

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

Independent Auditor's Report and
Financial Statements
For the Year Ended June 30, 2013

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

For the Year Ended June 30, 2013

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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, 2013, 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, 2013, and the changes in its 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 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, 2013, and the changes in its financial position and, where applicable, its cash flows for the year ended June 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the financial statements.

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.

Restriction on Use

This report is intended solely for the information and use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Cannelo LLP

Walnut Creek, California
September 20, 2013

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Statement of Net Position

June 30, 2013

Assets:

Current assets:

Cash and cash equivalents	\$ 3,185,858
Accounts receivable, net of allowance of \$452,568	1,840,357
Accounts receivable - City of San José	281,289
Accounts receivable - Team San Jose	187,370
Inventories	162,999
Prepaid expenses	43,389
Deposits for capital assets	1,636,788
Other assets	175,963
Total current assets	<u>7,514,013</u>

Capital assets:

Construction in progress	279,733
Depreciable capital assets, net	<u>1,579,757</u>
Total capital assets	<u>1,859,490</u>
Total assets	<u>9,373,503</u>

Liabilities:

Current liabilities:

Accounts payable	1,473,941
Accounts payable - City of San José	109,015
Accounts payable - Team San Jose	37,500
Accrued liabilities	1,070,407
Unearned revenue	1,852,958
Total current liabilities	<u>4,543,821</u>

Net Position:

Net investment in capital assets	1,859,490
Unrestricted	<u>2,970,192</u>
Total net position	<u>\$ 4,829,682</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, 2013

Operating revenues:

Building rental	\$ 4,263,160
Food and beverage services	11,343,648
Commission revenues	1,218,294
Event electrical/utility services	408,738
Audio/visual services	318,915
Ticketing services	374,245
Telecommunications services	37,291
Equipment rentals	70,408
Event production labor revenues	5,777,996
Other revenues	10,523
Less: City of San José credits for facility usage	<u>(53,540)</u>
Total operating revenues	<u>23,769,678</u>

Operating expenses:

Administrative and general salaries - Team San Jose	10,012,122
Cost of event production labor	5,905,796
Utilities	2,296,402
Food and beverage costs	1,965,220
Overhead - City of San José	238
Bad debt expense	12,320
Contracted outside services	1,967,995
Professional services	535,472
Operating supplies	558,611
Depreciation	400,040
Repairs and maintenance	956,960
Insurance	239,874
City of San José oversight	1,037,823
Ticketing costs	146,059
Workers' compensation insurance premiums	659,260
Fire insurance	101,582
Management fee - Team San Jose	744,607
Equipment rentals	190,760
Repairs and maintenance - City of San José funded	1,380,931
Other expenses	<u>1,276,794</u>
Total operating expenses	<u>30,388,866</u>
Operating loss	(6,619,188)

Nonoperating revenues:

Contributions from City of San José	6,889,500
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Capital contributions:

Capital contributions from City of San José	<u>2,500,000</u>
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Change in net position	2,770,312
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Net Position:

Beginning of year	<u>2,059,370</u>
End of year	<u>\$ 4,829,682</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, 2013

Cash flows from operating activities:	
Cash receipts from customers	\$ 24,247,013
Cash payments to suppliers for goods and services	(14,109,530)
Cash payments to employees for services	(17,660,467)
Net cash used in operating activities	<u>(7,522,984)</u>
Cash flows from noncapital financing activities:	
Contributions from the City of San José	<u>6,889,500</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(840,362)
Capital contributions from the City of San José	2,500,000
Deposits made for capital asset purchases	(1,636,788)
Net cash from capital and related financing activities	<u>22,850</u>
Change in cash and cash equivalents	(610,634)
Cash and cash equivalents, beginning of year	<u>3,796,492</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,185,858</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (6,619,188)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	400,040
Changes in assets and liabilities:	
Accounts receivable	(324,755)
Inventories	(56,126)
Prepaid expenses	(4,367)
Other assets	133
Accounts payable	(390,631)
Accrued liabilities	(1,342,500)
Unearned revenue	814,410
Net cash used in operating activities	<u><u>\$ (7,522,984)</u></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, 2013

NOTE 1 – DESCRIPTION OF OPERATIONS

The San José Convention and Cultural Facilities (the Center) consists of the San José McEnery Convention Center (the main facility), Civic Auditorium, Parkside Hall, Center for the Performing Arts, California 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 to the Redevelopment Agency as of June 30, 2013, are reported as part of the City's government-wide financial statements. In addition, revenues earned from the City for services provided by the Center are eliminated and are reported as City of San José credits for facility usage in the accompanying statement of revenues, expenses and changes in net position, as they do not qualify as operating revenues as defined by the Management Agreement (the Agreement). The financial statements of the Center do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013 and the changes in its financial position and, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation and Accounting*

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, and relates to the timing of measurements made, regardless of the measurement focus applied. The Center is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

(b) *Cash and Cash Equivalents*

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

(c) *Accounts Receivable*

The accounts receivable balance at June 30, 2013, is reported net of an allowance for estimated uncollectible amounts. Management estimated the uncollectible amounts to be \$452,568 at June 30, 2013 using its allowance calculation methodology that is based on historical write-off rates and comparable industry standards.

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, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Inventories

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

(e) Capital Assets

Capital assets and intangible assets are stated at cost, if purchased or at fair value on the date received, if donated. Management has established a capitalization threshold of \$5,000 per item with a useful life greater than one year. Depreciation and amortization are provided on a straight-line basis over the estimated useful life of each class of depreciable assets. Estimated useful lives are generally five to ten years for computer and network equipment, furniture and fixtures, machinery and equipment, and building improvements.

(f) Compensated Absences

Under Team San Jose's agreement with UNITE HERE, Local 19, and its salaried employees, 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, 2013, the Center recorded \$419,101 of accrued vacation payable as part of accrued liabilities.

(g) Unearned Revenue

Unearned revenue primarily represents deposits received in advance for Center services to be provided in the future. Revenues will be recognized when the service is performed. If an event is cancelled, the amount may be forfeited or refunded to the customer in accordance with contractual terms.

(h) Operating Revenues and Expenses

The Center defines its operating revenues as charges for services, which are revenues derived from charges for 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. Revenues earned from the City for these services are eliminated and are reported as City of San José credits for facility usage in the accompanying statement of revenues, expenses and changes in net position, as they do not qualify as operating revenues as defined by the Management Agreement (the Agreement). All other revenue not derived from these sources, such as the City's operating subsidies and capital contributions, are classified as nonoperating or capital contributions 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, 2013

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 consists of the Center's capital assets net of related accumulated depreciation.

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.

(j) *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.

(k) *New Accounting Standards Adopted*

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures, which does not conflict with or contradict other GASB pronouncements. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of July 1, 2012, the Center adopted this statement, which did not have a significant impact to its financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and renames the residual measure as net position, rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of July 1, 2012, the Center adopted this statement, which did not have a significant impact to its financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for financial statements for periods beginning June 30, 2014. As of July 1, 2012, the Center early implemented this statement, which did not have a significant impact to its financial statements.

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, 2013

NOTE 3 – CASH AND CASH EQUIVALENTS

The Center’s cash and cash equivalents consist of the following at June 30, 2013:

Cash and cash equivalents:	
Operating accounts	\$ 1,796,801
Payroll account	29,749
Receipts accounts	1,328,008
Petty cash	31,300
	<hr/>
Total cash and cash equivalents	\$ 3,185,858
	<hr/>

(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 the City disburses funds from the receipts account to the operating account as funding requests are made by Team San Jose.

(b) Custodial Credit Risk

At year-end, the net carrying amount of the Center’s operating account was \$1,796,801, which is reported as part of cash and cash equivalents, and the bank balance was \$2,233,184. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. The carrying amount of the Center’s payroll account was \$29,749 and the bank balance was \$31,443. The difference between the bank balance and the carrying amount represents outstanding checks. At year-end, the carrying amount of the Center’s receipts account was \$1,328,008 and the bank balance was \$2,536,955. The difference between the bank balance and the carrying amount represents deposits in transit and outgoing wire transfers. The amounts placed on deposit with the bank were covered by federal depository insurance or were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institutions’ trust department or agent in the City’s name.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

(An Activity of the City of San José)

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2013

NOTE 4 – CAPITAL ASSETS

The following is a summary of the changes in capital assets for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Transfers	Balance June 30, 2013
<i>Non-depreciable capital assets:</i>				
Construction in progress	\$ 107,968	\$ 267,733	\$ (95,968)	\$ 279,733
<i>Depreciable capital assets:</i>				
Computer and network equipment	573,653	293,513	-	867,166
Machinery and equipment	461,944	233,082	-	695,026
Furniture and fixtures	116,733	10,450	95,968	223,151
Other improvements	2,187,368	35,584	-	2,222,952
Total depreciable capital assets	3,339,698	572,629	95,968	4,008,295
<i>Less accumulated depreciation:</i>				
Computer and network equipment	(419,245)	(82,606)	-	(501,851)
Machinery and equipment	(355,431)	(66,809)	-	(422,240)
Furniture and fixtures	(94,810)	(31,889)	-	(126,699)
Other improvements	(1,159,012)	(218,736)	-	(1,377,748)
Total accumulated depreciation	(2,028,498)	(400,040)	-	(2,428,538)
Depreciable capital assets, net	1,311,200	172,589	-	1,579,757
Total capital assets, net	\$ 1,419,168	\$ 440,322	\$ -	\$ 1,859,490

The ending balance in the construction in progress account at June 30, 2013 consisted of the fire attenuation system design and purchases of equipment, furniture and fixtures for the upgraded convention center.

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.

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 \$600,000 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.

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, 2013

NOTE 5 – SIGNIFICANT AGREEMENTS WITH OUTSIDE PARTIES (continued)

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 food and 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.

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 the Center benefits from better pricing by combining its purchases. The agreement is in effect through June 30, 2014, with the option to continue on a month to month basis thereafter.

NOTE 6 – CONTRIBUTIONS FROM CITY OF SAN JOSE FUNDS

In order for the Center to continue its operations, it relies on the City for operating contributions. The operating loss for the year was \$6,619,188, which required operating cash contribution totaling \$6,889,500 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.

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, 2013

NOTE 6 – CONTRIBUTIONS FROM CITY OF SAN JOSE FUNDS (Continued)

Due to the age and condition of the facilities, existing furniture, fixtures and equipment (FF&E), as well as, the additional FF&E needed due to the expansion of the Convention Center Facility, a significant FF&E investment was required to meet the Center’s business needs. During fiscal year 2013, pursuant to the agreement with the City, Team San Jose discussed these needs with City officials and requested additional FF&E funds. This request included that the original funding of \$300,000 be increased by \$2,200,000, totaling \$2,500,000. Additionally, the Center requested the additional FF&E funds as a cash advance in order to provide deposits to its vendors and not impact the Center’s working capital. The request was approved by the City and \$2,500,000 in FF&E funds were advanced to the Center’s operating account in December 2012. The balance of FF&E funds held in the Center’s operating account at June 30, 2013 is as follows:

FF&E funds from the City:	
Original funding	\$ 300,000
Additional funding approved by the City	<u>2,200,000</u>
Total FF&E funds from the City	<u>2,500,000</u>
Uses of FF&E funds:	
Payments to vendors on deposit (other assets)	(1,636,788)
Purchases of furniture, fixture and equipment	<u>(118,599)</u>
Total uses of FF&E funds	<u>(1,755,387)</u>
FF&E funds held in operating account	<u>\$ 744,613</u>

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, 2013 is as follows:

<u>Provider</u>	<u>Type of Coverage</u>	<u>Coverage Amount</u>	<u>Deductible</u>
Hardford Insurance Group	Automobile	\$ 1,000,000	\$ 500
RSUI Landmark American Insurance	Director & Officers Liability	2,000,000	2,500
National Union Fire Insurance	Crime - Employee Dishonesty	1,000,000	5,000
State Compensation Insurance Fund	Workers' Compensation	1,000,000	n/a
Philadelphia Indemnity Insurance Company	General Liability	2,000,000	n/a
Liberty Insurance Underwriters	Excess/Umbrella Liability	4,000,000	n/a
RSUI Landmark American Insurance	Miscellaneous Professional Liability	2,000,000	2,500
Hartford Insurance Group	Property	653,000	1,000

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, 2013

	Budget		Actual	Variance
	Original	Final		
Operating revenues:				
Building rental	\$ 2,484,411	\$ 4,284,411	\$ 4,263,160	\$ (21,251)
Food and beverage services	4,624,817	11,324,817	11,343,648	18,831
Commission revenues	381,074	1,206,074	1,218,294	12,220
Event electrical/utility services	279,407	404,407	408,738	4,331
Audio/visual services	300,000	300,000	318,915	18,915
Ticketing services	441,974	441,974	374,245	(67,729)
Telecommunications services	110,453	110,453	37,291	(73,162)
Equipment rentals	-	44,329	70,408	26,079
Event production labor revenues	2,945,856	5,630,856	5,777,996	147,140
Other revenues	60,852	60,852	10,523	(50,329)
Total operating revenues	11,628,844	23,808,173	23,823,218	15,045
Operating expenses:				
Administrative and general salaries - Team San Jose	6,215,437	10,015,437	10,012,122	3,315
Cost of event production labor	2,741,579	5,916,579	5,905,796	10,783
Utilities	2,047,338	2,297,338	2,296,402	936
Food and beverage costs	769,845	1,969,845	1,965,220	4,625
Overhead - City of San José	-	-	238	(238)
Bad debt expense	99,866	14,866	12,320	2,546
Contracted outside services	1,319,819	1,969,819	1,967,995	1,824
Professional services	483,750	533,750	535,472	(1,722)
Operating supplies	235,197	560,197	558,611	1,586
Repairs and maintenance	936,073	957,073	956,960	113
Insurance	252,500	240,000	239,874	126
City of San José oversight	1,036,605	1,036,605	1,037,823	(1,218)
Ticketing costs	223,766	148,766	146,059	2,707
Workers' compensation insurance premiums	443,435	658,435	659,260	(825)
Fire insurance	130,000	130,000	101,582	28,418
Management fee - Team San Jose	750,000	750,000	744,607	5,393
Equipment rentals	152,239	190,239	190,760	(521)
Repairs and maintenance - City of San José funded (Note 6)	1,438,101	1,938,101	1,380,931	557,170
Other expenses	476,258	1,750,002	1,276,794	473,208
Total operating expenses	19,751,808	31,077,052	29,988,826	1,088,226
Operating loss	(8,122,964)	(7,268,879)	(6,165,608)	1,103,271
Nonoperating revenues (expenses):				
Capital outlay	-	(500,000)	(840,362)	(340,362)
Contributions from City of San José	8,270,635	9,523,988	9,389,500	(134,488)
Change in net position on a budgetary basis	\$ 147,671	\$ 1,755,109	2,383,530	\$ 628,421
Reconciling items:				
Depreciation			(400,040)	
Capital outlay capitalized as capital assets			840,362	
City of San José credits for facility usage			(53,540)	
Change in net position on a GAAP basis			\$ 2,770,312	

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, 2013

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 and City of San José credits for facility usage, 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, City of San José credits for facility usage are recorded to eliminate associated revenues earned from the City, and capital outlay is capitalized as part of capital assets if it exceeds the Center's capitalization threshold; while on a budgetary basis depreciation expense is not reported, City of San José facility usage is included as part operating revenues and not eliminated with credits, and capital outlay is reported as a nonoperating expense.