

**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, 2010

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

For the Year Ended June 30, 2010

Table of Contents

	<i>Page(s)</i>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Net Assets	4
Statement of Cash Flows.....	5
Notes to Financial Statements	6 - 13
Supplementary Information:	
Budgetary Comparison Schedule.....	15
Note to the Budgetary Comparison Schedule	16

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, 2010, 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, 2010, and the changes in its financial position and its cash flows for the year ended June 30, 2010, 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, 2010, 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 Center's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken 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

Certified Public Accountants
Walnut Creek, California

December 1, 2010

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Net Assets

June 30, 2010

Assets:

Current assets:

Cash and cash equivalents	\$ 1,888,269
Accounts receivable, net of allowance of \$1,146,329	2,744,264
Inventories	56,958
Prepaid expenses	37,396
Other assets	63,000
Total current assets	<u>4,789,887</u>

Capital assets:

Construction in progress	12,000
Depreciable capital assets, net	<u>1,944,625</u>
Total capital assets	<u>1,956,625</u>
Total assets	<u>6,746,512</u>

Liabilities:

Current liabilities:

Bank overdraft	356,346
Accounts payable	1,612,407
Accounts payable - Team San José	25,000
Accrued liabilities	619,006
Unearned revenue	<u>1,529,604</u>
Total current liabilities	<u>4,142,363</u>

Net assets:

Invested in capital assets	1,956,625
Unrestricted	<u>647,524</u>
Total net assets	<u>\$ 2,604,149</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, 2010

Operating revenues:

Building rental	\$ 4,124,743
Food and beverage services	6,461,076
Event electrical/utility services	504,287
Heat and power service charges	536,231
Networking services	215,807
Audio/visual services	394,437
Other revenues	277,411
Ticketing services	1,485,611
Telecommunications services	56,417
Equipment rentals	62,551
Event production labor revenues	3,497,422
Less City of San José credits for facility usage	(200,005)
Less City of San José credits for power charges	(189,082)
Total operating revenues	<u>17,226,906</u>

Operating expenses:

City of San José shared employees	5,023,569
Administrative and general salaries - Team San José	6,107,273
Cost of event production labor	2,973,411
Utilities	2,425,746
Food and beverage costs	1,305,813
Overhead - City of San José	808,813
Other expenses	1,067,439
Contracted outside services	622,234
Professional services	594,281
Operating supplies	453,497
Depreciation	331,280
Repairs and maintenance	412,585
Insurance	284,834
City of San José oversight	287,023
Ticketing costs	1,344,386
Workers' compensation insurance premiums	357,269
Fire insurance	128,811
Management fee - Team San José	813,324
Equipment rentals	318,934
Repairs and maintenance - City Funded	64,161
Total operating expenses	<u>25,724,683</u>
Operating loss	(8,497,777)

Nonoperating revenues:

Contributions from City of San José funds	<u>8,977,271</u>
Change in net assets	479,494

Net assets:

Beginning of year	<u>2,124,655</u>
End of year	<u>\$ 2,604,149</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, 2010

Cash flows from operating activities:	
Cash receipts from customers	\$ 15,888,014
Cash payments to suppliers for goods and services	(10,580,523)
Cash payments to employees for services	(13,999,015)
Net cash used in operating activities	<u>(8,691,524)</u>
Cash flows from noncapital financing activities:	
Contributions from the City of San José	8,977,271
Negative cash implicitly financed	356,346
Net cash provided by noncapital financing activities	<u>9,333,617</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(405,968)</u>
Change in cash and cash equivalents	236,125
Cash and cash equivalents, beginning of year	<u>1,652,144</u>
Cash and cash equivalents, end of year	<u>\$ 1,888,269</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (8,497,777)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	331,280
Changes in assets and liabilities:	
Accounts receivable	(1,355,625)
Inventories	37,214
Prepaid expenses	(3,374)
Other assets	(58,000)
Accounts payable	732,787
Accrued liabilities	105,238
Unearned revenue	16,733
Net cash used in operating activities	<u>\$ (8,691,524)</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, 2010

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 Theater (formerly known as the Fox Theater), and Montgomery Theater. These six venues offer trade show exhibits, conventions, corporate meetings, black tie dinners, consumer shows and performing arts. The City of San José (the City) selected Team San José to manage the operations of the Center (see Note 5). The Team San José 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, 2010 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

For the Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Accounts Receivable*

The accounts receivable balance at June 30, 2010 is reported net of an allowance for estimated uncollectible amounts. Management estimated the uncollectible amounts to be \$1,146,329 at June 30, 2010 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 market 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) *Operating Revenues and Expenses*

The Center defines its operating revenues as charges for services, which are revenues derived from charges for building rental, 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.

(g) *Net Assets*

Net assets are classified in the following two components:

Invested in Capital Assets consist 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.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to Financial Statements

For the Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) *New Accounting Pronouncement Adopted*

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. No accounting changes were required by the Center to conform to the provisions of GASB Statement No. 51 and retroactive restatement of prior financial statements is not required.

(i) *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, 2010:

Cash and cash equivalents	
Operating accounts	\$ 22,440
Payroll accounts	52,409
Receipts accounts	1,782,514
Petty cash	<u>30,906</u>
Total cash and cash equivalents	<u>\$ 1,888,269</u>
Bank overdraft	
Operating accounts	<u>\$ (356,346)</u>

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to Financial Statements

For the Year Ended June 30, 2010

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

(a) *Nature of Bank Accounts*

The Center maintains all of its funds as cash deposits. The operating accounts are in the name of Team San José and are used to disburse funds for operations or for capital outlays under the direction of Team San José. The receipts accounts are in the name of the City of San José and are under the custodianship of the City. All revenues collected by the Center are deposited into the receipts accounts and the City disburses funds from the receipts accounts to the operating accounts and payroll accounts as demands are made by Team San José to facilitate operations.

(b) *Custodial Credit Risk*

At year-end, the net carrying amount of the Center's operating accounts were (\$333,906), which is reported as part of cash and cash equivalents and as a bank overdraft, and the bank balances were \$301,003. The difference between the bank balances and the carrying amount represents outstanding checks and deposits in transit. The carrying amount of the Center's payroll accounts were \$52,409 and the bank balances were \$56,129. The difference between the bank balances and the carrying amounts represents outstanding checks.

At year-end, the carrying amount of the Center's receipts account was \$1,782,514 and the bank balance was \$1,851,188. 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.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to Financial Statements

For the Year Ended June 30, 2010

NOTE 4 – CAPITAL ASSETS

The following is a summary of the changes in capital assets for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Transfers	Balance June 30, 2010
<i>Nondepreciable capital assets:</i>				
Construction in progress	\$ 162,119	\$ 92,379	\$ (242,498)	\$ 12,000
<i>Depreciable capital assets:</i>				
Computer and network equipment	\$ 291,618	\$ -	\$ 92,378	\$ 383,996
Computer software	-	-	41,248	41,248
Machinery and equipment	357,493	26,540	-	384,033
Furniture and fixtures	93,812	126,097	-	219,909
Building improvements	1,917,544	160,952	108,872	2,187,368
Total depreciable capital assets	2,660,467	313,589	242,498	3,216,554
<i>Less accumulated depreciation:</i>				
Computer and network equipment	(275,351)	(12,973)	-	(288,324)
Computer software	-	(8,250)	-	(8,250)
Machinery and equipment	(127,090)	(75,420)	-	(202,510)
Furniture and fixtures	(28,169)	(22,743)	-	(50,912)
Building improvements	(510,039)	(211,894)	-	(721,933)
Total accumulated depreciation	(940,649)	(331,280)	-	(1,271,929)
Depreciable capital assets, net	\$ 1,719,818	\$ (17,691)	\$ 242,498	\$ 1,944,625

Additions and transfers to depreciable asset categories totaled \$556,087 for the year ended June 30, 2010 and consisted of the following significant additions:

1. Civic Center improvements totaling \$143,554 – This upgrade includes electrical improvements, new countertops and art decorations. The improvements were made in conjunction with the introduction of the new Broadway shows to the Civic Center in an effort to increase revenues by making the venue more attractive to performers and viewers.
2. Electrical substation project totaling \$108,872 – The final phase of this project was completed in January 2010. The transformer is now in use and the asset began to be depreciated at this time.
3. Event Business Management Software (EBMS) conversion totaling \$41,248 – The conversion to the fully functional use of EBMS commenced in July 2009. EBMS is used for tracking revenues, accounts receivable and deferred revenues. EBMS is integrated with the Center’s general ledger, MAS 90, so that information recorded in EBMS can be uploaded into MAS 90.
4. Purchase of labor management computer system totaling \$66,554 – The Center purchased a new system for tracking labor costs.
5. Purchase of panels and lighting totaling \$103,176 – The Center purchased panels and lighting as part of its contractual agreement for the Genghis Khan exhibit.

The ending balance in the Construction In Progress account at June 30, 2010 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

For the Year Ended June 30, 2010

NOTE 5 – SIGNIFICANT AGREEMENTS WITH OUTSIDE PARTIES

Team San José

Team San José, 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 José integrates key community stakeholders to create an innovative governance model. The City entered into a Management Agreement (the Agreement) with Team San José 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 José pursuant to the Agreement, the City pays Team San José a yearly management fee that varies based on the Center's performance and totaled \$150,000 this fiscal year and an executive management fee of \$663,324 to provide payment for a portion of the expenses incurred for salaries, wages, taxes and benefits for executive staff.

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 José.

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 José.

The CVB receives 3% of the City's 10% Transient Occupancy Tax (TOT), more 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 José established TSJ Events, LLC, in the State of California to provide food and beverages at events catered by the Center. Team San José 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 José has been designated as the manager of TSJ Events, LLC. Per the Operating Agreement between Team San José 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

For the Year Ended June 30, 2010

NOTE 5 – SIGNIFICANT AGREEMENTS WITH OUTSIDE PARTIES (Continued)

Hilton Supply Management

On December 21, 2009, Team San José 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 \$8,497,777, which required an operating cash contribution in the amount of \$8,977,271 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 this contribution. 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 José employees. Team San José 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, 2010 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	5,000
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

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 Financial Statements

For the Year Ended June 30, 2010

NOTE 8 –SUBSEQUENT EVENT

On August 18, 2010, the City served Team San José 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 José 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.

Section 6.2 of the Agreement provides that “in the event that the City reasonably determines that Team San José has failed to comply with the material terms of the Agreement in a timely manner (Default), the City shall notify Team San José in writing of the Default and the corrective action to be taken”. The corrective action plan includes the following two requirements:

1. Restructuring of Team San José's access to the Center's bank accounts. Effective August 18, 2010, the City has limited Team San José's access to the Receipts Account by removing its ability to make transfers from the account. The City requires new procedures to be implemented requiring Team San José to submit appropriate documentation to the Director of Finance prior to the transfer of funds from the Receipts Account to the Operating Account.
2. The City will require an audit of the Receipts and Operating Accounts as well as an agreed-upon procedures engagement to be conducted. Pending the results of the audit and the agreed-upon procedures, the City reserves the right to notify Team San José of any further corrective action.

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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, 2010

	Budget		Actual	Variance
	Original	Final		
Operating revenues:				
Building rental	\$ 4,275,587	\$ 4,275,587	\$ 4,548,200	\$ 272,613
Food and beverage services	6,624,939	6,624,939	6,461,076	(163,863)
Event electrical/utility services	599,930	599,930	504,287	(95,643)
Heat and power service charges	403,668	403,668	536,231	132,563
Networking services	310,930	310,930	215,807	(95,123)
Audio/visual services	445,818	445,818	394,437	(51,381)
Other revenues	359,095	359,095	277,411	(81,684)
Ticketing services	2,121,566	2,236,566	1,485,611	(750,955)
Telecommunications services	87,830	87,830	56,417	(31,413)
Equipment rentals	68,150	68,150	62,551	(5,599)
Event production labor revenues	1,978,318	1,978,318	3,497,422	1,519,104
Total operating revenues	17,275,831	17,390,831	18,039,450	648,619
Operating expenses:				
City of San José shared employees	5,081,700	5,129,549	5,023,569	105,980
Administrative and general salaries - Team San José	4,265,499	5,557,634	6,107,273	(549,639)
Cost of event production labor	4,138,669	2,329,432	2,973,411	(643,979)
Utilities	2,567,279	2,567,279	2,425,746	141,533
Food and beverage costs	1,822,666	1,572,676	1,305,813	266,863
Overhead - City of San José	808,813	808,813	808,813	-
Other expenses	773,084	1,608,288	1,067,439	540,849
Contracted outside services	-	544,318	622,234	(77,916)
Professional services	479,404	679,408	594,281	85,127
Operating supplies	676,035	486,595	453,497	33,098
Repairs and maintenance	159,344	8,377	412,585	(404,208)
Insurance	351,760	351,756	284,834	66,922
City of San José oversight	287,023	287,023	287,023	-
Ticketing costs	1,281,960	1,252,150	1,344,386	(92,236)
Workers' compensation insurance premiums	150,000	212,476	357,269	(144,793)
Fire insurance	200,000	130,000	128,811	1,189
Management fee - Team San José	966,944	966,944	813,324	153,620
Equipment rentals	129,776	129,777	318,934	(189,157)
Repairs and maintenance - City Funded	200,000	200,000	64,161	135,839
Total operating expenses	24,339,956	24,822,495	25,393,403	(570,908)
Operating loss	(7,064,125)	(7,431,664)	(7,353,953)	77,711
Capital outlay	-	(405,968)	(405,968)	-
Contributions from City of San José funds	7,064,125	7,837,632	8,977,271	1,139,639
Change in net assets on a budgetary basis	\$ -	\$ -	1,217,350	\$ 1,217,350
Reconciling items:				
Depreciation			(331,280)	
Capital outlay capitalized as capital assets			405,968	
Bad debt expense			(423,457)	
City of San José credits for facility usage			(200,005)	
City of San José credits for power charges			(189,082)	
Change in net assets on a GAAP basis			\$ 479,494	

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, 2010

NOTE 1 – BUDGETARY DATA

(a) *Budget Information*

In accordance with Section 9.3 of the Agreement, Team San José prepares a proposed annual budget on or before March 1 of each contract year. The City reviews and approves the proposed annual budget on or before May 31 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 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 Jose 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.