

**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, 2015



**SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

For the Year Ended June 30, 2015

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## Independent Auditor's Report

City Council  
City of San José, California

We have audited the accompanying financial statements of the San José Convention and Cultural Facilities (the Center), an activity of the City of San José (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2015, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

*Basis of Presentation*

As discussed in Note 1 to the financial statements, the financial statements of the Center are intended to present the financial position and the changes in financial position and cash flows of only that portion of the City's financial statements that is attributable to the transactions of the Center. The Center is reported within the City's special revenue funds; however, for purposes of this presentation, management reports it as an enterprise fund to comply with contractual requirements. The financial statements of the Center do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015, 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.

***Other Matters***

*Required Supplementary Information*

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

*Other Information*

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

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
September 29, 2015

**SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

Statement of Net Position

June 30, 2015

**Assets:**

Current assets:

Cash	\$ 2,632,745
Accounts receivable, net of allowance of \$514,880	2,649,772
Accounts receivable - Team San Jose	31,484
Inventories	116,852
Prepaid expenses	92,801
Other assets	5,000
Restricted cash	2,367,128
Total current assets	<u>7,895,782</u>

Capital assets:

Construction in progress	12,000
Depreciable capital assets, net	<u>2,630,325</u>
Total capital assets	<u>2,642,325</u>
Total assets	<u>10,538,107</u>

**Liabilities:**

Current liabilities:

Accounts payable	1,628,930
Accounts payable - City of San José	779,724
Accrued liabilities	2,046,552
Unearned revenue	<u>2,372,542</u>
Total current liabilities	<u>6,827,748</u>

**Net Position:**

Net investment in capital assets	2,642,325
Unrestricted	<u>1,068,034</u>
Total net position	<u>\$ 3,710,359</u>

See accompanying notes to financial statements.

# SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2015

## Operating revenues:

Building rental	\$ 6,123,991
Food and beverage services	18,270,531
Commission revenues	1,382,529
Event electrical/utility services	486,599
Networking services	1,148,480
Audio/visual services	330,110
Ticketing services	393,309
Telecommunications services	113,742
Equipment rentals	67,264
Event production labor revenues	8,996,857
Other revenues	82,513
Total operating revenues	<u>37,395,925</u>

## Operating expenses:

Administrative and general salaries - Team San Jose	13,822,055
Cost of event production labor	8,491,999
Utilities	2,823,559
Food and beverage costs	3,397,017
Bad debt expense	94,660
Contracted outside services	4,736,115
Professional services	346,717
Operating supplies	459,717
Depreciation	1,007,500
Repairs and maintenance	1,685,910
Insurance	263,571
City of San José oversight	771,348
Ticketing costs	51,138
Workers' compensation insurance premiums	1,082,259
Fire insurance	236,082
Management fee - Team San Jose	1,349,996
Equipment rentals	231,340
Repairs and maintenance - City of San José funded	3,024,191
City of San José facility usage	179,569
Other expenses	1,691,556
Total operating expenses	<u>45,746,299</u>
Operating loss	(8,350,374)

## Nonoperating revenues:

Contribution from City of San José	5,839,543
Contribution from Transient Occupancy Tax fund	2,275,387
Reimbursement to City's Arts Stabilization Fund	(345,215)
Convention & Visitors Bureau Funding	(500,000)
Total nonoperating revenues	<u>7,269,715</u>

Change in net position (1,080,659)

## Net Position:

Beginning of year	<u>4,791,018</u>
End of year	<u>\$ 3,710,359</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, 2015

Cash flows from operating activities:	
Cash receipts from customers	\$ 37,822,462
Cash payments to suppliers for goods and services	(21,673,760)
Cash payments to employees for services	(22,870,027)
Cash payment to City for Transient Occupancy Tax fund	<u>(681,613)</u>
Net cash used in operating activities	(7,402,938)
Cash flows from noncapital financing activities:	
Contribution from City of San José	5,839,543
Contribution from Transient Occupancy Tax fund	2,957,000
Reimbursement to City's Arts Stabilization Fund	(345,215)
Convention & Visitors Bureau Funding	<u>(500,000)</u>
Net cash provided by noncapital financing activities	7,951,328
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(68,347)</u>
Net cash from capital and related financing activities	<u>(68,347)</u>
Change in cash	480,043
Cash, beginning of year	<u>4,519,830</u>
Cash, end of year	<u>\$ 4,999,873</u>
Reconciliation to the statement of net position:	
Cash	\$ 2,632,745
Restricted cash and investments	<u>2,367,128</u>
Cash, end of year	<u>\$ 4,999,873</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (8,350,374)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,007,500
Loss on write off of capital asset	3,793
Changes in assets and liabilities:	
Accounts receivable	(67,223)
Inventories	(31,263)
Prepaid expenses	(19,204)
Other assets	165,079
Accounts payable	(253,834)
Accrued liabilities	(445,832)
Unearned revenue	<u>588,420</u>
Net cash used in operating activities	<u>\$ (7,402,938)</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, 2015

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

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

The Center's financial statements are intended to present the financial position and the changes in financial position and cash flows of only that portion of the City's financial statements that is attributable to the Center's operating transactions. The Center's operating transactions are reported within the City's special revenue funds; however, for purposes of this presentation management has elected to report it as an enterprise fund to comply with contractual requirements. The contractual requirements focus on the operations of the Center and as such the City has not included the Center's main building, improvements, and related depreciation in the Center's financial statements in accordance with an enterprise fund presentation under accounting principles generally accepted in the United States of America. These assets and related debt, except for the California Theatre and South Hall, which were transferred to the San José Successor Agency from the Redevelopment Agency during fiscal year 2013, are reported as part of the City's government-wide financial statements. 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, 2015 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.

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

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

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

#### **(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 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, 2015

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

**(d) Accounts Receivable**

The accounts receivable balance at June 30, 2015, is reported net of an allowance for estimated uncollectible amounts. Management estimated the uncollectible amounts to be \$514,880 at June 30, 2015 using its allowance calculation methodology that is 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 include computers, machinery and equipment, furniture and fixtures, leasehold improvements that are used in operations and that have initial useful lives in excess of one year. 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. Such assets are recorded at historical costs if purchased or constructed. Computers and network equipment, machinery and equipment, furniture and fixtures, other improvements 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 incurred in accordance with the terms of the agreements with its employee groups. At June 30, 2015, the Center recorded \$476,327 of accrued vacation payable as part of accrued liabilities.

**(h) Operating Revenues and Expenses**

The Center defines its operating revenues as charges for services, which are revenues derived from building rental, event production labor revenues, audio/visual services, electrical/utility services, equipment rental, food and beverage services, concessions, networking services, telecommunication services, and other services. All other revenue not derived from these sources, such as the City's operating subsidies, are classified as non-operating in the accompanying statement of revenues, expenses and changes in net position.

**SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

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

**(i) Net Position**

Net position is classified in the following two components:

*Net Investment in Capital Assets* - This category groups all capital assets into one component of net position. Accumulated depreciation reduce 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 unrestricted resources first and then restricted resources, as they are needed.

**NOTE 3 – CASH AND RESTRICTED CASH**

The Center's cash and cash equivalents consist of the following at June 30, 2015:

Cash and cash equivalents:	
Operating accounts	\$ 2,698,404
Payroll account	266,618
Receipts accounts	2,003,551
Petty cash	<u>31,300</u>
Total cash and cash equivalents	<u>\$ 4,999,873</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 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.

**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, 2015

**NOTE 3 – CASH AND RESTRICTED CASH (Continued)**

**(b) Custodial Credit Risk (continued)**

At June 30, 2015, the net carrying amount of the Center’s operating account was \$2,698,404, which is reported as part of cash and cash equivalents, and the bank balance was \$3,532,479. The carrying amount of the Center’s payroll account was \$266,618 and the bank balance was \$268,854. At year-end, the carrying amount of the Center’s receipts account was \$2,003,551 and the bank balance was \$2,075,019. The difference between the bank balance and the carrying amount represents 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 City’s name.

**NOTE 4 – CAPITAL ASSETS**

The following is a summary of capital assets activity for the fiscal year ended June 30, 2015:

	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
<i>Capital assets, not being depreciated:</i>					
Construction in progress	\$ 150,523	\$ -	\$ (3,793)	\$ (134,730)	\$ 12,000
<i>Capital assets, being depreciated:</i>					
Computer and network equipment	888,408	61,756	-	-	950,164
Machinery and equipment	892,192	6,591	-	126,016	1,024,799
Furniture and fixtures	2,681,334	-	-	1,989	2,683,323
Other improvements	2,218,518	-	-	6,725	2,225,243
Total capital assets, being depreciated	6,680,452	68,347	-	134,730	6,883,529
<i>Less accumulated depreciation for:</i>					
Computer and network equipment	(651,136)	(138,116)	-	-	(789,252)
Machinery and equipment	(505,655)	(127,478)	-	-	(633,133)
Furniture and fixtures	(490,269)	(520,526)	-	-	(1,010,795)
Other improvements	(1,598,644)	(221,380)	-	-	(1,820,024)
Total accumulated depreciation:	(3,245,704)	(1,007,500)	-	-	(4,253,204)
Total capital assets, being depreciated, net	3,434,748	(939,153)	-	134,730	2,630,325
Total capital assets, net	\$ 3,585,271	\$ (939,153)	\$ (3,793)	\$ -	\$ 2,642,325

## **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, 2015

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

#### Team San Jose

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

As compensation for the services rendered by Team San Jose pursuant to the Agreement, the City pays Team San Jose a Fixed Executive Management Fee of \$1,000,000 to provide reimbursement for a portion of the expenses incurred for salaries, wages, taxes and benefits for executive staff, a Fixed Minimum Management Fee of \$12,500 per calendar month in consideration of the management services provided by Team San Jose, and an Incentive Fee, which is based on the extent to which Team San Jose meets the Incentive Fee Measure criteria.

#### The San José Convention and Visitors Bureau

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

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

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

#### TSJ Events, LLC

On March 19, 2009, Team San Jose established TSJ Events, LLC, in the State of California to provide 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. 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, 2015

### 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 both the Center and HSM benefit from better pricing by combining its purchases. The agreement was in effect through June 30, 2014, with the option to continue on a month to month basis thereafter. On October 3, 2014, Team San Jose entered into a new agreement with Hilton Supply Management until June 30, 2019.

### 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 \$8,350,374, which required net operating cash contributions totaling \$7,951,328 from the City. The City uses a portion of TOT from its Transient Occupancy Tax Special Revenue Fund to fund these contributions. Accordingly, any significant changes in the TOT or a decision to change the amount of support could greatly affect the Center's ability to continue as a going concern.

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

FF&E funds from the City:	
Original funding	\$ 300,000
Additional funding approved by the City	2,200,000
Total FF&E funds from the City	<u>2,500,000</u>
Uses of FF&E funds:	
FY 2013 Payments to vendors on deposit (other assets)	(1,636,788)
FY 2013 Purchases of furniture, fixture and equipment	(118,599)
FY 2014 Purchases of furniture, fixture and equipment	(713,246)
FY 2015 Purchases of furniture, fixture and equipment	(31,367)
Total uses of FF&E funds to date	<u>(2,500,000)</u>
FF&E funds held in operating account	<u><u>\$ -</u></u>

## SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

### 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, 2015 is as follows:

Provider	Type of Coverage	Coverage	
		Amount	Deductible
Alaska National Insurance Company	Workers' Compensation-California	\$ 1,000,000	n/a
Allied World National Assurance Company	Privacy Liability & Network Risk	\$ 1,000,000	\$ 2,500
Hiscox	Crime - Employee Dishonesty	\$ 1,000,000	\$ 5,000
Hiscox	Crime - ERISA	\$ 1,000,000	n/a
Landmark American Insurance	Miscellaneous Professional Liability	\$ 2,000,000	\$ 2,500
Philadelphia Indemnity Insurance Company	Automobile	\$ 1,000,000	\$ 1,000
Philadelphia Indemnity Insurance Company	General Liability	\$ 2,000,000	n/a
Philadelphia Indemnity Insurance Company	Excess/Umbrella Liability	\$ 4,000,000	n/a
Philadelphia Indemnity Insurance Company	Property	\$ 2,250,000	\$ 1,000
QBE Insurance Corporation	Accidental Death	\$ 25,000	n/a
RSUI Indemnity Company	Directors & Officers Liability	\$ 2,000,000	\$ 15,000

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



**SAN JOSE CONVENTION AND CULTURAL FACILITIES**

(An Activity of the City of San José)

Budgetary Comparison Schedule

For the Year Ended June 30, 2015

	Budget		Actual	Variance
	Original	Final		
<b>Operating revenues:</b>				
Building rental	\$ 6,040,884	\$ 6,040,884	\$ 6,123,991	\$ 83,107
Food and beverage services	12,527,049	12,527,049	18,270,531	5,743,482
Commission revenues	695,224	695,224	1,382,529	687,305
Event electrical/utility services	320,381	320,381	486,599	166,218
Networking services	229,066	229,066	1,148,480	919,414
Audio/visual services	277,550	277,550	330,110	52,560
Ticketing services	295,731	295,731	393,309	97,578
Telecommunications services	3,136	3,136	113,742	110,606
Equipment rentals	82,797	82,797	67,264	(15,533)
Event production labor revenues	5,625,019	5,625,019	8,996,857	3,371,838
Other revenues	65,421	65,421	82,513	17,092
<b>Total operating revenues</b>	<b>26,162,258</b>	<b>26,162,258</b>	<b>37,395,925</b>	<b>11,233,667</b>
<b>Operating expenses:</b>				
Administrative and general salaries - Team San Jose	11,623,747	11,623,747	13,822,055	(2,198,308)
Cost of event production labor	5,367,057	5,367,057	8,491,999	(3,124,942)
Utilities	2,728,452	2,728,452	2,823,559	(95,107)
Food and beverage costs	2,284,160	2,284,160	3,397,017	(1,112,857)
Bad debt expense	23,258	23,258	94,660	(71,402)
Contracted outside services	2,615,173	2,615,173	4,736,115	(2,120,942)
Professional services	329,464	329,464	346,717	(17,253)
Operating supplies	510,143	510,143	459,717	50,426
Repairs and maintenance	1,221,744	1,221,744	1,685,910	(464,166)
Insurance	251,553	251,553	263,571	(12,018)
City of San José oversight	770,100	770,100	771,348	(1,248)
Ticketing costs	-	-	51,138	(51,138)
Workers' compensation insurance premiums	501,467	501,467	1,082,259	(580,792)
Fire insurance	225,996	225,996	236,082	(10,086)
Management fee - Team San Jose	1,000,000	1,000,000	1,349,996	(349,996)
Equipment rentals	155,558	155,558	231,340	(75,782)
Repairs and maintenance - City of San José funded	2,530,000	2,530,000	3,024,191	(494,191)
City of San José facility usage	200,000	200,000	179,569	20,431
Other expenses	1,356,492	1,356,492	1,691,556	(335,064)
<b>Total operating expenses</b>	<b>33,694,364</b>	<b>33,694,364</b>	<b>44,738,799</b>	<b>(11,044,435)</b>
<b>Operating loss</b>	<b>(7,532,106)</b>	<b>(7,532,106)</b>	<b>(7,342,874)</b>	<b>189,232</b>
<b>Nonoperating revenues (expenses):</b>				
Contribution from City of San José	8,526,844	8,526,844	5,839,543	(2,687,301)
Capital outlay	(245,000)	(245,000)	(68,347)	176,653
Contribution from Transient Occupancy Tax Fund	-	-	2,275,387	2,275,387
Reimbursement to City's Art Stabilization Fund	-	-	(345,215)	(345,215)
Convention & Visitors Bureau Funding	(500,000)	(500,000)	(500,000)	-
<b>Change in net position on a budgetary basis</b>	<b>\$ 249,738</b>	<b>\$ 249,738</b>	<b>(141,506)</b>	<b>\$ 365,885</b>
<b>Reconciling items:</b>				
Depreciation			(1,007,500)	
Capital outlay capitalized as capital assets			68,347	
<b>Change in net position on a GAAP basis</b>			<b>\$ (1,080,659)</b>	

See accompanying note to the budgetary comparison schedule.

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

(An Activity of the City of San José)

Note to the Budgetary Comparison Schedule

For the Year Ended June 30, 2015

### **NOTE 1 – BUDGETARY DATA**

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

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

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

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