

**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, 2018



Certified
Public
Accountants

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

For the Year Ended June 30, 2018

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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, 2018, 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, 2018, 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's operating transactions are 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, 2018, 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
October 29, 2018

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Net Position

June 30, 2018

Assets:

Current assets:

Cash	\$ 7,799,285
Accounts receivable, net	2,119,086
Accounts receivable - Team San José	183,368
Inventories	111,931
Prepaid expenses	100,304
Prepaid expenses - event related	232,484
Other assets	5,000
Event deposits	<u>7,063,007</u>
Total current assets	<u>17,614,465</u>

Capital assets:

Depreciable capital assets, net	<u>497,757</u>
Total assets	<u>18,112,222</u>

Liabilities:

Current liabilities:

Accounts payable	4,072,626
Accounts payable - event related	197,773
Accounts payable - City of San José	1,543,573
Accrued liabilities	4,219,604
Unearned revenue	<u>7,065,847</u>
Total current liabilities	<u>17,099,423</u>

Net Position:

Net investment in capital assets	497,757
Unrestricted	<u>515,042</u>
Total net position	<u>\$ 1,012,799</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, 2018

Operating revenues:

Building rental	\$ 6,933,518
Food and beverage services	27,604,147
Commission revenues	1,365,929
Event electrical/utility services	313,301
Networking services	2,078,847
Audio/visual services	305,571
Ticketing services	620,366
Telecommunications services	110,788
Equipment rentals	42,968
Event production labor revenues	14,934,621
Other revenues	486,372
	<hr/>
Total operating revenues	54,796,428

Operating expenses:

Administrative and general salaries - Team San José	23,027,772
Cost of event production labor	13,131,930
Utilities	3,160,286
Food and beverage costs	4,002,174
Bad debt expense	46,301
Contracted outside services	5,138,901
Professional services	526,135
Operating supplies	664,010
Depreciation	761,743
Repairs and maintenance	2,890,128
Insurance	294,316
City of San José oversight	742,840
Ticketing costs	82,438
Workers' compensation insurance premiums	1,050,281
Fire insurance	229,217
Management fee - Team San José	1,200,000
Equipment rentals	214,500
City of San José facility usage	67,350
Other expenses	2,229,707
	<hr/>
Total operating expenses	59,460,029
	<hr/>
Operating loss	(4,663,601)

Nonoperating revenues (expenses):

Contribution from City of San José	2,504,746
Contribution from Transient Occupancy Tax fund	1,669,777
Convention & Visitors Bureau Funding	(500,000)
	<hr/>
Total nonoperating revenues, net	3,674,523

Change in net position (989,078)

Net Position:

Beginning of year	2,001,877
	<hr/>
End of year	\$ 1,012,799

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, 2018

Cash flows from operating activities:	
Cash receipts from customers	\$ 55,842,702
Cash payments to suppliers for goods and services	(21,664,237)
Cash payments to employees for services	<u>(34,718,926)</u>
Net cash used in operating activities	<u>(540,461)</u>
Cash flows from noncapital financing activities:	
Contribution from City of San José	2,504,746
Contribution from Transient Occupancy Tax fund	1,669,777
Convention & Visitors Bureau Funding	<u>(500,000)</u>
Net cash provided by noncapital financing activities	<u>3,674,523</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(148,337)</u>
Change in cash	2,985,725
Cash, beginning of year	<u>11,876,567</u>
Cash, end of year	<u>\$ 14,862,292</u>
Reconciliation to the statement of net position:	
Cash	\$ 7,799,285
Event deposits	<u>7,063,007</u>
Cash, end of year	<u>\$ 14,862,292</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (4,663,601)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	761,743
Changes in assets and liabilities:	
Accounts receivable, net	(254,600)
Accounts receivable - Team San José	207,656
Inventories	(7,242)
Prepaid expenses	139,388
Prepaid expenses - event related	(184,053)
Accounts payable	760,488
Accounts payable - event related	(57,526)
Accounts payable - City of San José	(17,588)
Accrued liabilities	1,635,355
Unearned revenue	<u>1,139,519</u>
Net cash used in operating activities	<u>\$ (540,461)</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, 2018

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, 2018 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 (GAAP).

TSJ Events, LLC

On March 19, 2009, Team San Jose established TSJ Events, LLC, in the State of California to provide alcoholic beverages at events catered by the Center. Team San Jose is the only member of TSJ Events, LLC, and, as such, has a controlling interest in the operations of the entity. The Chief Executive Officer of Team San Jose has been designated as the manager of TSJ Events, LLC. Pursuant to the Operating Agreement between Team San Jose and TSJ Events, LLC, all revenues and expenses for activities performed by TSJ Events, LLC will be allocated to the Center. TSJ Events, LLC is blended with the Center as its sole purpose is to provide a vehicle for licensing the Center's liquor sales.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation and Accounting*

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

(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 Financial Statements (Continued)

For the Year Ended June 30, 2018

(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, 2018, is reported net of an allowance for estimated uncollectible amounts. Management estimated the uncollectible amounts to be \$628,947 at June 30, 2018 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, other 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, 2018, the Center recorded \$952,441 of accrued vacation payable as part of accrued liabilities.

(h) Defined Benefit Plan

On-call employees of the Center are enrolled in defined benefit plans administered by various third parties. Based on the number of hours worked by the covered employees, the Center paid into the respective benefit plans in accordance with the Collective Bargaining Agreements.

(i) Operating Revenues and Expenses

The Center defines its operating revenues as charges for services, which are revenues derived from building rental, event production labor revenues, audio/visual services, electrical/utility services, equipment rental, food and beverage services, concessions, networking services, telecommunication services, and other services. All other revenue not derived from these sources,

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, 2018

such as the City's operating subsidies, are classified as non-operating in the accompanying statement of revenues, expenses and changes in net position.

(j) *Net Position*

Net position is classified in the following two components:

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 EVENT DEPOSITS

The Center's cash as of June 30, 2018 are classified in the financial statements as follows:

Cash	\$ 7,799,285
Event deposits	<u>7,063,007</u>
Total cash and event deposits	<u><u>\$ 14,862,292</u></u>

The Center's cash as of June 30, 2018 consist of the following:

Cash and Event Deposits:	
Operating accounts	\$ 2,497,536
Payroll account	494,502
Receipts accounts	11,838,954
Petty cash	<u>31,300</u>
Total cash and event deposits	<u><u>\$ 14,862,292</u></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, 2018

(b) Custodial Credit Risk (continued)

At June 30, 2018, the net carrying amount of the Center’s operating account was \$2,497,536, which is reported as part of cash and cash equivalents, and the bank balance was \$4,075,120. The carrying amount of the Center’s payroll account was \$494,502 and the bank balance was \$496,324. At year-end, the carrying amount of the Center’s receipts account was \$11,838,954 and the bank balance was \$11,820,620. The differences between the bank balances and the carrying amounts represent outstanding checks and deposits in transit. The amounts placed on deposits with the bank were covered by federal depository insurance or were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institution’s trust department or agent in the City’s name.

NOTE 4 – CAPITAL ASSETS

The following is a summary of capital assets activity for the fiscal year ended June 30, 2018:

	Balance July 1, 2017	Additions	Transfers	Balance June 30, 2018
<i>Capital assets, being depreciated:</i>				
Computer and network equipment	\$ 1,152,571	\$ 127,746	\$ (18,602)	\$ 1,261,715
Machinery and equipment	1,099,607	20,591	18,602	1,138,800
Furniture and fixtures	2,683,322	-	-	2,683,322
Other improvements	2,225,243	-	-	2,225,243
Total capital assets, being depreciated	<u>7,160,743</u>	<u>148,337</u>	<u>-</u>	<u>7,309,080</u>
<i>Less accumulated depreciation for:</i>				
Computer and network equipment	(1,002,161)	(108,284)	-	(1,110,445)
Machinery and equipment	(878,506)	(122,087)	-	(1,000,593)
Furniture and fixtures	(2,037,431)	(494,125)	-	(2,531,556)
Other improvements	(2,131,482)	(37,247)	-	(2,168,729)
Total accumulated depreciation	<u>(6,049,580)</u>	<u>(761,743)</u>	<u>-</u>	<u>(6,811,323)</u>
Total capital assets, being depreciated, net	<u>\$ 1,111,163</u>	<u>\$ (613,406)</u>	<u>\$ -</u>	<u>\$ 497,757</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, 2018

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 and an Incentive Fee of \$200,000, 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 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. The 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 Transient Occupancy Tax (TOT), commonly referred to as the "hotel tax." The current TOT rate is equal to 10% of the rent charged by hotel operator throughout the City. Of the current TOT rate, 4% is a general tax that is deposited into the City's General Fund. The remaining TOT is deposited into a special fund allocated to various specified purposes. One of the specified purposes is the funding of a convention and visitor bureau, including a rental subsidy of City facilities for convention purposes. During the year, the Center contributed \$500,000 for this funding. 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) contribution.

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

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, 2018

to month basis thereafter. On October 3, 2014, Team San Jose entered into a new agreement with HMS 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 \$4,663,601, which required cash contributions totaling \$4,174,523 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 2018, the City paid for some repairs, maintenance and capital improvements to the Center in the amount of \$10,389,868. 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 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, 2018 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	\$ 1,000
Hiscox/Underwriters at Lloyd's, London	Crime - Employee Dishonesty	1,000,000	5,000
Hiscox/Underwriters at Lloyd's, London	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	2,000,000	n/a
Philadelphia Indemnity Insurance Company	Excess/Umbrella Liability	4,000,000	10,000
Philadelphia Indemnity Insurance Company	Property	4,260,000	1,000
QBE Insurance Corporation	Accidental Death/Volunteers Medical	25,000	n/a
Allied World Assurance Co (US) Inc.	Directors & Officers Liability	2,000,000	25,000
Allied World Assurance Co (US) Inc.	Employment Practice Liability	2,000,000	75,000
Allied World Assurance Co (US) Inc.	Fiduciary Liability	1,000,000	-
			5% Earthquake
Aegis	Earthquake/Difference in conditions	10,000,000	250,000 Flood
ACE International Advantage	Foreign Package	1,000,000	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.

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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, 2018

	Budget		Actual	Variance
	Original	Final		
Operating revenues:				
Building rental	\$ 6,741,766	\$ 6,741,766	\$ 6,933,518	\$ 191,752
Food and beverage services	19,317,007	19,317,007	27,604,147	8,287,140
Commission revenues	1,016,901	1,016,901	1,365,929	349,028
Event electrical/utility services	449,997	449,997	313,301	(136,696)
Networking services	1,614,251	1,614,251	2,078,847	464,596
Audio/visual services	379,702	379,702	305,571	(74,131)
Ticketing services	255,721	255,721	620,366	364,645
Telecommunications services	99,998	99,998	110,788	10,790
Equipment rentals	65,000	65,000	42,968	(22,032)
Event production labor revenues	9,037,901	9,037,901	14,934,621	5,896,720
Other revenues	(15,356)	(15,356)	486,372	501,728
Total operating revenues	<u>38,962,888</u>	<u>38,962,888</u>	<u>54,796,428</u>	<u>15,833,540</u>
Operating expenses:				
Administrative and general salaries - Team San José	18,701,012	18,701,012	23,027,772	(4,326,760)
Cost of event production labor	8,292,627	8,292,627	13,131,930	(4,839,303)
Utilities	2,982,319	2,982,319	3,160,286	(177,967)
Food and beverage costs	3,512,333	3,512,333	4,002,174	(489,841)
Bad debt expense	-	-	46,301	(46,301)
Contracted outside services	4,024,724	4,024,724	5,138,901	(1,114,177)
Professional services	313,572	313,572	526,135	(212,563)
Operating supplies	419,985	419,985	664,010	(244,025)
Repairs and maintenance	2,632,351	2,632,351	2,890,128	(257,777)
Insurance	319,992	319,992	294,316	25,676
City of San José oversight	557,004	557,004	742,840	(185,836)
Ticketing costs	84,733	84,733	82,438	2,295
Workers' compensation insurance premiums	1,026,938	1,026,938	1,050,281	(23,343)
Fire insurance	213,672	213,672	229,217	(15,545)
Management fee - Team San José	1,200,000	1,200,000	1,200,000	-
Equipment rentals	105,783	105,783	214,500	(108,717)
City of San José facility usage	275,004	275,004	67,350	207,654
Other expenses	1,778,437	1,778,437	2,229,707	(451,270)
Total operating expenses	<u>46,440,486</u>	<u>46,440,486</u>	<u>58,698,286</u>	<u>(12,257,800)</u>
Operating loss	(7,477,598)	(7,477,598)	(3,901,858)	3,575,740
Nonoperating revenues (expenses):				
Contribution from City of San José	14,523,865	14,523,865	2,504,746	(12,019,119)
Contribution from Transient Occupancy Tax Fund	-	-	1,669,777	1,669,777
Convention & Visitors Bureau Funding	(500,000)	(500,000)	(500,000)	-
Change in net position on a budgetary basis	<u>\$ 6,546,267</u>	<u>\$ 6,546,267</u>	<u>(227,335)</u>	<u>\$ (6,773,602)</u>
Reconciling items:				
Depreciation			(761,743)	
Change in net position on a GAAP basis			<u>\$ (989,078)</u>	

See accompanying note to the budgetary comparison schedule.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Note to the Budgetary Comparison Schedule

For the Year Ended June 30, 2018

NOTE 1 – BUDGETARY DATA

(a) *Budget Information*

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

(b) *Basis of Accounting*

The budgetary process is based upon accounting for certain transactions on a basis other than accounting principles generally accepted in the United States of America (GAAP). The Center has a difference between the budgetary and GAAP basis of accounting related to its presentation of depreciation expense, 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.