

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

Independent Accountant's Report On
Applying Agreed-Upon Procedures

For the Year Ended June 30, 2010

City of San José and Team San José
City of San José, California

**Independent Accountant’s Report On
Applying Agreed-Upon Procedures**

We have performed the procedures enumerated below, which were agreed to by the management of City of San José (City) and Team San José (TSJ) (collectively, “the specified parties”), solely to assist the City in evaluating TSJ’s response to the City’s Notice of Default issued on August 18, 2010. The City and TSJ’s management is responsible for the presentation of the operating revenues and expenses of the San José Convention and Cultural Facilities (Center) in accordance with generally accepted accounting principles and for selecting the criteria and determining that such criteria are appropriate for the City’s purposes. The City and TSJ’s management are also responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, and/or experience to oversee any comments that we provide as a result of our tests of transactions; and for evaluating the adequacy and results of those services and accepting responsibility for them. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We requested and read the TSJ written policies and procedures on expenses and disbursements related to the following financial statement line items:
 - Utilities
 - Administrative and General Salaries - Team San José
 - Cost of Event Production Labor
 - Contracted Outside Services
 - Professional Services
 - Operating Supplies
 - Repairs and Maintenance
 - Insurance
 - Equipment Rentals
 - Other Expenses.

We randomly selected and tested sixty (60) operating expense transactions recorded in the general ledger accounts which comprise the line items listed above during the year ended June 30, 2010 and which are not operating expenses controlled by the City. For each transaction selected, we evaluated the allowability of the expense in accordance with the Agreement for the Management of the San José Convention Center and Cultural Facilities Between the City of San José and Team San José, Inc. (the Agreement) dated January 27, 2009 and amended February 2, 2010.

Finding: While TSJ has written procedures in place to document the process for recording accounts payable, TSJ does not have written procedures for the financial statement line items identified above. In addition, 2 out of the 60 expense transactions that we tested were not recorded in the correct fiscal year. The misallocation totaled \$1,462.

2. We tested the transactions selected in procedure #1 to determine that the expense was an appropriate Center operating expense and not a misallocated TSJ operating expense.

Finding: No exceptions were noted as a result of applying the procedures.

3. We judgmentally selected and tested fifteen (15) TSJ Executive Management Team incentive and payroll payments from January 1 through June 30, 2010 using a listing of Executive Management Team names and payroll period end dates. We evaluated whether the incentive fees paid were consistent with the employees' evaluations based on personal performance objectives and whether any pay increases were authorized.

Finding: We tested for incentive fees and pay increases during the period from January 1 through June 30, 2010 and noted no pay increases in the sample selected. The seven members of the TSJ Executive Management Team received incentive fee payments totaling \$111,883 on February 15, 2010 for achieving performance objectives for the period from July 1 through December 31, 2009.

4. We obtained the PACE Revenue Report that lists the events that occurred during fiscal year ended June 30, 2010 and tested the allocation of the revenues generated from the events that were \$75,000 or greater by tracing the events to the amounts recorded in the general ledger.

Finding: Out of the 43 transactions that we tested that exceeded the \$75,000 or greater threshold, no exceptions were noted as a result of applying the procedures. We did note that there was a minor rounding error on one transaction due to a transmission error caused by the credit card processing company during the processing of the transaction.

5. We requested the TSJ policy on cash receipts and deposits and tested advance deposits associated with the events identified in procedure #4 for consistency with the contract and timeliness of advance receipt.

Finding: TSJ does not have written procedures for processing cash receipts and deposits. No exceptions were noted as a result of applying the procedures to the deposits selected for testing.

6. We randomly selected and tested twenty (20) revenue transactions from the general ledgers of TSJ and the San José Convention and Visitors Bureau (CVB). We verified that these revenue transactions are properly classified as TSJ and CVB revenues by reviewing supporting documentation such as contracts and invoices.

Finding: No exceptions were noted as a result of applying the procedures.

7. We randomly selected and tested twenty (20) compensation transactions from July 1, 2009 through June 30, 2010 using a listing of employee names and payroll period end dates. We verified that the transactions are not recorded in both the Center and CVB accounting records.

Finding: We did not find any transactions where the same employee compensation was recorded in both the Center and CVB accounting records. We did note that all of the employees selected for testing allocated 100% of their time to either the Center or CVB even though these employees did not spend 100% of their time on either the Center or CVB.

8. We ascertained that the final budget was approved by both the Finance Committee and the Board of Directors.

Finding: The final budget was approved by the Finance Committee on June 25, 2009 and the Board of Directors on June 26, 2009.

9. We reconciled the approved annual budget to the budget amounts recorded in TSJ's general ledger (MAS90) and the City Council approved budget.

Finding: We reconciled the budget amounts approved by the Finance Committee and the Board of Directors to the monthly budget to actual report generated in MAS 90. The Team San Jose approved annual budget under reported budgeted revenues by \$60,000 and under reported budgeted expenses by \$1,087,695 compared to the City Council approved budget.

10. We recomputed the variance analysis of budget to actual line items for the months of November 2009, March 2010, April 2010 and May 2010 prepared by the Chief Financial Officer. We attempted to verify that TSJ submitted proposed budget amendments to the City for actual expenses that were trending higher than 10% and \$25,000 compared to the City Council approved budget.

Finding: We identified 3 line items each in November 2009, March 2010, April 2010, and May 2010 where actual amounts were trending higher than the thresholds stated above within a range from \$115,724 to \$564,414. We were unable to verify that TSJ submitted budget amendments to the City for additional contributions related to these line items for the four months tested.

11. We selected four (4) month-end journal entries posted in the general ledger during the year ended June 30, 2010 to record ticketing revenues from the Paciolan system and reconciled the total ticketing revenues posted in the general ledger to the Center's supporting documentation (i.e., Paciolan system reports, Ticket Master reports and Civic Concert ticket reports) to determine that the revenues recorded by TSJ are supported by the detailed subsidiary records.

Finding: We identified 2 facility service fees in March 2010 totaling \$5,770 that did not have any supporting documentation for the revenues recorded.

12. We selected four (4) month-end journal entries posted in the general ledger during the year ended June 30, 2010 to record revenues earned from events held at the Technology Museum and tracked using the Tessitura system. We obtained supporting documentation from the Tessitura system to determine that the revenues for the months selected reconciled to the amounts reported in the general ledger.

Finding: Revenues earned in May 2010 were consolidated with June 2010 revenues and recorded as one journal entry. Revenues in the consolidated journal entry were \$107 higher than the supporting documentation based on actual ticket counts. As the journal entry did not show a breakdown of May 2010 and June 2010 revenues, we were unable to determine whether the overstatement applies to May or June, or whether the overstatement should be allocated to both months.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the expanded scope of testing of operating revenues and expenses of the Center as of and for the year ended June 30, 2010. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties and is not intended to be and should not be used by anyone other than those specified parties.

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

November 23, 2010