

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

Report to the City Council

For the Year Ended
June 30, 2012



Certified Public Accountants.

SAN JOSE CONVENTION AND CULTURAL FACILITIES

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Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

San José City Council
City of San José, California

In planning and performing our audit of the 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, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal controls over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Additionally, we have included in this letter a report on communications with the City Council as required by auditing standards generally accepted in the United States of America.

This communication is intended solely for the information and use of management of the City and the Center, City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP

Walnut Creek, California
October 19, 2012

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REQUIRED COMMUNICATIONS

We have audited the 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, 2012 and have issued our report thereon dated October 19, 2012. Professional auditing standards require that we communicate to you the following information related to our audit.

I. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have previously communicated such information in our Engagement Communication section of our General Audit Plan dated June 29, 2012.

II. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Center are described in Note 2 to the Center's financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. We noted no other transactions entered into by the Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

- Estimated allowance for losses on accounts receivable and
- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property.

Management's judgments and estimates were based on the following:

- Estimated allowances for losses on accounts receivable were based on historical write-off rates and industry averages and
- Useful lives for depreciable property were determined by management based on the nature of the capital assets and the straight-line method of depreciation was applied.

We evaluated the key factors and assumptions used to develop the accounting estimates described above to determine that they are reasonable in relation to the Center's financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the use

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of the enterprise fund presentation for the Center's operations. As more fully described in Note 1 to the financial statements, 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 transactions to comply with contractual requirements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2012.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Center's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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STATUS OF PRIOR YEAR RECOMMENDATIONS

2011-A Comment:

Controls over Certain Year-End Financial Reporting Process

The Center did not have sufficient internal controls over year-end financial reporting processes, which led to various audit adjustments. We recommend that the Center establish internal controls over year-end financial reporting, such that all balances and transactions are properly supported and analyzed before the financial statements are submitted for audit.

Status: Implemented.

2010-D Comment:

Reconciliation of City Contributions with Center Bank Statements

The Center recorded numerous adjustments to reclassify and record transactions to reconcile the City contributions to the City's records after the start of the audit period. One of these adjustments was a \$465,000 transaction to transfer funds from the Center's operating account to a City bank account. We recommend the City and the Center work together to ensure City contributions are reconciled between the City's records and the Center's records in a timely manner. Any adjustments associated with reconciliation should be recorded prior to the start of the year-end financial statement audit.

Status: Implemented.

2009-A Comment:

Lack of Sufficient Controls Over Certain Year-End Financial Reporting Processes

The Center did not have sufficient internal controls over year-end financial reporting processes. We recommend that the Center establish internal controls over year-end financial reporting, such that all balances and transactions are properly supported and analyzed before the financial statements are submitted for audit.

Status: Implemented.

2007-F Comment:

Developing a Disaster Recovery Plan

The Center does not have a well-defined, written disaster recovery plan. We recommend that the City require management to develop a disaster recovery plan to better plan for future emergencies.

Status: Partially implemented. The Center has a disaster recovery plan and emergency manual but it does not address contingency plans for re-establishing the financial system in case of disaster.