenues	887,949	1,600,000	1,688,369	88,369
Event electrical/utility services	200,000	440,000	461,053	21,053
Audio/visual services	275,000	275,000	278,914	3,914
Ticketing services	198,138	250,000	286,406	36,406
Telecommunications services	30,000	75,000	84,627	9,627
Equipment rentals	55,000	55,000	60,839	5,839
Event production labor revenues	4,805,824	6,500,000	6,613,118	113,118
Other revenues	1,292	11,000	2,921	(8,079)
<b>Total operating revenues</b>	<b>21,611,984</b>	<b>28,150,000</b>	<b>28,671,914</b>	<b>521,914</b>
<b>Operating expenses:</b>				
Administrative and general salaries - Team San Jose	10,073,847	12,000,000	12,026,058	(26,058)
Cost of event production labor	4,943,082	6,150,000	6,227,291	(77,291)
Utilities	2,415,548	2,735,000	2,733,494	1,506
Food and beverage costs	1,800,317	2,600,000	2,610,688	(10,688)
Bad debt expense	50,004	20,000	20,457	(457)
Contracted outside services	2,337,200	3,300,000	3,282,787	17,213
Professional services	524,404	750,000	732,839	17,161
Operating supplies	478,740	450,000	458,318	(8,318)
Repairs and maintenance	1,053,855	1,350,000	1,310,042	39,958
Insurance	210,696	275,000	271,666	3,334
City of San José oversight	1,084,716	1,084,716	1,085,998	(1,282)
Ticketing costs	130,800	130,000	71,886	58,114
Workers' compensation insurance premiums	646,618	985,000	909,267	75,733
Fire insurance	130,000	225,504	225,504	-
Management fee - Team San Jose	950,000	1,100,000	1,080,791	19,209
Equipment rentals	199,980	200,000	146,168	53,832
Repairs and maintenance - City of San José funded	1,602,000	1,432,000	1,616,024	(184,024)
Other expenses	1,252,595	1,673,000	1,419,557	253,443
<b>Total operating expenses</b>	<b>29,884,402</b>	<b>36,460,220</b>	<b>36,228,835</b>	<b>231,385</b>
<b>Operating loss</b>	<b>(8,272,418)</b>	<b>(8,310,220)</b>	<b>(7,556,921)</b>	<b>753,299</b>
<b>Nonoperating revenues (expenses):</b>				
Capital outlay	(914,612)	(914,612)	(933,283)	(18,671)
Contributions from City of San José	6,262,614	6,262,614	8,472,803	2,210,189
<b>Change in net position on a budgetary basis</b>	<b>\$ (2,924,416)</b>	<b>\$ (2,962,218)</b>	<b>(17,401)</b>	<b>\$ 2,944,817</b>
<b>Reconciling items:</b>				
Depreciation			(817,166)	
Capital outlay capitalized as capital assets			933,283	
City of San José credits for facility usage			(137,380)	
<b>Change in net position on a GAAP basis</b>			<b>\$ (38,664)</b>	

See accompanying note to the budgetary comparison schedule.

## **SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

Note to the Budgetary Comparison Schedule

For the Year Ended June 30, 2014

### **NOTE 1 – BUDGETARY DATA**

#### **(a) *Budget Information***

In accordance with Section 9.3 of the Agreement, Team San Jose prepares a proposed annual budget on or before March 1<sup>st</sup> of each contract year. The City reviews and approves the proposed annual budget on or before May 31<sup>st</sup> of the contract year during which the budget is submitted. The adopted budget represents the financial and organizational plan by which the policies and services of the Center approved by the City Council will be implemented. It includes: (1) the services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. During the year, changes in services and activities, estimated revenues, and estimated spending requirements may require modifications to the original adopted budget through City Council action. Modifications approved by the City Council throughout the year result in the final adopted budget.

#### **(b) *Basis of Accounting***

The budgetary process is based upon accounting for certain transactions on a basis other than accounting principles generally accepted in the United States of America (GAAP). The Center has a difference between the budgetary and GAAP basis of accounting related to its presentation of depreciation expense and City of San José credits for facility usage, as well as capital outlay items that are capitalized as part of capital assets. On a GAAP basis, depreciation expense is reported as an operating expense, City of San José credits for facility usage are recorded to eliminate associated revenues earned from the City, and capital outlay is capitalized as part of capital assets if it exceeds the Center's capitalization threshold; while on a budgetary basis depreciation expense is not reported, City of San José facility usage is included as part operating revenues and not eliminated with credits, and capital outlay is reported as a nonoperating expense.