

CITY OF SAN JOSE, CALIFORNIA

Single Audit Reports

Basic Financial Statements with
Federal and Airport Compliance Sections

For the Year Ended June 30, 2013



Certified Public Accountants.



Sacramento

Oakland

Independent Auditor's Report

LA/Century City

City Council
City of San José, California

Newport Beach

San Diego

Report on the Financial Statements

Seattle

We have audited the accompanying 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 (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principles

As described in Note I.E. to the basic financial statements, effective July 1, 2012, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Unfunded Actuarial Accrued Liabilities

As described in Note IV.A.1.4 to the basic financial statements, based on the most recent actuarial valuations as of June 30, 2012, the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's independent actuaries determined that, at June 30, 2012, the values of the defined benefit pension plans' actuarial accrued liability exceeded the actuarial value of their assets by \$694 million and \$1.1 billion, respectively. The most recent actuarial values of assets for the Police and Fire Department Retirement Plan and the Federated City Employees' Retirement System as of June 30, 2012 do not reflect the impact of deferred investment losses of \$125 million and \$114 million, respectively, that will be recognized in future valuations. Also, as described in Note IV.A.2.4., based on the most recent actuarial valuations as of June 30, 2012, the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's independent actuaries determined that, at June 30, 2012, the values of the postemployment healthcare 401(h) plans' actuarial accrued liability exceeded the actuarial value of their assets by \$931 million and \$959 million, respectively. The June 30, 2012 actuarial valuation of the Police and Fire

Department Retirement Plan's postemployment healthcare plans does not reflect the new Section 115 subtrusts (the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan) as those plans had no financial activity as of the most recent valuation date.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; the schedules of revenues, expenditures, and changes in fund balances – budget and actual for the General Fund, Housing Activities Fund, Low and Moderate Income Housing Asset Fund, and the Integrated Waste Management Fund; and the schedules of funding progress listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the schedules of funding progress and employer contributions for the Section 115 subtrusts of the Police and Fire Department Retirement Plan (the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted 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, schedule of passenger facility charge revenues and expenditures, and schedule of customer facility charge revenues and expenditures are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the *Passenger Facility Charge Audit Guide for Public Agencies*, and the *California Civil Code Section 1936, as amended by Senate Bill 1192*, respectively, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & Cunnell LLP

Walnut Creek, California

November 12, 2013, except for our report on the schedule of expenditures of federal awards, schedule of passenger facility charge revenues and expenditures, and schedule of customer facility charge revenues and expenditures as to which the date is February 6, 2014

Independent Auditor's Report on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance

City Council
City of San José, California

Compliance

We have audited Norman Y. Mineta San José International Airport's (Airport), an enterprise fund of the City of San José (City), compliance with the compliance requirements described in the California Civil Code Section 1936, as amended by Senate Bill 1192 (Code), applicable to its customer facility charge program for the year ended June 30, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the Airport's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the Airport'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; and the Code. Those standards and the Code require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport'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 Airport's compliance with those requirements.

Opinion

In our opinion, the Airport complied, in all material respects, with the requirements referred to above that are applicable to its customer facility charge program for the year ended June 30, 2013.

Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Airport's internal control over compliance to determine the auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Code. Accordingly, this report is not suitable for any other purpose.

Macias Gini & Connell LLP

Walnut Creek, California

February 6, 2014

CITY OF SAN JOSE, CALIFORNIA
 Schedule of Customer Facility Charges Revenues and Expenditures
 Year Ended June 30, 2013

Revenues	
Customer facility charges	\$ 13,384,764
Facility rent	4,905,604
Release of funds from capitalized interest account	3,340,447
Interest loss	<u>(19,174)</u>
Total revenues	<u>21,611,641</u>
Expenditures	
Transportation expenditures	2,292,920
ConRAC debt service expenditures	<u>17,025,482</u>
Total expenditures	<u>19,318,402</u>
Revenues over expenditures	<u>\$ 2,293,239</u>

See accompanying notes to the Schedule of Customer Facility Charges Revenues and Expenditures.

CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures

Year Ended June 30, 2013

(1) GENERAL

California Civil Code Section 1936, as amended by Senate Bill 1192 (Code), permits an airport sponsor to require rental car companies to collect from a renter a Customer Facility Charge (CFC) to finance, design and construct a consolidated airport rental car facility; to finance, design, construct, and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities, and acquire vehicles for use in that system; and to finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems.

Effective on December 1, 2011, pursuant to Section 1936 of the California Civil Code (Section 1936), the City increased the CFC to \$6.00 per contract day, to a maximum of five days, on each rental instead of the \$10.00 per rental contract CFC to help pay first for debt service associated with the Consolidated Rental Car Facility (ConRAC) and then certain operating expenses related to the transportation of rental car customers between Terminal A and the ConRAC.

(2) BASIS OF ACCOUNTING

The accompanying schedule is presented using the accrual basis of accounting as described in Note I to the City's basic financial statements.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Expenditures of CFCs are reported in the City's basic financial statements as reduction of liabilities and as operating expenses in the Airport enterprise fund. CFC expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.