

**CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)**

**Independent Auditor's Reports,
Financial Statements, Other Supplementary
Information, and Independent Accountant's Report**

**For the period from June 6, 2001
through June 30, 2008**

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
For the period from June 6, 2001 through June 30, 2008

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City Council
Members of the Citizen's Oversight Committee
City of San José, California

Independent Auditor's Report

We have audited the accompanying financial statements of the Branch Library Bond Projects Fund, a fund of the City of San José (City), as of June 30, 2008 and for the period from June 6, 2001 through June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting as it pertains to the Branch Library Bond Projects Fund activities. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


As discussed in Note 2, the financial statements of the Branch Library Bond Projects Fund are intended to present the financial position and the changes in financial position of only that portion of the fund of the City that is attributable to the transactions of the Branch Library Bond Projects Fund. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2008 and the changes in its financial position for the period from June 6, 2001 through June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Branch Library Bond Projects Fund as of June 30, 2008 and the changes in financial position for the period from June 6, 2001 through June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2009 on our consideration of City's internal control over financial reporting as it pertains to the Branch Library Bond Projects Fund activities 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* and should be considered in assessing the results of our audit.

The accompanying other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The Branch Library Bond Projects Fund has not presented the management's discussion and analysis required by the Governmental Accounting Standards Board that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

This report is intended solely for the information and use of the City Council, the Citizen's Oversight Committee, the City Auditor and the City's management and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants
Walnut Creek, California

March 13, 2009

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
Balance Sheet
June 30, 2008

Assets

Investments held with fiscal agents	\$ 78,201,012
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Liabilities and Fund Balances

Liabilities:

Accounts payable	\$ 1,813,503
Accrued salaries, wages and payroll taxes	57,950
Due to the City	4,059,071
Total liabilities	<u>5,930,524</u>

Fund balances:

Reserved for encumbrances	24,728,136
Unreserved, undesignated	47,542,352
Total fund balances	<u>72,270,488</u>
Total liabilities and fund balances	<u>\$ 78,201,012</u>

See accompanying notes to the financial statements.

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Period from June 6, 2001 through June 30, 2008

Revenues:

Investment income	\$ 17,357,506
Intergovernmental	2,168,000
Other	70,007
	19,595,513

Expenditures:

Capital outlay:	
Almaden Branch Library & Community Center	8,212,585
Bascom Branch Library & Community Center	8,771,005
Berryessa Branch Library	9,328,495
Calabazas Branch Library	464,023
Cambrian Branch Library	11,963,723
Dr. Roberto Cruz Alum Rock Branch Library	13,718,707
East San José Carnegie Branch Library	2,900,587
Edenvale Branch Library	9,877,397
Educational Park Branch Library	615,506
Evergreen Branch Library	10,192,885
Hillview Branch Library	11,100,001
Joyce Ellington Branch Library	9,620,950
Pearl Avenue Branch Library	7,441,406
Rose Garden Branch Library	9,389,639
Santa Teresa Branch Library	2,264,513
Seven Trees Branch Library & Community Center	1,510,414
Southeast Branch Library	36,799
Tully Community Branch Library	11,705,750
Vineland Branch Library	9,098,704
Willow Glen Branch Library	8,568,172
Project Administration	5,745,764
Debt service:	
Arbitrage rebate payment	683,000
	153,210,025
Total expenditures	153,210,025
Deficiency of revenues under expenditures	(133,614,512)

Other Financing Sources:

Bond proceeds	205,885,000
Change in fund balance	72,270,488
Fund balance, beginning of period	-
Fund balance, end of period	\$ 72,270,488

See accompanying notes to the financial statements.

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
Notes to the Financial Statements

For the period from June 6, 2001 through June 30, 2008

NOTE 1 – BACKGROUND

In November 2000, registered voters of the City of San José (City) approved Measure O, the San José Neighborhood Libraries Bond, authorizing the issuance and sale of not to exceed \$211,790,000 general obligation bonds (Libraries Bonds) to be used to fund the acquisition of property and construction of improvements to neighborhood library facilities throughout the City.

The table below sets forth the amount of Neighborhood Libraries general obligation bonds authorized and issued pursuant to Measure O:

	Amount	Date
Voter authorization	\$ 211,790,000	November 7, 2000
Bonds issued:		
Series 2001 Bonds	31,000,000	June 6, 2001
Series 2002 Bonds	30,000,000	July 18, 2002
Series 2004 Bonds	58,300,000	July 14, 2004
Series 2005 Bonds	21,300,000	June 23, 2005
Series 2006 Bonds	60,000,000	June 29, 2006
Series 2008 Bonds	5,285,000	June 25, 2008
Total bonds issued	205,885,000	
Authorized but unissued	\$ 5,905,000	

The specific projects approved by the City Council to be funded by the bond proceeds include:

Project	Prior Square Feet	Proposed Square Feet	Status At June 30, 2008
Almaden Branch Library & Community Center	10,715	20,000	Completed
Bascom Branch Library & Community Center	n/a	20,000	In Construction
Berryessa Branch Library	n/a	26,000	Completed
Calabazas Branch Library	5,800	10,000	In Design
Cambrian Branch Library	10,126	28,000	Completed
Dr. Roberto Cruz Alum Rock Branch Library	n/a	26,000	Completed
East San Jose Carnegie Branch Library	7,281	12,000	In Construction
Edenvale Branch Library	n/a	22,200	Completed
Educational Park Branch Library	14,084	18,000	In Design
Evergreen Branch Library	7,448	21,000	Completed
Hillview Branch Library	7,288	21,000	Completed
Joyce Ellington Branch Library	6,715	14,500	Completed
Pearl Avenue Branch Library	7,116	14,000	Completed
Rose Garden Branch Library	6,850	19,000	Completed
Santa Teresa Branch Library	13,860	22,000	In Construction
Seven Trees Branch Library & Community Center	6,769	20,000	In Construction
Southeast Branch Library	n/a	12,000	Not Started
Tully Community Branch Library	n/a	24,000	Completed
Vineland Branch Library	n/a	24,000	Completed
Willow Glen Branch Library	5,330	13,000	Completed

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the period from June 6, 2001 through June 30, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present only the financial position and the changes in financial position of the Branch Library Bond Projects Fund (Fund) and do not purport to, and do not, present fairly the City's financial position as of June 30, 2008 and the changes in its financial position for the period from June 6, 2001 through June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

A capital projects fund (governmental fund) is used to account for the City's Branch Library Bond Projects activities. Capital projects funds are used to account for financial resources (bond proceeds and investment income) to be used for the acquisition of land or acquisition and construction of major governmental facilities.

Basis of Accounting

The Fund's activity is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers investment income to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Restricted Cash and Investments

Cash and investments that are restricted for specified uses by bond covenants or other requirements are classified as restricted. The Fund's restricted cash and investments are held with fiscal agent accounts to be spent only on authorized capital projects. The Fund's restricted cash and investments are subject to the requirements of the City's adopted investment policy and the bond indenture.

Due to the City

The Fund's cash and investments balances are pooled and invested by the City and the Fund's overdraft position of the City's pooled investments is displayed on the balance sheet as "Due to the City." It is the City's policy not to charge interest to those funds that have a negative average daily cash balances. Income earned or losses arising from positive pooled investments are allocated on a monthly basis by the City Treasury to the Fund based on the average weekly cash balances.

Intergovernmental Revenue

The City transferred from the Library Construction and Conveyance Tax Fund to the Fund to cover project administrations costs. These transfers were recorded as intergovernmental revenue on the Fund's financial statements. For the years ended June 30, 2006, 2007, and 2008, intergovernmental revenue recorded by the Fund was \$706,000, \$714,000, and \$748,000, respectively.

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the period from June 6, 2001 through June 30, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and management and can be increased, reduced or eliminated by similar actions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 – RESTRICTED CASH AND INVESTMENTS

A summary of the Fund’s restricted cash and investments at June 30, 2008 are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Moody's Credit Risk Rating</u>	<u>Weighed Average Maturity</u>
State of California Local Agency Investment Fund	\$ 60,095,879	Unrated	212 days
Wells Fargo Treasury Money Market Mutual Fund	18,105,133	Aaa	50 days
Total investments	<u>\$ 78,201,012</u>		

The Fund has investments subject to provisions of the bond indentures of its various bond issues. According to the bond indentures, the City is permitted to invest in the City’s cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government agencies, time deposits, money market mutual funds invested in U.S. Government securities, along with various other investments.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by nationally recognized statistical rating organizations. The City’s investment policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures.

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the period from June 6, 2001 through June 30, 2008

NOTE 3 – RESTRICTED CASH AND INVESTMENTS (Continued)

Concentration Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Fund. Investments issued by or explicitly guaranteed by the U.S. government and investments in mutual funds and other pooled investments are exempt from this requirements, as they are normally diversified themselves.

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market rates. The City’s investment policy has mitigated interest rate risk by establishing policies over liquidity, including maturity limits by investment classification. These limits, for investments other than external investment pools and money market mutual funds, are as few as 10 days and as long as 5 years.

NOTE 4 – BOND PROCEEDS

As of June 30, 2008, the Fund has received proceeds from bond issues as follows:

	<u>Total Bonds Issued</u>			<u>Allocation of Bond Proceeds</u>			
	<u>Par Amount</u>	<u>Bond Premium</u>	<u>Total Proceeds</u>	<u>Branch Library Bond Projects Fund</u>	<u>Parks and Recreation Bond Projects Fund</u>	<u>Public Safety Bond Projects Funds</u>	<u>Debt Services Funds</u>
Series 2001 Bonds	\$ 71,000,000	\$ 702,671	\$ 71,702,671	\$ 31,000,000	\$ 40,000,000	\$ -	\$ 702,671
Series 2002 Bonds	116,090,000	1,701,525	117,791,525	30,000,000	46,715,000	39,375,000	1,701,525
Series 2004 Bonds	118,700,000	1,928,232	120,628,232	58,300,000	46,000,000	14,400,000	1,928,232
Series 2005 Bonds	46,300,000	803,299	47,103,299	21,300,000	-	25,000,000	803,299
Series 2006 Bonds	105,400,000	2,436,112	107,836,112	60,000,000	45,400,000	-	2,436,112
Series 2007 Bonds	90,000,000	965,400	90,965,400	-	22,100,000	67,900,000	965,400
Series 2008 Bonds	33,100,000	526,037	33,626,037	5,285,000	27,815,000	-	526,037
Total	<u>\$580,590,000</u>	<u>\$ 9,063,276</u>	<u>\$589,653,276</u>	<u>\$205,885,000</u>	<u>\$228,030,000</u>	<u>\$146,675,000</u>	<u>\$ 9,063,276</u>

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the period from June 6, 2001 through June 30, 2008

NOTE 5 – COMMITMENTS

At June 30, 2008, the Fund has related outstanding project construction and other commitments as follows:

<u>Project</u>	<u>Amount</u>
Almaden Branch Library and Community Center	\$ 4,019
Bascom Branch Library & Community Center	321,693
Calabazas Branch Library	473,660
East San Jose Carnegie Branch Library	5,579,984
Edenvale Branch Library	23,306
Educational Park Branch Library	819,573
Joyce Ellington Branch Library	161,679
Pearl Avenue Branch Library	678,999
Santa Teresa Branch Library	8,243,175
Seven Trees Branch Library & Community Center	8,284,149
Willow Glen Branch Library	110,626
Project Administration	<u>27,273</u>
Total reserved for encumbrance	<u><u>\$ 24,728,136</u></u>

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
Combining Balance Sheets
June 30, 2001 to 2008

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Assets				
Equity in pooled cash and investments held in City Treasury	\$ -	\$ -	\$ -	\$ 1,611,083
Accrued interest receivables	119,455	107,102	310,592	58,720
Advance and deposits	-	-	-	-
Restricted assets:				
Equity in pooled cash and investments held in City Treasury	11,127,380	11,697,834	43,523,542	10,843,368
Investments held with fiscal agents	19,763,004	16,839,195	7,009,418	19,663,127
Total assets	<u>\$ 31,009,839</u>	<u>\$ 28,644,131</u>	<u>\$ 50,843,552</u>	<u>\$ 32,176,298</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 74,534	\$ 266,106	\$ 1,073,561	\$ 1,168,028
Accrued salaries, wages and payroll taxes	11,848	19,433	42,565	65,469
Due to the City	196,127	1,654,641	3,746,863	6,450,000
Total liabilities	<u>282,509</u>	<u>1,940,180</u>	<u>4,862,989</u>	<u>7,683,497</u>
Fund balances:				
Reserved for encumbrances	2,976,263	10,531,825	17,150,625	29,615,685
Reserved for noncurrent advances and deposits	-	-	-	-
Unreserved, undesignated	27,751,067	16,172,126	28,829,938	(5,122,884)
Total fund balances	<u>30,727,330</u>	<u>26,703,951</u>	<u>45,980,563</u>	<u>24,492,801</u>
Total liabilities and fund balances	<u>\$ 31,009,839</u>	<u>\$ 28,644,131</u>	<u>\$ 50,843,552</u>	<u>\$ 32,176,298</u>

2005	2006	2007	2008
\$ -	\$ -	\$ -	\$ -
-	38	-	-
59,700	-	-	-
4,742,732	5,923	-	-
82,401,372	123,311,774	116,423,406	78,201,012
<u>\$ 87,203,804</u>	<u>\$ 123,317,735</u>	<u>\$ 116,423,406</u>	<u>\$ 78,201,012</u>
\$ 6,119,237	\$ 2,591,764	\$ 2,355,123	\$ 1,813,503
64,845	46,523	55,015	57,950
9,212,768	15,945,782	28,247,355	4,059,071
<u>15,396,850</u>	<u>18,584,069</u>	<u>30,657,493</u>	<u>5,930,524</u>
28,739,939	14,110,507	16,571,424	24,728,136
59,700	-	-	-
43,007,315	90,623,159	69,194,489	47,542,352
<u>71,806,954</u>	<u>104,733,666</u>	<u>85,765,913</u>	<u>72,270,488</u>
<u>\$ 87,203,804</u>	<u>\$ 123,317,735</u>	<u>\$ 116,423,406</u>	<u>\$ 78,201,012</u>

Assets

Equity in pooled cash and investments held in City Treasury
Accrued interest receivables
Advance and deposits
Restricted assets:
Equity in pooled cash and investments held in City Treasury
Investments held with fiscal agents
Total assets

Liabilities and Fund Balances

Liabilities:
Accounts payable
Accrued salaries, wages and payroll taxes
Due to the City
Total liabilities
Fund balances:
Reserved for encumbrances
Reserved for noncurrent advances and deposits
Unreserved, undesignated
Total fund balances
Total liabilities and fund balances

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
Combining Schedules of Capital Outlay by Project
For the Period from June 6, 2001 through June 30, 2008

	2001	2002	2003	2004
Revenues:				
Investment income	\$ 133,145	\$ 1,171,104	\$ 2,152,449	\$ 102,310
Intergovernmental	-	-	-	-
Other	-	-	26,792	-
Total revenues	<u>133,145</u>	<u>1,171,104</u>	<u>2,179,241</u>	<u>102,310</u>
Expenditures:				
Capital outlay:				
Almaden Branch Library & Community Center	8,900	3,662	391,731	348,318
Bascom Branch Library & Community Center	-	12,021	20,853	3,588,176
Berryessa Branch Library	29,371	513,793	1,871,441	2,939,419
Calabazas Branch Library	-	-	-	-
Cambrian Branch Library	-	13,490	10,352	567,576
Dr. Roberto Cruz Alum Rock Branch Library	-	1,572,645	1,649,173	2,623,886
East San José Carnegie Branch Library	-	-	-	-
Edenvale Branch Library	-	13,902	12,595	62,782
Educational Park Branch Library	-	-	-	-
Evergreen Branch Library	-	-	26,655	951,248
Hillview Branch Library	-	39,666	49,450	701,752
Joyce Ellington Branch Library	-	-	-	98,928
Pearl Avenue Branch Library	-	-	-	-
Rose Garden Branch Library	-	30,882	920,059	1,889,343
Santa Teresa Branch Library	-	-	-	-
Seven Trees Branch Library & Community Center	-	-	-	-
Southeast Branch Library	-	12,956	22,425	1,388
Tully Community Branch Library	56,288	1,595,093	996,780	5,097,574
Vineland Branch Library	170,588	867,627	6,209,272	1,832,853
Willow Glen Branch Library	-	-	-	7,717
Project Administration	140,668	518,746	721,843	879,112
Debt service:				
Arbitrage rebate payment	-	-	-	-
Total expenditures	<u>405,815</u>	<u>5,194,483</u>	<u>12,902,629</u>	<u>21,590,072</u>
Deficiency of revenues under expenditures	(272,670)	(4,023,379)	(10,723,388)	(21,487,762)
Other Financing Sources:				
Bond proceeds	<u>31,000,000</u>	<u>-</u>	<u>30,000,000</u>	<u>-</u>
Change in fund balances	30,727,330	(4,023,379)	19,276,612	(21,487,762)
Fund balances, beginning of period	<u>-</u>	<u>30,727,330</u>	<u>26,703,951</u>	<u>45,980,563</u>
Fund balances, end of period	<u>\$ 30,727,330</u>	<u>\$ 26,703,951</u>	<u>\$ 45,980,563</u>	<u>\$ 24,492,801</u>

2005	2006	2007	2008	Total
\$ 1,529,968	\$ 3,047,142	\$ 5,670,140	\$ 3,551,248	\$ 17,357,506
-	706,000	714,000	748,000	2,168,000
14,355	20,641	8,219	-	70,007
<u>1,544,323</u>	<u>3,773,783</u>	<u>6,392,359</u>	<u>4,299,248</u>	<u>19,595,513</u>
3,796,919	3,018,030	497,885	147,140	8,212,585
2,809,525	60,926	1,602,517	676,987	8,771,005
3,949,386	25,022	63	-	9,328,495
-	-	61,418	402,605	464,023
1,967,365	7,357,309	2,026,217	21,414	11,963,723
6,730,704	1,037,586	92,465	12,248	13,718,707
-	147,183	804,089	1,949,315	2,900,587
361,625	765,275	7,446,744	1,214,474	9,877,397
-	-	4,115	611,391	615,506
3,060,594	5,945,766	208,622	-	10,192,885
1,925,367	6,742,348	1,641,332	86	11,100,001
162,453	832,135	3,531,201	4,996,233	9,620,950
18,655	757,173	2,113,187	4,552,391	7,441,406
3,932,886	2,571,175	-	45,294	9,389,639
-	123,696	833,145	1,307,672	2,264,513
-	17,879	577,146	915,389	1,510,414
-	-	-	30	36,799
3,960,015	-	-	-	11,705,750
-	281	-	18,083	9,098,704
16,737	539,321	3,204,884	4,799,513	8,568,172
1,137,939	905,966	715,082	726,408	5,745,764
-	-	-	683,000	683,000
<u>33,830,170</u>	<u>30,847,071</u>	<u>25,360,112</u>	<u>23,079,673</u>	<u>153,210,025</u>
(32,285,847)	(27,073,288)	(18,967,753)	(18,780,425)	(133,614,512)
79,600,000	60,000,000	-	5,285,000	205,885,000
47,314,153	32,926,712	(18,967,753)	(13,495,425)	72,270,488
24,492,801	71,806,954	104,733,666	85,765,913	-
<u>\$ 71,806,954</u>	<u>\$ 104,733,666</u>	<u>\$ 85,765,913</u>	<u>\$ 72,270,488</u>	<u>\$ 72,270,488</u>

Revenues:

Investment income
Intergovernmental
Other

Total revenues

Expenditures:

Capital outlay:
Almaden Branch Library & Community Center
Bascom Branch Library & Community Center
Berryessa Branch Library
Calabazas Branch Library
Cambrian Branch Library
Dr. Roberto Cruz Alum Rock Branch Library
East San José Carnegie Branch Library
Edenvale Branch Library
Educational Park Branch Library
Evergreen Branch Library
Hillview Branch Library
Joyce Ellington Branch Library
Pearl Avenue Branch Library
Rose Garden Branch Library
Santa Teresa Branch Library
Seven Trees Branch Library & Community Center
Southeast Branch Library
Tully Community Branch Library
Vineland Branch Library
Willow Glen Branch Library
Project Administration

Debt service:

Arbitrage rebate payment

Total expenditures

Deficiency of revenues under expenditures

Other Financing Sources:

Bond proceeds

Change in fund balances

Fund balances, beginning of period

Fund balances, end of period

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City Council
Members of the Citizen's Oversight Committee
City of San José, California

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited the accompanying financial statements of the Branch Library Bond Projects Fund (Fund), a fund of the City of San José (City), as of June 30, 2008 and for the period from June 6, 2001 through June 30, 2008, and have issued our report thereon dated March 13, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as it pertains to the Fund's activities, 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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements schedule that is more than inconsequential will not be prevented or detected by the internal control. We consider the deficiency described in the accompanying schedule of comment and response as item 2008-A to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the internal control.


Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the finding identified in our audit is described in the accompanying schedule of comment and response. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, the Citizen's Oversight Committee, the City Auditor and the City's management and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants
Walnut Creek, California

March 13, 2009

CITY OF SAN JOSE
Branch Library Bond Projects Fund
(A Fund of the City of San José)
Schedule of Comment and Response
For the period from June 6, 2001 through June 30, 2008

Item #2008-A – Significant Deficiency
Year-end Expenditure Accrual Process

Criteria

Under generally accepted accounting principles, the Fund's capital outlay expenditures are to be recorded when a liability is incurred. As such, the City should record all expenditures related to the Branch Library Bond Projects Fund (Fund) in the period when a liability is incurred.

Condition/Context

During our audit, we noted the City did not accrue for the following:

- For Fiscal Year 2005, one expenditure transaction related to the Berryessa Branch Library Project was incurred during the fiscal year and recorded in the subsequent fiscal year. As such, at June 30, 2005, the Fund's liabilities and expenditures were understated in the amount of \$523,760. However, since the Fund recorded the expenditure in Fiscal Year 2006, as of the end of Fiscal Year 2006, the Fund did not understate the cumulative expenditures.
- Similarly, for Fiscal Year 2007, one expenditure transaction related to the Willow Glen Branch Library Project was incurred during the fiscal year and recorded in the subsequent fiscal year. As such, at June 30, 2007, the Fund's liabilities and expenditures were understated in the amount of \$740,880. However, since the Fund recorded the expenditure in Fiscal Year 2008, as of the end of Fiscal Year 2008, the Fund did not understate the cumulative expenditures.

The City did not record these accruals during the preparation of its year-end Comprehensive Annual Financial Statements (CAFR) for Fiscal Years 2005 and 2007, respectively, as the City did not consider these transactions to be material in relation to the City's basic financial statements taken as a whole. It should be noted that the materiality threshold for the City's CAFR is considerably higher than at the individual fund level. Since this audit is at the fund level, the transactions noted above are considered to be material to the Fund and should be recorded in the proper year of the Fund's financial statements. Accordingly, for the purpose of this audit, the related financial statements have been adjusted to accurately reflect the accrual of the expenditures.

Recommendation

We recommend the City perform an expenditure and accrual analysis at the Fund's appropriate materiality threshold during its year-end financial reporting process in order to properly record expenditures in the period when a liability is incurred.

Views of Responsible Officials and Planned Correction Plan:

The City concurs with the auditor's recommendation. The City has already implemented a process that will analyze expenditures and related accruals during the year-end financial reporting process to ensure all expenditures meeting the materiality threshold in the Fund are recorded in the period in which services are received.

Correction Action Plan Contact Person

Jane Light, Director of Library Department
Scott P. Johnson, Director of Finance

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Independent Accountant's Report

We have examined the City of San José's (City) compliance with certain provisions of Measure O for the period from June 6, 2001 through June 30, 2008 as follows:

- Bond proceeds were used for expanding and improving aging branch libraries to reduce noise, add parking, and add space for more books and computers; and building new libraries in neighborhoods throughout the City.
- Bond proceeds were not used for library administrators' salaries.
- Annual audits were performed.
- A citizen's oversight committee was established.

Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the period from June 6, 2001 through June 30, 2008.

This report is intended solely for the information and use of the City Council, the Citizen's Oversight Committee, the City Auditor and the City's management and is not intended to be and should not be used by anyone other than these specified parties.

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

March 13, 2009