

**CITY OF SAN JOSE, CALIFORNIA**

**Single Audit Reports**

**For the Year Ended June 30, 2005**

**CITY OF SAN JOSE, CALIFORNIA**

Single Audit Reports

For the Year Ended June 30, 2005

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### **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

City Council  
City of San José, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (the City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 16, 2005. As discussed in Note I.E. to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### *Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting which we have reported to the City's management in a separate letter dated September 16, 2005.

#### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, the City's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macios, Dini & Company LLP*

Certified Public Accountants

Walnut Creek, California

September 16, 2005



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### **Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and the Passenger Facility Charges Program, on Internal Control over Compliance in Accordance with OMB Circular A-133, and on the Schedules of Expenditures of Federal Awards and Revenues and Expenditures of Passenger Facility Charges**

City Council  
City of San José, California

#### *Compliance*

We have audited the compliance of the City of San José, California (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration (*PFC Guide*) that are applicable to each of its major federal programs and to the passenger facility charges program, respectively, for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying federal awards schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and the passenger facility charges program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *PFC Guide*. Those standards, OMB Circular A-133, and the *PFC Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program and on the passenger facility charges program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and to the passenger facility charges program for

the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2005-1.

#### *Internal Control Over Compliance*

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and the passenger facility charges program. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program and the passenger facility charges program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133 and the *PFC Guide*.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

#### *Schedule of Expenditures of Federal Awards and Schedule of Revenues and Expenditures of Passenger Facility Charges*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2005, and have issued our report thereon dated September 16, 2005. As discussed in Note I.E. to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards and schedule of revenues and expenditures of passenger facility charges are presented for purposes of additional analysis as required by OMB Circular A-133 and the *PFC Guide*, respectively, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, the City's management, the Federal Aviation Administration, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macias, Dini & Company LLP*

Certified Public Accountants  
Walnut Creek, California

November 4, 2005, except for the Schedule of Expenditures of Federal Awards  
and the Schedule of Revenues and Expenditures of Passenger Facility Charges  
which are dated as of September 16, 2005

**CITY OF SAN JOSE, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Grant Amount	Expenditures	
				Federal Grant	Other
<b>U.S. Department of Commerce</b>					
Economic Adjustment Assistance	11.307	07-39-02866	\$ 345,000	\$ 52,250	\$ -
Total U.S. Department of Commerce			345,000	52,250	-
<b>U.S. Department of Housing and Urban Development</b>					
Community Development Block Grants/ Entitlement Grants	14.218	B02-03-04 MC-06-0021	37,335,000	13,746,168	-
Emergency Shelter Grants Program	14.231	S02-MC-060021	437,000	22,375	-
Emergency Shelter Grants Program	14.231	S03-MC-060021	454,756	397,793	-
Subtotal Emergency Shelter Grants Program			891,756	420,168	-
Home Investment Partnerships Program					
Home Investment Partnerships Program	14.239	M01-02 MC06215	8,637,000	578,091	-
Home Investment Partnerships Program	14.239	M03-04 MC06215	10,136,633	2,310,423	-
Subtotal Home Investment Partnerships Program			18,773,633	2,888,514	-
Housing Opportunities for Persons with AIDS	14.241	CA-39-H02-F069	764,000	23,289	-
Housing Opportunities for Persons with AIDS	14.241	CA-39-H03-F069	787,000	763,394	-
Subtotal Housing Opportunities for Persons with AIDS			1,551,000	786,683	-
Total U.S. Department of Housing and Urban Development			58,551,389	17,841,533	-
<b>U.S. Department of Interior</b>					
Bureau of Reclamation					
Water Reclamation and Reuse Program	15.504	5-FG-20-12650	35,000,000	3,868	11,603
Outdoor Recreation Acquisition, Development and Planning	15.916	C8939035 06-01458	153,780	153,780	220
Total U.S. Department of Interior			35,153,780	157,648	11,823

See accompanying notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Revenues and Expenditures of Passenger Facility Charges

**CITY OF SAN JOSE, CALIFORNIA**  
Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Grant Amount	Expenditures	
				Federal Grant	Other
<b>U.S. Department of Justice</b>					
Part D - Research, Evaluation, Technical Assistance and Training	16.542	2003-MC-CX-K001	699,491	256,648	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	04-DD-BX-1221	98,948	94,846	-
Local Law Enforcement Block Grants Program	16.592	02-LB-BX-2782	913,500	39,159	17,269
Local Law Enforcement Block Grants Program	16.592	03-LB-BX-1804	676,505	250,782	9,545
Subtotal Local Law Enforcement Block Grants Program			1,590,005	289,941	26,814
Community Capacity Development Office	16.595	2001-WS-QX-0209	673,384	149,259	-
Community Capacity Development Office	16.595	2005-WS-Q5-0110	175,000	27,846	-
Subtotal Community Capacity Development Office			848,384	177,105	-
Total U.S. Department of Justice			3,236,828	818,540	26,814
<b>U.S. Department of Labor</b>					
Pass-through State of California, Employment Development Department:					
WIA Cluster:					
WIA Dislocated Workers	17.260	R380533	146,254	89,283	-
WIA Adult Program	17.258	R588751	4,708,339	691,793	-
WIA Youth Activities	17.259	R588751	4,947,900	2,805,684	-
WIA Dislocated Workers	17.260	R588751	2,199,302	1,604,780	-
WIA Adult Program	17.258	R485305	3,271,864	2,171,402	-
WIA Youth Activities	17.259	R485305	4,470,634	1,888,575	-
WIA Dislocated Workers	17.260	R485305	5,043,154	2,962,876	-
Subtotal WIA Adult/Youth/Dislocated Workers Programs			24,787,447	12,214,393	-
Total U.S. Department of Labor			24,787,447	12,214,393	-

See accompanying notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Revenues and Expenditures of Passenger Facility Charges

**CITY OF SAN JOSE, CALIFORNIA**  
Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Grant Amount	Expenditures	
				Federal Grant	Other
<b>U.S. Department of Transportation</b>					
Federal Aviation Administration:					
Airport Improvement Program	20.106	3-06-0226-47	5,000,000	2,426,112	584,326
Airport Improvement Program	20.106	3-06-0226-51	7,000,000	855,220	267,697
Airport Improvement Program	20.106	3-06-0226-52	8,000,000	180,872	429,505
Airport Improvement Program	20.106	3-06-0226-53	6,000,000	2,813,882	677,721
Airport Improvement Program	20.106	3-06-0226-55	560,000	125,421	30,207
Airport Improvement Program	20.106	3-06-0226-56	8,325,064	8,325,064	2,005,081
Airport Improvement Program	20.106	3-06-0226-58	500,000	499,999	642,505
Airport Improvement Program	20.106	3-06-0226-59	858,366	142,491	40,554
Airport Improvement Program	20.106	3-06-0226-60	3,842,664	3,842,664	925,501
Subtotal Airport Improvement Program			40,086,094	19,211,725	5,603,097
Highway Planning and Construction					
Pass-through California Department of Transportation:					
Intermodal Surface Transportation Efficiency Act -					
TEA-21 - ITS: New CC TMC	20.205	ITS03-5005(073)	579,123	180	-
Federal-Aid Highway Program					
SVSC Milpitas	20.205	CML-5005(059)	2,780,000	43,470	-
SVSC Fremont	20.205	CML-5005(059)	363,375	5,632	-
SVSC West Corridor - Stevens Creek	20.205	CML-5005(064)	2,748,000	182,371	-
SVSC West Corridor - Stevens Creek	20.205	CML-5005(064)	125,000	23,628	-
Internet Web Traveler	20.205	CML-5005(065)	265,000	23,125	-
Internet Web Traveler	20.205	CML-5005(065)	34,000	2,996	-
Pass-through the Metropolitan Transportation Commission:					
Federal-Aid Highway Program					
TLC-Los Gatos Creek Trail	20.205	CML-5005(071)	350,000	169,914	-
HBRR - Airport Parkway	20.205	STPLNV/Z-5005(011)	296,919	221,589	11,125
Subtotal Highway Planning and Construction			7,541,417	672,905	11,125
Pass-through the State of California Department of Parks and Recreation					
Recreational Trails Programs	20.219	RT-43-003	200,000	200,000	-
Total U.S. Department of Transportation			47,827,511	20,084,630	5,614,222

See accompanying notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Revenues and Expenditures of Passenger Facility Charges

**CITY OF SAN JOSE, CALIFORNIA**  
Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Grant Amount	Expenditures	
				Federal Grant	Other
<b>National Endowment for the Humanities</b>					
Promotion of the Humanities - We the People	45.168	CSUL04-30/CSUL04-31	2,000	1,921	-
Pass-through the California State Library					
State Library Program:					
Small Business in a Box	45.310	40-6364	10,000	3,149	-
Staff Education Grant	45.310	40-5933	10,512	2,259	-
Staff Education Grant	45.310	40-6286	14,375	9,234	-
Global Language Materials Grant	45.310	40-6204	40,000	40,000	-
Center for the Book	45.310	LETTER	1,000	620	-
Subtotal State Library Program			75,887	55,262	-
Total National Endowment for the Humanities			77,887	57,183	-
<b>U.S. Department of Education</b>					
Fund for the Improvement of Education (FIE)	84.215	U215K040089	397,640	94,687	-
Total U.S. Department of Education			397,640	94,687	-
<b>Corporation for National and Community Services</b>					
Retired and Senior Volunteer Program	94.002	03SRPCA017-03SR	274,246	94,179	169,741
Senior Companion Program	94.016	03SCPCA010-03SCP	256,614	136,781	91,165
Total Corporation for National and Community Services			530,860	230,960	260,906
<b>U.S. Department of Homeland Security</b>					
Metropolitan Medical Response System (MMRS)	97.071	EMW-2004-GR-0763	400,000	324,418	-
National Explosives Detection Canine Team Program	97.072	DTSA20-03-H-01015	120,500	120,500	-
Pass-through the California Office of Emergency Services					
Urban Areas Security Initiative	97.008	OES ID#086-68000	9,923,545	224,753	-
Pre-Disaster Mitigation	97.047	OES#PDM02-PL04	25,000	25,000	-
Subtotal California Office of Emergency Services			9,948,545	249,753	-
Pass-through the County of Santa Clara					
Citizen Corps	97.053	N/A	41,631	7,487	-
Community Emergency Response Teams	97.054	Y2CCOA#43	18,658	18,658	-
Subtotal County of Santa Clara			60,289	26,145	-
Total U.S. Department of Homeland Security			10,529,334	720,816	-
Total Federal Awards			\$ 181,437,676	\$ 52,272,640	\$ 5,913,765

See accompanying notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Revenues and Expenditures of Passenger Facility Charges

**CITY OF SAN JOSE, CALIFORNIA**

Schedule of Revenues and Expenditures of Passenger Facility Charges

Year Ended June 30, 2005

Passenger Facility Charges Project Number/Description	Identifying Number	Passenger Facility Charges Project Amount	Expenditures	Revenue Recognized
<b>Total Passenger Facility Charges Collection Revenues</b>				
Passenger Facility Charges Collections		\$ -	\$ -	\$ 21,767,808
Interest Earned on PFC Program		-	-	930,464
<b>Passenger Facility Charges Projects</b>				
#1	Communication Center Upgrade	92-01-C-00-SJC 500,000	-	-
#2	Fire Truck Replacement	92-01-C-00-SJC 599,826	-	-
#3	Handlift Replacement	92-01-C-00-SJC 75,000	-	-
#4	Noise Attenuation	92-01-C-06-SJC 47,171,000	2,058,616	-
#5	Noise Monitoring System Upgrade	92-01-C-00-SJC 140,000	-	-
#6	Noise Remedy/Land Acquisition	92-01-C-00-SJC 11,260,000	-	-
#7	Security Access Control System	92-01-C-07-SJC 1,032,000	-	-
#18	Run-Up Area Blast Pad	93-03-C-00-SJC 237,351	-	-
#19	Taxiway Z Reconstruction C-G	93-03-C-00-SJC 7,504,380	-	-
#20	Taxiway B Reconstruction	93-03-C-00-SJC 1,162,713	-	-
#21	West GA Parking Reconstruction	93-03-C-00-SJC 728,939	-	-
#22	Shelter Relocation	93-03-C-00-SJC 46,612	-	-
#23	Taxiway Y Reconstruction	93-03-C-00-SJC 335,254	-	-
#24	Runway 30L Reconstruction	93-03-C-00-SJC 339,401	-	-
#25	Runway 30R Reconstruction	93-03-C-00-SJC 25,568	-	-
#26	Westside Development	93-03-C-00-SJC 581,836	-	-
#27	Terminal A Shuttle	93-03-C-00-SJC 25,673	-	-
#28	Taxiway Z Reconstruction B to C	93-03-C-01-SJC 2,469,334	-	-
#29	Interactive Training System	93-03-C-00-SJC 10,368	-	-
#30	Master Plan Update	93-03-C-00-SJC 3,067,924	-	-
#40a	Runway 30L Reconstruction	01-12-C-00-SJC 35,000,000	-	-
#40b	Runway 30L Extension	01-12-C-00-SJC 9,407,000	-	-

See accompanying notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Revenues and Expenditures of Passenger Facility Charges

**CITY OF SAN JOSE, CALIFORNIA**

Schedule of Revenues and Expenditures of Passenger Facility Charges (Continued)

Year Ended June 30, 2005

Passenger Facility Charges Project Number/Description	Identifying Number	Passenger Facility	Expenditures	Revenue
		Charges Project Amount		Recognized
#41 Aircraft Noise & Operation Management System	99-07-C-00-SJC	100,000	-	-
#42 Emergency Command Post Relocation & Equipment	99-07-C-00-SJC	150,000	-	-
#43 Interim Federal Inspection Service (FIS) Facility	99-08-C-02-SJC	36,879,750	20,904	-
#44 Airfield Lighting Control System	99-07-C-00-SJC	200,000	-	-
#46 Ewert Road Improvements	99-07-C-00-SJC	1,000,000	-	-
#47 Skyport Access to Airport Boulevard	99-07-C-00-SJC	813,000	-	-
#48 Taxiway Y Pavement Reconstruction	99-07-C-01-SJC	2,100,000	-	-
#49 Transportation Access Plan, Terminal Area Concept	99-07-C-01-SJC	1,050,000	-	-
#50 Terminal C Ramp Lighting Improvement	99-07-C-00-SJC	37,000	-	-
#51 Acoustical Treatment of Four Eligible Schools	99-07-C-01-SJC	7,500,000	(1,660)	-
#52 Taxiway Z - Apron Reconstruction ( Phase II)	00-11-C-00-SJC	825,000	-	-
#53 Terminal C Fire Protection	00-11-C-00-SJC	580,000	-	-
#54 Fiber Optic Cable to ARC & Fire Station 29	00-11-C-00-SJC	85,000	48,207	-
#55 Green Island Bridge	00-11-C-00-SJC	825,000	-	-
#56 Replacement of AACS and CCTV	00-11-C-00-SJC	4,075,000	1	-
#57 Skyport Grade Separation	00-11-C-00-SJC	8,650,000	1,241,509	-
#58 Terminal Drive Improvements	00-11-C-00-SJC	5,500,000	169,350	-
#59 Replacement of PASSUR	00-11-C-00-SJC	80,000	-	-
#60 Terminal C Restroom	00-11-C-00-SJC	2,485,000	-	-
#61 Interim Air Cargo Ramp Extension	00-11-C-01-SJC	1,100,000	-	-
#62 Runway 30R/12L Reconstruction	00-11-C-00-SJC	84,105,103	-	-
#63 Noise Attenuation Category II & III	00-11-C-00-SJC	4,500,000	196,289	-
#64 Taxiway Y Extension	00-11-C-00-SJC	5,351,388	-	-
#65 Extended Noise Attenuation	02-13-C-00-SJC	146,485,000	2,472,108	-
#66 Taxiway Y Reconstruction	04-14-C-00-SJC	97,197,000	661,047	-
<b>Total Passenger Facility Charge Projects</b>		<b>\$ 533,393,420</b>	<b>\$ 6,866,371</b>	<b>\$ 22,698,272</b>

See accompanying notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Revenues and Expenditures of Passenger Facility Charges

## CITY OF SAN JOSE, CALIFORNIA

### Notes to the Schedule of Expenditures of Federal Awards and Schedule of Revenues and Expenditures of Passenger Facility Charges

Year Ended June 30, 2005

**(1) GENERAL**

The accompanying schedule of expenditures of federal awards (SEFA) presents the activity of the federal award programs of the City of San José, California (the City). The City's reporting entity is defined in Note I to its basic financial statements. The SEFA includes all federal awards received directly from federal agencies and federal awards passed-through other governmental agencies. In addition, the SEFA includes local, state and other expenditures matched along with the federal award expenditures.

The schedule of revenues and expenditures of passenger facility charges (PFCs) presents only the activity of the passenger facility charges program of the Norman Y. Mineta San José International Airport (Airport), an enterprise fund of the City. PFCs are fees imposed on enplaned passengers by the Airport for the purpose of generating revenue for Airport projects that increase capacity, increase safety, mitigate noise impact and enhance competition between and among air carriers in accordance with Federal Aviation Administration approvals.

**(2) BASIS OF PRESENTATION**

The schedules are presented using the modified accrual basis of accounting except for programs recorded in the City's enterprise funds, which are presented using the accrual basis of accounting, which is described in Note I to the City's basic financial statements.

**(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS**

Expenditures of federal awards and PFCs are reported in the City's basic financial statements as expenditures in the general, special revenue and capital projects funds and as expenses for non-capital expenditures and as additions to capital assets for capital related expenditures in the enterprise funds.

**(4) RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the SEFA and PFC agree to or can be reconciled with the amounts reported in the related federal financial reports.

**CITY OF SAN JOSE, CALIFORNIA**

Notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Revenues and Expenditures of Passenger Facility Charges (Continued)

Year Ended June 30, 2005

**(5) AMOUNTS PROVIDED TO SUBRECIPIENTS**

Included in the total expenditures of federal awards are the following amounts passed through to subrecipients:

<u>Program Title</u>	<u>Federal Catalog Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grants –		
Entitlement Grants	14.218	\$ 3,880,829
Emergency Shelter Grants Program	14.231	420,168
Housing Opportunities for Persons with AIDS	14.241	762,540
Workforce Investment Act (WIA) Adult Program	17.258	345,081
Workforce Investment Act (WIA) Youth Activities	17.259	1,964,964
Workforce Investment Act (WIA) Dislocated Workers	17.260	874,654

**(6) LOANS OUTSTANDING**

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest. The federal government has imposed certain continuing compliance requirements with respect to the loans rendered under the programs. In accordance with Subpart B, Section 205 of the Office of Management and Budget Circular A-133, the City has reported the outstanding balance of loans from previous years that have continuing compliance requirements as of June 30, 2005 along with the value of total outstanding and new loans made during the current year. The following is a summary of the loan programs maintained by the City and their balances at June 30, 2005:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>	<u>Prior year loans with continuing compliance requirements</u>	<u>New Loans</u>
Economic Adjustment Assistance Program	11.307	\$ 461,215	\$ 426,001	\$ 35,250
Community Development Block Grants/Entitlement Grants	14.218	8,901,482	8,615,092	286,390
HOME Investment Partnerships Program	14.239	29,966,499	27,110,404	2,856,095
		<u>\$39,329,196</u>	<u>\$36,151,497</u>	<u>\$ 3,177,735</u>

## CITY OF SAN JOSE, CALIFORNIA

### Notes to the Schedule of Expenditures of Federal Awards and Schedule of Revenues and Expenditures of Passenger Facility Charges (Continued)

Year Ended June 30, 2005

#### **(7) AIRPORT EXPENDITURES**

The Federal Aviation Administration reimburses the Airport for approximately 80% of allowable Airport Improvement Program (AIP) grant expenditures. The remaining unreimbursed portion of grant expenditures, if eligible, are reimbursed from PFC revenue. Total allowable AIP expenditures are presented in the accompanying SEFA.

The accompanying schedule of revenues and expenditures of passenger facility charges includes approximately 20% of expenditures reimbursed by PFC revenue for AIP approved projects and 100% for non-AIP approved projects.

#### **(8) SAN JOSE AREA WATER RECLAMATION & REUSE PROGRAM**

The San José Area Water Reclamation & Reuse Program assists the City and tributary agencies of the San José-Santa Clara Water Pollution Control Plant in protecting endangered species habitats, achieving federally mandated water quality standards and reducing reliance on area surface, ground water, and imported water supplies. The U.S. Department of Interior – Bureau of Reclamation awarded the City \$32.5 million in federal fiscal year 1995 and approved an increase of \$2.5 million in federal fiscal year 2000. Funding for subsequent years, up to \$35 million, is contingent upon subsequent Congressional appropriations acts. As a result of the timing of the subsequent funding approvals, the City requests reimbursements for costs incurred in prior fiscal years.

As of June 30, 2005, Congress appropriated \$26,208,657 and the City has cumulative reimbursements of \$24,712,580 of which \$2,687,885 was claimed in fiscal year 2005 for expenditures incurred in prior fiscal years. The City accrued and has in process a \$1,496,077 reimbursement request for fiscal year ended June 30, 2005 that is awaiting final approval from the State Water Resources Control Board (SWRCB) in Sacramento, as an administering agent for the U.S. Department of the Interior. The SEFA reported total expenditures of \$3,868 all of which were expended in prior fiscal years.

**CITY OF SAN JOSE, CALIFORNIA**

Federal Awards Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

**Section I Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued on the basic financial statements of the City: Unqualified

Internal control over financial reporting:

- ◆ Material weakness(es) identified? No
- ◆ Reportable condition(s) identified that are not considered to be material weaknesses? None reported

Noncompliance material to the financial statements noted? No

*Federal Awards*

Internal control over major programs:

- ◆ Material weakness(es) identified? No
- ◆ Reportable condition(s) identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes

Identification of major programs:

Federal Catalog Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
20.106	Airport Improvement Program
97.071	Metropolitan Medical Response System (MMRS)

Dollar threshold used to distinguish between type A and type B programs: \$1,568,179

Auditee qualified as a low-risk auditee? Yes

**Section II Financial Statement Findings**

None reported.

## CITY OF SAN JOSE, CALIFORNIA

### Federal Awards Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2005

#### **Section III Federal Award Findings and Questioned Costs**

Finding No. 2005-1 Community Development Block Grants/Entitlement Grants, CFDA # 14.218  
Procurement and Suspension and Debarment

*Condition:*

During the performance of our procedures over the federal compliance requirement of procurement, suspension and debarment, we noted that out of the ten subrecipient files we selected for testing, none of the subrecipient files contained support indicating that certification was received or verified on the subrecipients procurement, suspension and debarment status. It was determined during our testing that none of the subrecipients in question had been suspended or debarred.

*Criteria:*

In accordance with 24 CFR 85.35, "Grantees and subgrantees must not make any award or permit any award (subgrant or contract) to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs."

*Effect:*

Without performance of the verification to ascertain whether or not a subrecipient is suspended or debarred, the City could pass through federal funds to a suspended or debarred subrecipient. Expenditures incurred with a subrecipient who is suspended or debarred could be questioned and potentially disallowed from reimbursement.

*Questioned Costs:*

None

*Recommendation:*

We recommend that the City perform at least one of the following procedures to document compliance with suspension and debarment requirements:

- Requiring a suspension and debarment certification be completed prior to entering into a contract.
- Documenting suspension and debarment certifications from subrecipient in project files.
- Maintain documentation that the City verified through the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration that the City's subrecipients are not included as a suspended and debarred organization.

*Management's Response and Correction Action Plan:*

The CDBG Program will implement the compliance requirements on suspension and debarment certification of contractors/subrecipients. At the time of application, the contractor/subrecipient will be required to certify that they have not been suspended or debarred. Prior to execution of the contract, staff will verify that the contractor/subrecipient is not listed on the List of Excluded Parties issued by the General Services Administration at <http://epls.arnet.gov/>. Staff will include the certification statement in all applications and contracts.

**CITY OF SAN JOSE, CALIFORNIA**

Passenger Facility Charges Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

**Section I Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued on the basic financial statements of the City: Unqualified

Internal control over financial reporting:

- ◆ Material weakness(es) identified? No
- ◆ Reportable condition(s) identified that are not considered to be material weaknesses? None reported

Noncompliance material to the financial statements noted? No

*Passenger Facility Charges*

Internal control over Passenger Facility Charges:

- ◆ Material weakness(es) identified? No
- ◆ Reportable condition(s) identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for the Passenger Facility Charges program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 in relation to the Passenger Facility Charge program? No

**Section II Financial Statement Findings**

None reported.

**Section III Passenger Facility Charges Findings and Questioned Costs**

None reported.

**CITY OF SAN JOSE, CALIFORNIA**

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2005

Findings were not noted in the prior year.