

**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, 2016

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

For the Year Ended June 30, 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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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”), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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 on 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 San José Convention and Cultural Facilities as of June 30, 2016, and the results of its changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

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 financial statements of the Center do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016 and the changes in its financial position and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such 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.

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.

Grant Thornton LLP

San José, California

October 20, 2016

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Net Position

June 30, 2016

Assets:

Current assets:

Cash	\$ 4,180,981
Accounts receivable, net	3,007,812
Accounts receivable - Team San Jose	5,908
Inventories	79,285
Prepaid expenses	112,908
Prepaid expenses - event related	78,994
Other assets	5,000
Cash, event deposits	1,956,478

Total current assets	<u>9,427,366</u>
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Capital assets:

Construction in progress	31,225
Depreciable capital assets, net	1,734,354

Total capital assets	<u>1,765,579</u>
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Total assets	<u>11,192,945</u>
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Liabilities:

Current liabilities:

Accounts payable	2,300,629
Accounts payable - event related	72,189
Accounts payable - City of San José	781,131
Accrued liabilities	3,057,847
Unearned revenue	2,206,424

Total current liabilities	<u>8,418,220</u>
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Net Position:

Net investment in capital assets	1,765,579
Unrestricted	1,009,146

Total net position	<u>\$ 2,774,725</u>
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SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Revenues, Expenses and Changes in Net Position

June 30, 2016

Operating Revenues:

Building Rental	\$	7,197,328
Food and beverage services		22,844,140
Commission revenues		1,266,380
Event electrical/utility services		467,299
Networking services		1,352,701
Audio/visual services		427,521
Ticketing services		410,250
Telecommunications services		119,343
Equipment rentals		81,244
Event production labor revenues		10,861,687
Other revenues		564,355
Total Operating Revenues		<u>45,592,248</u>

Operating Expenses:

Administrative and general salaries - Team San Jose		17,433,990
Cost of event production labor		9,980,904
Utilities		2,915,340
Food and beverage costs		4,192,392
Bad debt expense		106,658
Contracted Outside Services		5,434,881
Professional services		166,711
Operating supplies		440,798
Depreciation		983,734
Repairs and maintenance		2,661,946
Insurance		265,035
City of San Jose oversight		539,690
Ticketing costs		92,472
Workers compensation insurance premiums		1,129,347
Fire insurance		215,306
Management fee - Team San Jose		1,200,000
Equipment rentals		172,488
City of San Jose facility usage		103,579
Other expenses		1,741,215
Total Operating Expenses		<u>49,776,486</u>

Operating Loss (4,184,238)

Non Operating Revenues:

Contributions from City of San Jose		2,318,940
Contributions from Transient Occupancy Tax Fund		1,429,668
Convention & Visitors Bureau Funding		(500,004)
Total Non Operating Revenues		<u>3,248,604</u>

Change in net position (935,634)

Net Position:

Beginning of year		<u>3,710,359</u>
End of year	\$	<u>2,774,725</u>

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Cash Flows

June 30, 2016

Cash flows from operating activities:	
Cash receipts from customers	\$ 45,093,666
Cash payments to suppliers for goods and services	(19,494,096)
Cash payments to employees for services	(27,603,599)
	<hr/>
Net cash used in operating activities	(2,004,029)
Cash flows from noncapital financing activities:	
Contribution from City of San José	2,318,940
Contribution from Transient Occupancy Tax fund	1,429,668
Convention & Visitors Bureau Funding	(500,004)
	<hr/>
Net cash provided by noncapital financing activities	3,248,604
Cash flows from capital and related financing activities:	
Purchase of capital assets	(106,988)
	<hr/>
Net cash from capital and related financing activities	(106,988)
Change in cash	1,137,587
Cash, beginning of year	4,999,873
	<hr/>
Cash, end of year	\$ 6,137,459
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Reconciliation to the statement of net position:	
Cash	\$ 4,180,981
Cash, event deposits	1,956,478
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Cash, end of year	\$ 6,137,459
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Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (4,184,238)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	983,734
Changes in assets and liabilities:	
Accounts receivable	(332,465)
Inventories	37,567
Prepaid expenses	(20,107)
Prepaid expenses - event related	61,822
Accounts payable	671,699
Accounts payable - event related	(166,738)
Accounts payable, net - City of San Jose	99,518
Accrued liabilities	1,011,295
Unearned revenue	(166,118)
	<hr/>
Net cash used in operating activities	\$ (2,004,029)
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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, 2016

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, and 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 José to manage the operations of the Center (see Note 5). The Team San José 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, the Center's financial statements are prepared under accounting principles generally accepted in the United States of America (U.S. GAAP). 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, 2016 and the changes in its financial position and cash flows for the year then ended in accordance with U.S. GAAP.

TSJ Events, LLC

On March 19, 2009, Team San José established TSJ Events, LLC, in the State of California to provide alcoholic 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 Chief Executive Officer of Team San José has been designated as the manager of TSJ Events, LLC. Pursuant to 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.

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.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

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Notes to the Financial Statements

For the year ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(d) *Accounts Receivable*

The accounts receivable balance at June 30, 2016, is reported net of an allowance for estimated uncollectible amounts. Management estimated the uncollectible amounts to be \$572,009 at June 30, 2016 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 José'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, 2016, the Center recorded \$811,110 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 the Financial Statements

For the year ended June 30, 2016

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 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 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, 2016:

Cash and cash equivalents:		
Operating accounts	\$	2,912,388
Payroll accounts		473,959
Receipts accounts		763,334
Receipt accounts- event deposits		1,956,478
Petty cash		31,300
Total cash and cash equivalents	\$	<u>6,137,459</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 José and is used to disburse funds for operations or for capital outlays under the direction of Team San José. 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 José transfers funds from the receipts account to the operating account on a monthly basis, as funding is needed.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

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Notes to the Financial Statements

For the year ended June 30, 2016

NOTE 3 – CASH AND RESTRICTED CASH (Continued)

(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, 2016, the net carrying amount of the Center’s operating account was \$2,912,388 which is reported as part of cash and cash equivalents, and the bank balance was \$4,292,639. The carrying amount of the Center’s payroll account was \$473,959 and the bank balance was \$476,945. At year-end, the carrying amount of the Center’s receipts account was \$2,719,812 and the bank balance was \$2,642,848. 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, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<i>Capital assets, not being depreciated:</i>				
Construction in progress	\$ 12,000	\$ 31,225	\$ (12,000)	\$ 31,225
<i>Capital assets, being depreciated:</i>				
Computer and network equipment	950,164	87,763	-	1,037,927
Machinery and equipment	1,024,799	-	-	1,024,799
Furniture and fixtures	2,683,323	-	-	2,683,323
Other improvements	2,225,243	-	-	2,225,243
Total capital assets, being depreciated	<u>6,883,529</u>	<u>87,763</u>	<u>-</u>	<u>6,971,292</u>
<i>Less accumulated, depreciation for</i>				
Computer and network equipment	(789,252)	(131,667)	-	(920,919)
Machinery and equipment	(633,133)	(117,369)	-	(750,502)
Furniture and fixtures	(1,010,795)	(513,318)	-	(1,524,113)
Other improvements	(1,820,024)	(221,380)	-	(2,041,404)
Total accumulated depreciation	<u>(4,253,204)</u>	<u>(983,734)</u>	<u>-</u>	<u>(5,236,938)</u>
Total capital assets, being depreciated, net	<u>2,630,325</u>	<u>(895,971)</u>		<u>1,734,354</u>
Total capital assets, net	<u>\$ 2,642,325</u>	<u>\$ (864,746)</u>	<u>\$ (12,000)</u>	<u>\$ 1,765,579</u>

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, 2016

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. On June 17, 2014, the City and Team San José 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 José pursuant to the Agreement, the City pays Team San José 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 \$200,000 per year in consideration of the management services provided by Team San José, and an Incentive Fee, which is based on the extent to which Team San José 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 José. The City and CVB entered into subsequent agreements for convention and visitor bureau services. In 2009 Team San José and CVB merged into a single nonprofit entity with Team San José as the surviving entity. Currently, Team San José provides convention and visitor bureau services to the City under an agreement with an initial term commencing on July 1, 2014 until June 30, 2019 with two five year automatic extension terms, ending on June 30, 2029.

The mission of Team San José 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 José 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 José historically has received approximately 3% of the City's 10% 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 operators 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 fund and allocated to various specified purposes. One of the specified purposes is the funding of a convention and visitors bureau, including a rental subsidy of City facilities for convention purposes. 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.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

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Notes to the Financial Statements

For the year ended June 30, 2016

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 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 José 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 \$4,184,238, which required net operating cash contributions totaling \$3,248,604 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.

In the fiscal year, the City of San José paid for some repairs, maintenances and capital improvements to the Center in the amount of \$6,414,611. These activities are not reported on the Center's Statement of Revenues, Expenses and Changes 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 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, 2016 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	N/A
Philadelphia Indemnity Insurance Company	General Liability	\$ 1,000,000	N/A
Philadelphia Indemnity Insurance Company	Excess/ Umbrella Liability	\$ 4,000,000	\$ 10,000
Philadelphia Indemnity Insurance Company	Property	\$ 4,010,000	\$ 1,000
QBE Insurance Corporation	Accidental Death/ Volunteers Medical	\$ 25,000	N/A
RSUI Indemnity Corporation	Directors & Officers Liability	\$ 2,000,000	\$ 15,000
RSUI Indemnity Corporation	Employment Practice Liability	\$ 2,000,000	\$ 75,000
RSUI Indemnity Corporation	Fiduciary Liability	\$ 1,000,000	\$ 2,500

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, 2016

	Budget		Actual	Variance
	Original	Final		
Operating Revenues:				
Building Rental	\$ 5,699,200	\$ 5,699,200	\$ 7,197,328	\$ 1,498,128
Food and beverage services	14,952,805	14,952,805	22,844,140	7,891,335
Commission revenues	928,115	928,115	1,266,380	338,265
Event electrical/utility services	383,481	383,481	467,299	83,818
Networking services	931,462	931,462	1,352,701	421,239
Audio/visual services	208,736	208,736	427,521	218,785
Ticketing services	374,600	374,600	410,250	35,650
Telecommunications services	111,590	111,590	119,343	7,753
Equipment rentals	59,929	59,929	81,244	21,315
Event production labor revenues	7,588,000	7,588,000	10,861,687	3,273,687
Other revenues	72,410	72,410	564,355	491,945
Total Operating Revenues	<u>31,310,328</u>	<u>31,310,328</u>	<u>45,592,248</u>	<u>14,281,920</u>
Operating Expenses:				
Administrative and general salaries - Team San Jose	13,074,004	13,074,004	17,433,990	(4,359,986)
Cost of event production labor	7,225,447	7,225,447	9,980,904	(2,755,457)
Utilities	2,874,569	2,874,569	2,915,340	(40,771)
Food and beverage costs	2,891,534	2,891,534	4,192,392	(1,300,858)
Bad debt expense	3,128	3,128	106,658	(103,530)
Contracted Outside Services	4,402,581	4,402,581	5,434,881	(1,032,300)
Professional services	273,701	273,701	166,711	106,990
Operating supplies	369,279	369,279	440,798	(71,519)
Repairs and maintenance	1,383,016	1,383,016	2,661,946	(1,278,930)
Insurance	268,800	268,800	265,035	3,765
City of San Jose oversight	539,664	539,664	539,690	(26)
Ticketing costs	59,200	59,200	92,472	(33,272)
Workers compensation insurance premiums	1,087,753	1,087,753	1,129,347	(41,594)
Fire insurance	245,000	245,000	215,306	29,694
Management fee - Team San Jose	1,000,000	1,000,000	1,200,000	(200,000)
Equipment rentals	231,603	231,603	172,488	59,115
City of San Jose facility usage	200,000	200,000	103,579	96,421
Other expenses	1,537,304	1,537,304	1,741,215	(203,911)
Total Operating Expenses	<u>37,666,583</u>	<u>37,666,583</u>	<u>48,792,752</u>	<u>(11,126,169)</u>
Operating Loss	(6,356,255)	(6,356,255)	(3,200,504)	3,155,752
Non Operating Revenues:				
Contributions from City of San Jose	6,324,864	6,324,864	2,318,940	(4,005,924)
Contributions from Transient Occupancy Tax Fund	-	-	1,429,668	1,429,668
Convention & Visitors Bureau Funding	(500,000)	(500,000)	(500,004)	(4)
Change in net position on a budgetary basis	<u>\$ (531,391)</u>	<u>\$ (531,391)</u>	<u>\$ 48,100</u>	<u>\$ 579,492</u>
Reconciling items:				
Depreciation			(983,734)	
Change in net position on a GAAP basis			<u>\$ (935,634)</u>	

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, 2016

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 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, 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 non-operating expense.