

**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, 2011

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

For the Year Ended June 30, 2011

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City Council
City of San José, California

Independent Auditor's Report

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, 2011, as listed in the table of contents. These financial statements are the responsibility of management of the Center. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, 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, 2011, and the changes in its financial position and its cash flows for the year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

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, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with the basis of presentation and accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The budgetary comparison schedule 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. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP

Walnut Creek, California

October 21, 2011

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Net Assets

June 30, 2011

Assets:

Current assets:

Cash and cash equivalents	\$ 1,936,058
Accounts receivable, net of allowance of \$1,218,671	2,340,024
Inventories	79,048
Prepaid expenses	119,973
Other assets	119,188
Total current assets	<u>4,594,291</u>

Capital assets:

Construction in progress	12,000
Depreciable capital assets, net	<u>1,538,355</u>
Total capital assets	<u>1,550,355</u>
Total assets	<u>6,144,646</u>

Liabilities:

Current liabilities:

Accounts payable	865,293
Accounts payable - City of San José	531,488
Accounts payable - Team San José	25,000
Accrued liabilities	864,493
Unearned revenue	954,835
Total current liabilities	<u>3,241,109</u>

Net assets:

Invested in capital assets	1,550,355
Unrestricted	<u>1,353,182</u>
Total net assets	<u>\$ 2,903,537</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 Assets

For the Year Ended June 30, 2011

Operating revenues:

Building rental	\$ 4,192,542
Food and beverage services	8,442,324
Event electrical/utility services	694,658
Heat and power service charges	440,286
Networking services	277,778
Audio/visual services	474,735
Other revenues	149,971
Ticketing services	547,072
Telecommunications services	26,880
Equipment rentals	69,279
Event production labor revenues	3,459,464
Less: City of San José credits for facility usage	(90,196)
Less: City of San José credits for power charges	(276,311)
Total operating revenues	<u>18,408,482</u>

Operating expenses:

City of San José shared employees	2,183,614
Administrative and general salaries - Team San José	7,706,500
Cost of event production labor	3,092,689
Utilities	2,450,423
Food and beverage costs	1,380,091
Overhead - City of San José	248,686
Other expenses	1,018,558
Contracted outside services	338,592
Professional services	488,185
Operating supplies	372,657
Depreciation	390,892
Repairs and maintenance	421,080
Insurance	285,792
City of San José oversight	334,179
Ticketing costs	183,633
Workers' compensation insurance premiums	237,651
Fire insurance	92,561
Management fee - Team San José	1,000,000
Equipment rentals	200,919
Repairs and maintenance - City funded	104,335
Total operating expenses	<u>22,531,037</u>
Operating loss	(4,122,555)

Nonoperating revenues:

Contributions from City of San José	<u>4,421,943</u>
Change in net assets	299,388

Net assets:

Beginning of year	<u>2,604,149</u>
End of year	<u>\$ 2,903,537</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, 2011

Cash flows from operating activities:	
Cash receipts from customers	\$ 18,237,953
Cash payments to suppliers for goods and services	(9,588,307)
Cash payments to employees for services	<u>(12,682,832)</u>
Net cash used in operating activities	<u>(4,033,186)</u>
Cash flows from noncapital financing activities:	
Contributions from the City of San José	4,421,943
Payment of implicitly financed expenses	<u>(356,346)</u>
Net cash provided by noncapital financing activities	<u>4,065,597</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(74,704)
Proceeds received from sale of capital assets	<u>90,082</u>
Net cash provided by capital and related financing activities	<u>15,378</u>
Change in cash and cash equivalents	47,789
Cash and cash equivalents, beginning of year	<u>1,888,269</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,936,058</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (4,122,555)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	390,892
Changes in assets and liabilities:	
Accounts receivable	404,240
Inventories	(22,090)
Prepaid expenses	(82,577)
Other assets	(56,188)
Accounts payable	(215,626)
Accrued liabilities	245,487
Unearned revenue	<u>(574,769)</u>
Net cash used in operating activities	<u><u>\$ (4,033,186)</u></u>

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, 2011

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), Civic Auditorium, 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, black tie dinners, consumer shows and performing arts events. The City of San José (the City) selected Team San José to manage the operations of the Center (see Note 5). The Team San Jose management office is located in the east 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 building and improvements 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 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 and power charges in the accompanying statement of revenues, expenses and changes in net assets, 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, 2011 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their enterprise activities, subject to the same limitation. The Center has elected not to apply subsequent private-sector guidance.

(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.

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, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Accounts Receivable*

The accounts receivable balance at June 30, 2011, is reported net of an allowance for estimated uncollectible amounts. Management estimated the uncollectible amounts to be \$1,218,671 at June 30, 2011 using its allowance calculation methodology that is based on historical write-off rates and comparable industry standards.

(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 with a useful life greater than one year. Depreciation and amortization is 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 employees, 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, 2011, the Center recorded \$332,661 of accrued vacation payable as part of accrued liabilities. Under the terms of the Agreement with the City, the Center does not have a long-term obligation for the City's employees.

(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 charges for building rental, event production labor revenues, audio/visual services, electrical/utility services, equipment rental, catering, 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 and power charges in the accompanying statement of revenues, expenses and changes in net assets, 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 nonoperating in the accompanying statement of revenues, expenses and changes in net assets.

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, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) *Net Assets*

Net assets are classified in the following two components:

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

Unrestricted net assets consist of the remaining balance of net assets 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 consists of the following at June 30, 2011:

Cash and cash equivalents	
Operating account	\$ (130,056)
Payroll account	57,965
Receipts account	1,976,669
Petty cash	31,480
	<hr/>
Total cash and cash equivalents	<u>\$ 1,936,058</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.

(b) *Custodial Credit Risk*

At year-end, the net carrying amount of the Center's operating account was (\$130,056), which is reported as part of cash and cash equivalents, and the bank balance was \$185,258. 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 \$57,965 and the bank balance was \$58,089. The difference between the bank balance and the carrying amount represents outstanding checks.

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, 2011

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

At year-end, the carrying amount of the Center’s receipts account was \$1,976,669 and the bank balance was \$1,979,172. The difference between the bank balance and the carrying amount represents deposits in transit and outstanding checks. 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, 2011:

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
<i>Nondepreciable capital assets:</i>				
Construction in progress	\$ 12,000	\$ -	\$ -	\$ 12,000
<i>Depreciable capital assets:</i>				
Computer and network equipment	\$ 425,244	\$ 10,000	\$ -	\$ 435,244
Machinery and equipment	384,033	64,704	-	448,737
Furniture and fixtures	219,909	-	(103,176)	116,733
Building improvements	2,187,368	-	-	2,187,368
Total depreciable capital assets	3,216,554	74,704	(103,176)	3,188,082
<i>Less accumulated depreciation:</i>				
Computer and network equipment	(296,574)	(56,391)	-	(352,965)
Machinery and equipment	(202,510)	(79,502)	-	(282,012)
Furniture and fixtures	(50,912)	(35,515)	13,094	(73,333)
Building improvements	(721,933)	(219,484)	-	(941,417)
Total accumulated depreciation	(1,271,929)	(390,892)	13,094	(1,649,727)
Depreciable capital assets, net	\$ 1,944,625	\$ (316,188)	\$ (90,082)	\$ 1,538,355

Additions to depreciable asset categories totaled \$74,704 for the year ended June 30, 2011 and consisted of the following significant additions:

1. Three chillers categorized to machinery and equipment in the amount of \$64,704.
2. Scheduling system categorized in computer and network equipment for the amount of \$10,000.

The ending balance in the Construction In Progress account at June 30, 2011 consisted of the fire attenuation system design. This project has been put on hold, as it may be incorporated into the Convention Center expansion project.

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, 2011

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.

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.

On August 18, 2010, the City served Team San Jose a notice of default for failing to comply with the material terms of the Agreement. According to Section 10.6 of the Agreement, Team San Jose is responsible for complying with the adopted operating budget and shall not deviate in any substantial respect. At June 30, 2010, the Center's operating expenses exceeded the adopted operating budget by approximately \$571,000. As of June 30, 2011, Team San Jose is no longer in default.

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 General Manager 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, 2011

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.

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 \$4,122,555, which required operating cash contribution totaling \$4,421,943 from the City. The City uses a portion of TOT from its Transient Occupancy Tax Special Revenue Fund and certain revenues collected from parking garages from its Parking System Enterprise Fund to fund these contributions. Accordingly, any significant changes in the TOT or parking garage revenues or a decision to change the amount of support could greatly affect the Center's ability to continue as a going concern.

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, 2011 is as follows:

Provider	Type of Coverage	Coverage	
		Amount	Deductible
Property & Casualty Insurance	Automobile	\$ 1,000,000	\$ 500
National Union Fire Insurance	Director & Officers Liability	2,000,000	2,500
National Union Fire Insurance	Crime - Employee Dishonesty	1,000,000	5,000
Hartford	Workers' Compensation	1,000,000	n/a
Liberty Surplus Insurance	General Liability	2,000,000	1,000
Liberty Insurance Underwriters	Excess/Umbrella Liability	4,000,000	n/a
RSUI Landmark American Insurance	Miscellaneous Professional Liability	2,000,000	2,500
Hartford	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.

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SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Budgetary Comparison Schedule

For the Year Ended June 30, 2011

	Budget		Actual	Variance
	Original	Final		
Operating revenues:				
Building rental	\$ 3,098,928	\$ 4,048,918	\$ 4,192,542	\$ 143,624
Food and beverage services	5,602,344	7,484,854	8,442,324	957,470
Event electrical/utility services	311,247	611,220	694,658	83,438
Heat and power service charges	365,352	375,317	440,286	64,969
Networking services	110,212	798,612	277,778	(520,834)
Audio/visual services	188,409	375,000	474,735	99,735
Other revenues	93,876	80,000	149,971	69,971
Ticketing services	1,169,869	486,751	547,072	60,321
Telecommunications services	75,314	25,000	26,880	1,880
Equipment rentals	37,655	67,655	69,279	1,624
Event production labor revenues	2,746,794	3,446,794	3,459,464	12,670
Sponsorship revenue	100,000	-	-	-
Total operating revenues	<u>13,900,000</u>	<u>17,800,121</u>	<u>18,774,989</u>	<u>974,868</u>
Operating expenses:				
City of San José shared employees	1,983,060	2,341,390	2,183,614	157,776
Administrative and general salaries - Team San José	7,022,890	7,022,890	7,706,500	(683,610)
Cost of event production labor	2,162,196	2,162,196	3,092,689	(930,493)
Utilities	2,541,000	2,541,000	2,450,423	90,577
Food and beverage costs	1,001,492	1,001,492	1,380,091	(378,599)
Overhead - City of San José	248,686	248,686	248,686	-
Other expenses	670,181	2,275,156	1,018,558	1,256,598
Contracted outside services	548,682	548,682	338,592	210,090
Professional services	452,388	452,388	488,185	(35,797)
Operating supplies	678,143	678,143	372,657	305,486
Repairs and maintenance	322,323	322,323	421,080	(98,757)
Insurance	351,759	351,759	285,792	65,967
City of San José oversight	270,584	270,584	334,179	(63,595)
Ticketing costs	844,074	844,074	183,633	660,441
Workers' compensation insurance premiums	141,357	141,357	237,651	(96,294)
Fire insurance	200,004	200,004	92,561	107,443
Management fee - Team San José	813,324	750,000	1,000,000	(250,000)
Equipment rentals	160,896	160,896	200,919	(40,023)
Repairs and maintenance - City Funded	125,000	125,000	104,335	20,665
Total operating expenses	<u>20,538,039</u>	<u>22,438,020</u>	<u>22,140,145</u>	<u>297,875</u>
Operating loss	(6,638,039)	(4,637,899)	(3,365,156)	1,272,743
Capital outlay	-	(100,000)	(74,704)	25,296
Contributions from City of San José	6,393,039	8,393,020	4,421,943	(3,971,077)
Change in net assets on a budgetary basis	<u>\$ (245,000)</u>	<u>\$ 3,655,121</u>	<u>\$ 982,083</u>	<u>\$ (2,673,038)</u>
Reconciling items:				
Depreciation			(390,892)	
Capital outlay capitalized as capital assets			74,704	
Bad debt expense			(72,342)	
City of San José credits for facility usage			(90,196)	
City of San José credits for power charges			(276,311)	
Change in net assets on a GAAP basis			<u>\$ 227,046</u>	

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, 2011

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 1st of each contract year. The City reviews and approves the proposed annual budget on or before May 31st 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.

(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 bad debt expense, City of San José credits for facility usage, and City of San José credits for power charges, as well as capital outlay items that are capitalized as part of capital assets. On a GAAP basis, bad debt expense is reported net of building rental revenues, City of San José credits for facility usage and power charges 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 bad debt expense is not reported, City of San José facility usage and power charges are included as part operating revenues and not eliminated with credits, and capital outlay is reported as a nonoperating expense.