

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

Report to the City Council

For the Year Ended June 30, 2012



Certified Public Accountants.

HAYES MANSION CONFERENCE CENTER

Report to the City Council
For the Year Ended June 30, 2012

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Sacramento

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Newport Beach

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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, 2012, 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 an 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. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 24, 2012

HAYES MANSION CONFERENCE CENTER
Required Communications
For the Year Ended June 30, 2012

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, 2012 and have issued our report thereon dated October 24, 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 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.

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 of the enterprise fund presentation for the Center's operations. The Center's operating transactions are reported within the City's special revenue funds; however, management reports its operating transactions as an enterprise fund to comply with contractual requirements.

The financial statement disclosures are neutral, consistent, and clear.

HAYES MANSION CONFERENCE CENTER
Required Communications
For the Year Ended June 30, 2012

Difficulties Encountered in Performing the Audit

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

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. 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.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 24, 2012.

Management 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.

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

AJE #	Account / Adjustment Description	Debit	Credit
1	Net Assets	35,860	
	Repairs and Maintenance Expense		35,860
	<i>To adjust repairs and maintenance expense account for the June 2011 transfer recorded in fiscal year 2012.</i>		