SAN JOSE CONVENTION CENTER AND CULTURAL FACILITIES

Report to City Council

For the Year Ended June 30, 2005

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City Council
City of San José, California

In planning and performing our audit of the financial statements of the San José Convention Center and Cultural Facilities (the Center), an activity of the City of San José (the City), as of and for the year ended June 30, 2005, we considered the Center's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal controls.

During our audit we evaluated the Center's general control environment and became aware of certain matters that should be improved and that we consider an opportunity for strengthening operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations. The information contained herein does not affect our report dated March 30, 2006 on the basic financial statements of the Center.

We have already discussed our recommendations with personnel at the Center and would be pleased to discuss them further, to perform any additional study of these matters, or to assist you in implementation upon request.

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

The accompanying recommendations are intended solely for the information and use of City Council and the City's management and are not intended to be and should not be used by anyone other than these specified parties.

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
March 30, 2006

SAN JOSE CONVENTION CENTER AND CULTURAL FACILITIES
Report to City Council
Results of the 2005 Audit

REQUIRED COMMUNICATIONS

Professional auditing standards require auditors to communicate with the audit committee, or its equivalent, on a number of subjects. The following information satisfies these requirements, and is solely for use of City Council of the City of San José (the City) and the City's management.

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

As stated in our first amendment to the audit services agreement with the City, dated December 7, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free from material misstatements and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Center. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

II. Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our contract with the City, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Center are described in Note 1 to financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2005. We noted no transactions entered into by the Center during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

III. Accounting Estimates

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
- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

IV. Audit Adjustments

For the purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Center's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Center, either individually or in the aggregate, indicate matters that could have a significant effect on the Center's financial reporting process. In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

VI. Consultations with Other 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.

VII. Issues Discussed with Management Prior to Our Retention

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.

VIII. Difficulties in Performing the Audit

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

SAN JOSE CONVENTION CENTER AND CULTURAL FACILITIES
Comments and Recommendations
For the Year Ended June 30, 2005

Centerplate's Monthly Sales Report

During our audit, we noted the Center receives a monthly sales report and a check from Centerplate, for food, beverage and concession sales. On a monthly basis, Centerplate calculates the sales revenue and allocates a percentage of the revenue (commission) to the Center. We noted that the Center relies on Centerplate's integrity and accuracy for the commission revenues earned, as the Center does not review or inspect Centerplate's monthly sales report to verify whether the amounts reported or allocations made were properly calculated.

We recommend the Center perform a desk audit of each monthly sales report provided by Centerplate and conduct a periodic audit to ensure that the amount of revenue earned by the Center is accurate.

Aged Receivables

During our audit of account receivable, we noted the Center does not have a formal procedure to analyze their receivables to determine whether certain aged balances should include a provision for uncollectability. In the absence of a collectability analysis, the Center could be overstating its accounts receivable balance or continuing granting credit to delinquent customers.

We recommend the Center develop a bad debt policy and to review its aged receivables on a monthly basis to determine whether the accounts receivable balance is stated at net realizable value .

Minutes of Meetings

During our audit, we noted the minutes of the Board meetings were highly summarized. As the Board makes significant organizational decisions, it is imperative that Board meetings include enough information to understand the actions and key decisions made. As an example, the Center decided to compensate certain employees with performance pay in the amount of $21,131, however, none of these decisions were documented in the minutes.

We recommend the Center establish a practice to record detailed Board meeting minutes of actions and key decisions.

Segregation of Duties

During our examination of the journal entry process, we noted a lack in segregation of duties for recording and approving journal entries. During our testing, we noted that all journal entries were prepared and recorded by a responsible accountant and approved by the Chief Financial Officer. However, we noted that the Chief Financial Officer has the ability to initiate and approve the journal entries without a secondary review. Also, we noted that the Center does not maintain written policies establishing a process for recording journal entries.

We recommend the Center establish written policies for the journal entry process and limit the Chief Financial Officer to authorization of journal entries.

Developing a Disaster Recovery Plan

The Center's management does not have a well-defined, written disaster recovery plan. While the Center's new management started in July 2004, the time to make contingency plans is before disaster strikes, such as a fire, earthquake or terrorist act. It is important that all personnel be aware of their responsibilities in the event of an emergency to minimize the negative affect on operations.

We recommend that the City require Team San Jose to develop a disaster recovery plan to better plan for future emergencies.

Bonding Employees

During events, the Center handles large sums of cash. In order to mitigate the risk of theft by employees, the Center should consider having its employees bonded. While this may not be a deterrent from employee theft, it would mitigate the Center's risk by allowing the Center to recover some of the loss associated with employee embezzlement.

We recommend the Center have its cash handling personnel bonded.

SAN JOSE CONVENTION CENTER AND CULTURAL FACILITIES
Summary of Uncorrected Misstatements
For the Year Ended June 30, 2005

			BALANCE SHEET		INCOME STATEMENT	
PJE #	**ACCOUNT NAME**	**DESCRIPTION**	**DEBIT**	**CREDIT**	**DEBIT**	**CREDIT**
1	Expenses (Utilities)	To record a June 2005 PG&E expense			13,304.15	
	Accounts Payable	that was not accrued as a payable.		13,304.15		
2	Depreciation	To reclass depreciation expense as a			5,681.78	
	Other expenses	separate identifiable line item.				5,681.78
3	Salary expense (performance pay)	To record performance pay resulting			21,131.00	
	Accrued liabilities	from FY05 operations.		21,131.00		