CITY OF SAN JOSE, CALIFORNIA

Single Audit Reports

Basic Financial Statements with Federal and Airport Compliance Sections

For the Year Ended June 30, 2016
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable City Council
City of San José, California

Report on the financial statements
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 (the “City”) as of and for the year ended June 30, 2016, 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 from 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 City’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 City’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, 2016, and the respective changes in financial position and, where applicable, cash flows therefor for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 balance – budget and actual for the General Fund, Housing Activities Fund, and Low and Moderate Income Housing Asset Fund; the schedule of employer contributions – defined benefit pension plans; the schedule of changes in the employer’s net pension liability – defined benefit pension plans; the schedule of investment returns – defined benefit pension plans; the schedule of the City’s proportionate share of the net pension liability and related ratios – CalPERS; the schedule of employer contributions - CalPERS; and the schedules of funding progress – postemployment healthcare benefit plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.

Supplementary 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 schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the schedule of passenger facility charge revenues and expenditures, as required by the Passenger Facility Charge Audit Guide for Public Agencies, and the schedule of customer facility charge revenues and expenditures, as required by the California Civil Code Section
1936, as amended by Senate Bill 1192 and Assembly Bill 359 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary 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. These additional procedures included comparing and reconciling the 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 supplementary 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 16, 2016, 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 effectiveness of 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.

San José, California
November 16, 2016, (except for our report on the schedule of passenger facility charge revenues and expenditures, and schedule of customer facility charge revenues and expenditures as to which the date is December 1, 2016)
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE WITH APPLICABLE REQUIREMENTS OF THE CUSTOMER
FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE

Honorable City Council
City of San José, California

Report on compliance for the Customer Facility Charge program
We have audited the compliance of Norman Y. Mineta San José International Airport
(A Department of the City of San José) (the "Airport") with the types of compliance requirements
described in the California Civil Code Section 1936, as amended by the Senate Bill 1192 and Assembly Bill
359 ("Code"), that could have a direct and material effect on its customer facility charge program
(the “CFC program”) for the year ended June 30, 2016.

Management’s responsibility
Management is responsible for compliance with the requirements described in the Code as
applicable to the Airport’s CFC program.

Auditor’s responsibility
Our responsibility is to express an opinion on compliance for the Airport’s CFC program based
on our audit of the types of compliance requirements referred to above. 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 audit requirements of the Code.
Those standards and the Code require that we plan and perform the audit to obtain reasonable
assurance about whether noncompliance with the types of compliance requirements referred to
above that could have a direct and material effect on the CFC 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 on compliance for the CFC
program. However, our audit does not provide a legal determination of the Airport’s compliance
with those requirements.

Opinion on the CFC program
In our opinion, the Airport complied, in all material respects, with the types of compliance
requirements referred to above that could have a direct and material effect on the CFC program
for the year ended June 30, 2016.
Report on internal control over compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the CFC program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the CFC program and to test and report on internal control over compliance in accordance with the Code, 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 with a type of compliance requirement of the CFC program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the CFC program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the CFC program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Airport's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Grant Thornton LLP

San José, California
December 1, 2016
CITY OF SAN JOSE, CALIFORNIA  
Schedule of Customer Facility Charges Revenues and Expenditures  
Year Ended June 30, 2016

<table>
<thead>
<tr>
<th>Revenues</th>
<th></th>
</tr>
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<tbody>
<tr>
<td>Customer facility charges</td>
<td>$19,887,878</td>
</tr>
<tr>
<td>Facility rent</td>
<td>2,524,361</td>
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<tr>
<td>Investment income</td>
<td>82,854</td>
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<tr>
<td><strong>Total revenues</strong></td>
<td><strong>22,495,093</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Expenditures</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation expenditures</td>
<td>2,123,836</td>
</tr>
<tr>
<td>Debt service expenditures</td>
<td>17,812,854</td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td><strong>19,936,690</strong></td>
</tr>
</tbody>
</table>

| Revenues over expenditures    | $2,558,403 |

1 See accompanying notes to the Schedule of Customer Facility Charge Revenues and Expenditures.
CITY OF SAN JOSE, CALIFORNIA
Note to the Schedule of Customer Facility Charges Revenues and Expenditures
Year Ended June 30, 2016

(1) GENERAL

California Civil Code Section 1936, as amended by Senate Bill 1192, and further amended by Assembly Bill 359 (Section 1936), 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.

From January 1, 2008 through November 30, 2011, the Airport imposed a CFC of $10.00 per rental contract. Pursuant to Section 1936, the City increased the CFC to $6.00 per contract day, to a maximum of five days, on each rental effective December 1, 2011, and further increased the per contract day CFC to $7.50 per contract day, to a maximum of five days, on each rental, commencing January 1, 2014.

(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 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.