

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

Independent Auditor's Report,
Financial Statements, and
Supplementary Information

For the Year Ended June 30, 2023

SAN JOSE CONVENTION AND CULTURAL FACILITIES
(An Activity of the City of San José)
For the Year Ended June 30, 2023

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Independent Auditor's Report

City Council
City of San José, California

Opinion

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the Center's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2023, and the change in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the financial statements of the Center are intended to present the net position, changes in net position, and cash flows of only that portion of the City's financial statements that is attributable to the operating transactions of the Center. The Center's operating transactions are reported within the City's special revenue funds; however, for purposes of presentation on a standalone basis, management reports it as an enterprise fund. 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, 2023, 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. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

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 missing 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. Such information 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 GAAS. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.



Walnut Creek, California

October 3, 2023

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Net Position

June 30, 2023

Assets:

Current assets:

Cash	\$ 10,868,745
Accounts receivable, net	969,530
Accounts receivable - City of San José	868,406
Inventories	103,048
Prepaid expenses	207,102
Other assets	38,973
Total current assets	<u>13,055,804</u>

Capital assets:

Depreciable capital assets, net	<u>18,236</u>
Total assets	<u>13,074,040</u>

Liabilities:

Current liabilities:

Accounts payable	1,181,935
Accounts payable - event related	684,852
Accounts payable - Team San Jose	44,959
Accrued liabilities	3,562,561
Unearned revenue	8,471,740
Total current liabilities	<u>13,946,047</u>

Net Position (Deficit):

Investment in capital assets	18,236
Unrestricted	<u>(890,243)</u>
Total net position (deficit)	<u>\$ (872,007)</u>

See accompanying notes to the financial statements.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Revenues, Expenses and Change in Net Position

For the Year Ended June 30, 2023

Operating revenues:

Building rental	\$ 7,306,922
Food and beverage services	12,374,188
Commission revenues	382,391
Event electrical/utility services	958,283
Networking services	716,429
Audio/visual services	407,491
Ticketing services	844,287
Telecommunications services	115,799
Equipment rentals	117,498
Event production labor revenues	9,703,771
Rigging Assessment Fee	207,935
Other revenues	353,025
	<hr/>
Total operating revenues	33,488,019

Operating expenses:

Administrative and general salaries - Team San Jose	18,395,124
Cost of event production labor	8,619,526
Utilities	4,263,517
Food and beverage costs	2,204,615
Bad debt expense	5,814
Contracted outside services	3,098,000
Professional services	150,977
Operating supplies	721,757
Depreciation	27,406
Repairs and maintenance	1,588,554
Insurance	550,296
City of San José oversight	805,182
Ticketing costs	71,854
Workers' compensation insurance premiums	514,568
Fire insurance	434,369
Management fee - Team San Jose	1,250,000
Equipment rentals	86,796
City of San José facility usage	33,500
Other expenses	1,586,177
	<hr/>
Total operating expenses	44,408,032
	<hr/>
Operating loss	(10,920,013)

Nonoperating revenues:

Contribution from City of San José	2,259,068
Contribution from Transient Occupancy Tax Fund	8,407,343
	<hr/>
Total nonoperating revenues, net	10,666,411

Change in net position (253,602)

Net Position (Deficit):

Beginning of year	<hr/> (618,405)
End of year	<hr/> <hr/> \$ (872,007)

See accompanying notes to the 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, 2023

Cash flows from operating activities:	
Cash receipts from customers	\$ 33,489,036
Cash payments to suppliers for goods and services	(17,592,659)
Cash payments to employees for services	<u>(26,512,201)</u>
Net cash used in operating activities	<u>(10,615,824)</u>
Cash flows from noncapital financing activities:	
Contribution from City of San José	1,708,582
Contribution from Transient Occupancy Tax Fund	<u>7,936,375</u>
Net cash provided by noncapital financing activities	<u>9,644,957</u>
Change in cash	(970,867)
Cash, beginning of year	<u>11,839,612</u>
Cash, end of year	<u>\$ 10,868,745</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (10,920,013)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	27,406
Changes in assets and liabilities:	
Accounts receivable, net	594,645
Inventories	11,804
Prepaid expenses	(72,333)
Accounts payable	(312,187)
Accounts payable - event related	250,347
Accounts payable - Team San Jose	(256,341)
Accrued liabilities	648,662
Unearned revenue	<u>(587,814)</u>
Net cash used in operating activities	<u>\$ (10,615,824)</u>

See accompanying notes to the financial statements.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to the Financial Statements

For the Year Ended June 30, 2023

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, Center for the Performing Arts, California Theatre, South Hall, and Montgomery Theater. These six 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, 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 presentation on a standalone basis, management has elected to report it as an enterprise fund. The contractual requirements between the City and Team San Jose 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 are reported as part of the City's government-wide financial statements. 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, 2023, and the change 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 (GAAP).

TSJ Events, LLC

On March 19, 2009, Team San Jose established TSJ Events, LLC, in the State of California to provide alcoholic 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. Pursuant to the Operating Agreement between Team San Jose and TSJ Events, LLC, all revenues and expenses for 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

The financial statements have been prepared using the economic recourses measuring focus and the accrual basis of accounting in accordance with GAAP as prescribed by the Governmental Accounting Standards Board. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of the related cash flows.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) 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.

(c) Cash and Cash Equivalents

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

(d) Accounts Receivable

The accounts receivable balance at June 30, 2023, is reported net of an allowance for estimated uncollectible amounts. Management estimated there were uncollectible amounts in the amount of \$6,919 at June 30, 2023, using its allowance calculation methodology based on historical write-off rates and comparable industry standards.

(e) Inventories

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

(f) Capital Assets

Capital assets are defined as assets with initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. They include computers, machinery and equipment, furniture and fixtures, and other improvements that are used in operations. Such assets are recorded at historical costs if purchased or constructed, and are depreciated using the straight-line method over the following estimated useful lives:

Computer and network equipment	3 years
Machinery and equipment	5 years
Furniture and fixtures	5 years
Other improvements	10 years

(g) 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 earned in accordance with the terms of the agreements with its employee groups. At June 30, 2023, the Center recorded \$1,212,957 of accrued vacation payable as part of accrued liabilities on the accompanying financial statements.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) *Benefit Plans*

On-call employees of the Center are enrolled in defined contribution and defined benefit plans administered by various third parties that are not state or local government plans. These plans provide benefits to both state and local government and non-state and local government employers and employers of the plan are not predominately state or local government. Based on the number of hours worked by the covered employees, the Center paid into the respective benefit plans in accordance with the collective bargaining agreements.

(i) *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. 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.

(j) *Net Position*

Net position is classified in the following two components:

Investment in Capital Assets groups all capital assets into one component of net position. Accumulated depreciation reduces the balance in this category.

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 restricted resources first and then unrestricted resources, as they are needed.

At June 30, 2023, the Center has a deficit net position of \$872,007. The deficit net position is expected to be reduced through improvement in operating results in the future years.

NOTE 3 – CASH AND EVENT DEPOSITS

The Center's cash as of June 30, 2023, consists of the following:

	<u>June 30, 2023</u>
Operating accounts	\$ 3,153,545
Payroll account	1,035,568
Receipts accounts	6,647,167
Petty cash	<u>32,465</u>
Total cash and event deposits	<u>\$ 10,868,745</u>

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2023

NOTE 3 – CASH AND EVENT DEPOSITS (CONTINUED)

(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 Team San Jose transfers funds from the receipts account to the operating account on a monthly basis, as funding is needed.

(b) *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a failure of a depository financial institution or counterparty to a transaction, the Center may be unable to recover the value of the investments or collateral securities in the possession of an outside party.

At June 30, 2023, the net carrying amount of the Center's operating accounts is \$3,153,545 which is reported as part of cash, and the bank balances total \$3,487,068. The carrying amount of the Center's payroll account is \$1,035,568 and the bank balance is \$1,045,415. The carrying amount of the Center's receipts account is \$6,647,167 and the bank balance is \$6,647,167. The differences between the bank balances and the carrying amounts represent outstanding checks and deposits in transit. The amounts placed on deposits 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 institution's trust department or agent in the Center's name.

NOTE 4 – CAPITAL ASSETS

The following is a summary of capital assets activity for the fiscal year ended June 30, 2023:

	July 1, 2022	Additions	Deletions	June 30, 2023
<i>Capital assets, being depreciated:</i>				
Computer and network equipment	\$ 1,395,536	\$ -	\$ -	\$ 1,395,536
Machinery and equipment	1,176,246	-	-	1,176,246
Furniture and fixtures	2,714,325	-	-	2,714,325
Other improvements	2,225,243	-	-	2,225,243
Total capital assets, being depreciated	7,511,350	-	-	7,511,350
<i>Less accumulated depreciation for:</i>				
Computer and network equipment	(1,389,359)	(6,177)	-	(1,395,536)
Machinery and equipment	(1,156,742)	(11,242)	-	(1,167,984)
Furniture and fixtures	(2,698,824)	(6,200)	-	(2,705,024)
Other improvements	(2,220,783)	(3,787)	-	(2,224,570)
Total accumulated depreciation	(7,465,708)	(27,406)	-	(7,493,114)
Total capital assets, being depreciated, net	\$ 45,642	\$ (27,406)	\$ -	\$ 18,236

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2023

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 Agreement expires on 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 \$1,000,000 to provide reimbursement for a portion of the expenses incurred for salaries, wages, taxes and benefits for executive staff and an incentive fee of \$250,000, which is based on the extent to which Team San Jose meets incentive fee measure criteria for the prior year.

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. In 2009, Team San Jose and CVB merged into a single nonprofit entity with Team San Jose as the surviving entity and CVB as a fictitious business name. Currently, Team San Jose provides convention and visitor bureau services to the City under an agreement that expires on June 30, 2024.

The mission of Team San Jose as the provider of Convention and Visitors Bureau 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. Team San Jose 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.

Team San Jose historically has received approximately 3% of the City's transient occupancy tax (TOT), commonly referred to as the "hotel tax." The current TOT rate is equal to 10% of the rent charged by hotel operator throughout the City. Of the current TOT rate, 4% is a general tax that is deposited into the City's General Fund. The remaining TOT is deposited into a special revenue fund allocated to various specified purposes. One of the specified purposes is the funding of a convention and visitor bureau, including a rental subsidy of City facilities for convention purposes. The CVB receives supplemental funding through annual partner/advocate fees through which convention hotel partners and tourism advocates (e.g. area restaurants, attractions, shopping, transportation and lodging) contribute. At June 30, 2023, the Center has a net amount due to Team San Jose of \$44,959 for payroll and administrative costs.

Supply Management

Effective September 1, 2019, Team San Jose entered into an agreement with Avendra LLC, to manage the procurement process, including bids, audits and suppliers. The Center is required to purchase at least 80% of its requirements for goods and services, such as food and beverage, operating supplies and engineering services, through Avendra LLC. The agreement is a month-to-month arrangement.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2023

NOTE 6 – CONTRIBUTIONS FROM CITY OF SAN JOSE

In order for the Center to continue its operations, it relies on the City for operating contributions. The Center’s operating loss for the fiscal year ended June 30, 2023, was \$10,920,013, which required cash contributions totaling \$2,259,068 from the City. The City uses a portion of its 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. At June 30, 2023, the Center has a net amount due from the City of \$868,406 for TOT receipts and certain other reimbursements.

During the year ended June 30, 2023, the City paid for some repairs, maintenance and capital improvements to the Center in the amount of \$1,167,265. These activities are not reported on the Center’s statement of revenues, expenses and change in net position.

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 Agreement. The coverage provided by commercial insurance and excess coverage as of June 30, 2023, is as follows:

Provider	Type of Coverage	Coverage Amount	Deductible
Philadelphia Indemnity Insurance Company	Automobile	\$ 1,000,000	\$ 500-1,000
Philadelphia Indemnity Insurance Company	General Liability	1,000,000	25,000
Philadelphia Indemnity Insurance Company	Commercial Liability/Property/Business Income	9,600,000	5,000
Philadelphia Indemnity Insurance Company	Business Personal Property/Inland Marine	176,002	1,000-5,000
Indian Harbor Insurance Company	Excess/Umbrella Liability - Layer 1	5,000,000	-
Evanston Insurance Company	Excess/Umbrella Liability - Layer 2	5,000,000	-
Berkshire Hathaway/Homestate Company	Workers’ Compensation - California	1,000,000	-
Allied World Assurance Co (US) Inc.	Directors & Officers Liability	2,000,000	25,000
Allied World Assurance Co (US) Inc.	Employment Practice Liability	2,000,000	150,000
Allied World Assurance Co (US) Inc.	Fiduciary Liability	1,000,000 *	-
Trisura Specialty Insurance No.	Cyber/Privacy Liability & Network Security	1,000,000	25,000
Great American	Crime - General	1,000,000	25,000
Great American	Crime - ERISA	500,000	-
Landmark American Insurance	Professional Liability Coverage	2,000,000	5,000
Lloyds of London	Professional Liability - Work Place Violence	1,000,000	10,000
Nation Liability & Fire Insurance Co	General Liability (Drone Coverage)	1,000,000	-
Beazley Syndicates	Pollution	1,000,000	25,000

* Decreased from \$2,000,000 for fiscal year ended June 30, 2022.

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)

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2023

NOTE 8 – UNCERTAINTIES

The Center was reopened for business in August 2021, but revenues have not returned to pre-pandemic levels. The industry continues to face uncertainties surrounding COVID-19, inflation, and the growing belief that the U.S. economy is heading into a recession. This has caused large groups of recurring customers to cancel. Cancellation revenue for the year ended June 30, 2023 was \$2,512,928 compared to \$2,708,018 for the year ended June 30, 2022. Team San Jose continues to mitigate the risk of cancellations by diversifying contracts with new customers.

The contributions from the City and the TOT fund for the year ended June 30, 2023, totaled \$10,666,411, which was not sufficient to cover the current year operating losses of \$10,920,013. These contributions are vital to continue operating the Center as a going concern. The City is committed to ensuring Team San Jose has enough resources to operate the Center.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Budgetary Comparison Schedule

For the Year Ended June 30, 2023

	Budget		Actual	Variance
	Original	Final		
Operating revenues:				
Building rental	\$ 6,510,432	\$ 6,510,432	\$ 7,306,922	\$ 796,490
Food and beverage services	18,563,360	18,563,360	12,374,188	(6,189,172)
Commission revenues	485,552	485,552	382,391	(103,161)
Event electrical/utility services	98,848	98,848	958,283	859,435
Networking services	1,174,540	1,174,540	716,429	(458,111)
Audio/visual services	125,807	125,807	407,491	281,684
Ticketing services	278,572	278,572	844,287	565,715
Telecommunications services	80,880	80,880	115,799	34,919
Equipment rentals	35,950	35,950	117,498	81,548
Event production labor revenues	12,130,043	12,130,043	10,194,576	(1,935,467)
Rigging Assessment Fee	287,559	287,559	207,935	(79,624)
Event/Networking Discount	(81,774)	(81,774)	(490,805)	(409,031)
Other revenues	72,783	72,783	353,025	280,242
	<u>39,762,552</u>	<u>39,762,552</u>	<u>33,488,019</u>	<u>(6,274,533)</u>
Total operating revenues				
Operating expenses:				
Administrative and general salaries - Team San José	22,486,568	22,486,568	18,395,124	4,091,444
Cost of event production labor	10,192,860	10,192,860	8,619,526	1,573,334
Utilities	3,265,350	3,265,350	4,263,517	(998,167)
Food and beverage costs	2,964,708	2,964,708	2,204,615	760,093
Bad debt expense	-	-	5,814	(5,814)
Contracted outside services	3,296,006	3,296,006	3,098,000	198,006
Professional services	331,763	331,763	150,977	180,786
Operating supplies	536,800	536,800	721,757	(184,957)
Repairs and maintenance	1,733,843	1,733,843	1,588,554	145,289
Insurance	493,469	493,469	550,296	(56,827)
City of San José oversight	778,824	778,824	805,182	(26,358)
Ticketing costs	60,847	60,847	71,854	(11,007)
Workers' compensation insurance premiums	807,129	807,129	514,568	292,561
Fire insurance	450,000	450,000	434,369	15,631
Management fee - Team San José	1,250,000	1,250,000	1,250,000	-
Equipment rentals	116,507	116,507	86,796	29,711
City of San José facility usage	25,000	25,000	33,500	(8,500)
Other expenses	2,394,698	2,394,698	1,586,177	808,521
	<u>51,184,372</u>	<u>51,184,372</u>	<u>44,380,626</u>	<u>6,803,746</u>
Total operating expenses				
Operating loss	(11,421,820)	(11,421,820)	(10,892,607)	529,213
Nonoperating revenues (expenses):				
Contribution from City of San José	2,192,264	2,242,264	2,259,068	16,804
Contribution from Transient Occupancy Tax Fund	8,007,360	9,175,000	8,407,343	(767,657)
	<u>(1,222,196)</u>	<u>(4,556)</u>	<u>(226,196)</u>	<u>(221,640)</u>
Change in net position on a budgetary basis				
Reconciling items:				
Depreciation			(27,406)	
Change in net position on a GAAP basis			<u>(253,602)</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, 2023

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. 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. On a GAAP basis, depreciation expense is reported as an operating expense, while on a budgetary basis depreciation expense is not reported.