

**HAYES MANSION
CONFERENCE CENTER
(An Activity of the City of San José)**

Public Safety, Finance &
Strategic Support Committee

Fiscal Year Ended
June 30, 2009

HAYES MANSION CONFERENCE CENTER

Public Safety, Finance & Strategic Support Committee
Fiscal Year Ended June 30, 2009

Table of Contents

	<i>Page(s)</i>
Transmittal Letter	i
Required Communications	1
Status of Prior Year Recommendations	3



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Members of the Public Safety, Finance &
Strategic Support Committee
and San José City Council
City of San José, California

In planning and performing our audit of the financial statements of the Hayes Mansion Conference Center (the Center), an activity of the City of San José (the City), as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control 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 Public Safety, Finance & Strategic Support Committee (Committee) as required by auditing standards generally accepted in the United States of America and a summary of prior year's recommendations.

This communication is intended solely for the information and use of management, the Committee, 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.

Very truly yours,

MACIAS GINI & O'CONNELL LLP

Macias Gini & O'Connell LLP
Certified Public Accountants
Walnut Creek, California

September 25, 2009

HAYES MANSION CONFERENCE CENTER
Required Communications and Recommendations
For the Year Ended June 30, 2009

REQUIRED COMMUNICATIONS

We have audited the financial statements of the Hayes Mansion Conference Center (the Center), an activity of the City of San José (the City) as of and for the year ended June 30, 2009 and have issued our report thereon dated September 25, 2009. Professional auditing standards require auditors to communicate with the audit committee, or its equivalent, on a number of subjects.

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

As stated in our Engagement Communication section of our General Audit Plan dated June 12, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with our oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our audit plan dated June 12, 2009.

III. Significant Accounting Policies

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, 2009. We noted no other transactions entered into by the Center during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period other than when the transaction occurred.

IV. 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 estimate affecting the financial statements was depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property. Management's judgments and estimates were based on useful lives for depreciable property that were determined by management based on the nature of the capital assets.

We evaluated the key factors and assumptions used to develop the accounting estimate described above in determining that it is reasonable in relation to the Center's financial statements taken as a whole.

HAYES MANSION CONFERENCE CENTER
Required Communications and Recommendations
For the Year Ended June 30, 2009

V. Audit Adjustments

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.

VI. Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 25, 2009.

VII. 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.

VIII. 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.

IX. 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.

X. Difficulties Encountered in Performing the Audit

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

HAYES MANSION CONFERENCE CENTER
Status of Prior Year Recommendations
For the Year Ended June 30, 2009

STATUS OF PRIOR YEAR RECOMMENDATIONS

2008-A Comment:

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

We recommend that the Center have sufficient controls in place over certain year-end financial reporting processes such as detailed schedules that reconciled to the general ledger, use of direct write-off method for recording allowance for uncollectible revenues, and reversal of various accruals.

Status: Implemented

2008-B Comment:

Insufficient Documentation for Segregation of Duties over Cash Receipts

We recommend that the Center show verifiable two cash receipts functions such as accounts receivable collection record keeping and bank reconciliations were performed by a specific Center staff as documented part of the cash receipts internal control process.

Status: Implemented

2007-B Comment:

Reconciliation of Debt Service Expenses

The Center records its debt service reimbursements for variable rate debt based on the City's annual budgeted amounts. We recommend that management reconcile the actual amount of interest paid on the bonds during the fiscal year with the budgeted amount of interest recorded and record an adjustment for the difference.

Status: Implemented.