

**CITY OF SAN JOSE
Library Parcel Tax Fund
(A Fund of the City of San José)**

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

**For the Years Ended
June 30, 2006, 2007 and 2008**

CITY OF SAN JOSE
Library Parcel Tax Fund
(A Fund of the City of San José)
For the Years Ended June 30, 2006, 2007 and 2008

Table of Contents

	<i>Page(s)</i>
Independent Auditor’s Report	1-2
Financial Statements:	
Balance Sheets.....	3
Statements of Revenues, Expenditures and Changes in Fund Balances	4
Notes to the Financial Statements	5-6
Budgetary Schedules (Required Supplementary Information):	
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Budgetary Basis For the Year Ended June 30, 2006	7
Budgetary Basis For the Year Ended June 30, 2007	8
Budgetary Basis For the Year Ended June 30, 2008	9
Note to the Required Supplementary Information	10
Other Reports:	
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 <i>Government Auditing Standards</i>	11-12
Independent Accountant’s Report	13



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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 Library Parcel Tax Fund, a fund of the City of San José (City), as of and for the years June 30, 2006, 2007 and 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 Library Parcel Tax 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 Library Parcel Tax Fund are intended to present the financial position and the changes in financial position of only that portion of the nonmajor governmental fund of the City that is attributable to the transactions of the Library Parcel Tax Fund. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2006, 2007 and 2008, and the changes in its financial position for the years then ended 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 Library Parcel Tax Fund as of June 30, 2006, 2007 and 2008, and the respective changes in financial position thereof for the years then ended 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 Library Parcel Tax 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 Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted by the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Library Parcel Tax 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 basic 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
Library Parcel Tax Fund
(A Fund of the City of San José)
Balance Sheets
June 30, 2006, 2007 and 2008

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Assets			
Equity in pooled cash and investments held in the City Treasury	\$ 4,109,799	\$ 6,007,514	\$ 6,881,913
Receivables:			
Parcel tax	-	25,812	30,699
Interest	12,921	47,301	35,032
Total assets	<u>\$ 4,122,720</u>	<u>\$ 6,080,627</u>	<u>\$ 6,947,644</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 74,892	\$ 252,261	\$ 212,185
Accrued salaries, wages and payroll taxes	141,082	161,594	167,330
Total liabilities	<u>215,974</u>	<u>413,855</u>	<u>379,515</u>
Fund balances:			
Reserved for encumbrances	29,502	26,999	188,809
Unreserved:			
Designated for:			
Contingency reserve	100,000	100,000	100,000
Millennium circulation system replacement	-	-	275,000
Undesignated	3,777,244	5,539,773	6,004,320
Total fund balances	<u>3,906,746</u>	<u>5,666,772</u>	<u>6,568,129</u>
Total liabilities and fund balances	<u>\$ 4,122,720</u>	<u>\$ 6,080,627</u>	<u>\$ 6,947,644</u>

See accompanying notes to the financial statements.

CITY OF SAN JOSE
Library Parcel Tax Fund

(A Fund of the City of San José)

Statements of Revenues, Expenditures and Changes in Fund Balances
For the Years Ended June 30, 2006, 2007 and 2008

	2006	2007	2008
Revenues:			
Library parcel tax	\$ 6,253,119	\$ 6,461,630	\$ 6,707,311
Investment income	(9,373)	162,389	271,503
Total revenues	6,243,746	6,624,019	6,978,814
Expenditures:			
Personal services	2,095,367	2,756,947	3,795,049
Materials acquisition	210,629	1,093,602	1,465,600
Non-personal services/equipment	19,959	736,510	232,200
Automation projects	1,197	224,099	518,119
Intergovernmental	9,848	52,835	66,489
Total expenditures	2,337,000	4,863,993	6,077,457
Change in fund balances	3,906,746	1,760,026	901,357
Fund balances, beginning of year	-	3,906,746	5,666,772
Fund balances, end of year	\$ 3,906,746	\$ 5,666,772	\$ 6,568,129

See accompanying notes to the financial statements.

CITY OF SAN JOSE
Library Parcel Tax Fund
(A Fund of the City of San José)
Notes to the Financial Statements
For the Years Ended June 30, 2006, 2007 and 2008

NOTE 1 – DESCRIPTION OF REPORTING ENTITY

In November 2004, registered voters of the City of San José (City) approved Measure S, a parcel tax for Library purposes. The parcel tax replaced the ten-year Library Benefit Assessment District that ended on June 30, 2005. Beginning on July 1, 2005, the parcel tax is collected with the annual Santa Clara County property taxes. Proceeds from the library parcel tax may only be expended for Library purposes, including the following:

- the acquisition of library books and materials and related costs to maintain library collections at all libraries;
- the development and delivery of homework and educational programs for all age groups to support literacy and lifelong learning;
- the repair, equipping and staffing of libraries; and
- the cost of collection and administration of the Library Parcel Tax.

The City Council may, by resolution of the City Council, increase the Library Parcel Tax rates if the City Council finds that the cost of living in the City as shown on the Consumer Price Index (CPI) has increased over the preceding period. The increase in the Library Parcel Tax rate shall not exceed the increase in the CPI for the applicable period, but in no event shall the increase exceed three percent.

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 Library Parcel Tax Fund and do not purport to, and do not, present fairly the City's financial position as of June 30, 2006, 2007 and 2008, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A special revenue fund (governmental fund) is used to account for the City's Library Parcel Tax activities. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Basis of Accounting

The Library Parcel Tax Fund 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 parcel tax (property tax) revenues and 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. However, expenditure related to vacation, sick leave, claims and judgments are recorded only when payment is due.

CITY OF SAN JOSE
Library Parcel Tax Fund
Notes to the Financial Statements (Continued)
(A Fund of the City of San Jose)
For the Years Ended June 30, 2006, 2007 and 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.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures.

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 – CASH AND INVESTMENTS

Cash and investments balances of the Library Parcel Tax Fund are pooled and invested by the City. The Library Parcel Tax Fund's portion of this pool is displayed on the balance sheet as "equity in pooled cash and investments held in the City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis by the City's Finance Department to the Library Parcel Tax Fund based on the average weekly cash balances. These investments are reported at fair value in the accompanying financial statements and the corresponding change in fair value of investments are reported in the year in which the change occurred.

It is not possible to disclose relevant information about the Library Parcel Tax Fund's separate portion of the investment pool. Information regarding the characteristics of the City's entire investment pool can be found in the City's basic financial statements.

NOTE 4 – INTERGOVERNMENTAL EXPENDITURES

The City issued lease revenue bonds and commercial paper notes to pay for the City Hall construction costs. The Library Parcel Tax Fund's share of the debt service is calculated as a percentage of library staff occupying the City Hall coupled with an estimated use of the Council Chambers and other City Hall offices. For the years ended June 30, 2006, 2007, and 2008, the Library Parcel Tax Fund's share of the debt service paid to the City was \$9,848, \$52,835, and \$66,489, respectively.

CITY OF SAN JOSE
Library Parcel Tax Fund
(A Fund of the City of San José)
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Budgetary Basis
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Budgetary Basis Actual	Variance Over (Under)	GAAP Adjustments	GAAP Basis
Revenues:						
Library parcel tax	\$ 6,120,000	\$ 6,120,000	\$ 6,253,119	\$ 133,119	\$ -	\$ 6,253,119
Investment income	20,000	20,000	14,692	(5,308)	(24,065)	(9,373)
Total revenues	<u>6,140,000</u>	<u>6,140,000</u>	<u>6,267,811</u>	<u>127,811</u>	<u>(24,065)</u>	<u>6,243,746</u>
Expenditures:						
Personal services	3,348,537	3,348,537	2,095,367	1,253,170	-	2,095,367
Materials acquisition	1,500,000	1,500,000	210,629	1,289,371	-	210,629
Non-personal services/equipment	492,618	492,618	21,939	470,679	(1,980)	19,959
Automation projects	500,000	500,000	28,719	471,281	(27,522)	1,197
Intergovernmental	9,848	9,848	9,848	-	-	9,848
Total expenditures	<u>5,851,003</u>	<u>5,851,003</u>	<u>2,366,502</u>	<u>3,484,501</u>	<u>(29,502)</u>	<u>2,337,000</u>
Change in fund balances	<u>\$ 288,997</u>	<u>\$ 288,997</u>	3,901,309	<u>\$ 3,612,312</u>	5,437	3,906,746
Fund balances, beginning of year			-		-	-
Fund balances, end of year			<u>\$ 3,901,309</u>		<u>\$ 5,437</u>	<u>\$ 3,906,746</u>

See accompanying note to the required supplementary information.

CITY OF SAN JOSE
Library Parcel Tax Fund
(A Fund of the City of San José)
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Budgetary Basis
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Budgetary Basis Actual	Variance Over (Under)	GAAP Adjustments	GAAP Basis
Revenues:						
Library parcel tax	\$ 6,300,000	\$ 6,300,000	\$ 6,461,630	\$ 161,630	\$ -	\$ 6,461,630
Investment income	25,000	25,000	170,982	145,982	(8,593)	162,389
Total revenues	<u>6,325,000</u>	<u>6,325,000</u>	<u>6,632,612</u>	<u>307,612</u>	<u>(8,593)</u>	<u>6,624,019</u>
Expenditures:						
Personal services	3,608,945	4,327,550	2,756,947	1,570,603	-	2,756,947
Materials acquisition	1,975,000	1,975,000	1,093,602	881,398	-	1,093,602
Non-personal services/equipment	630,480	885,707	763,509	122,198	(26,999)	736,510
Automation projects	1,227,522	1,327,522	224,099	1,103,423	-	224,099
Intergovernmental	52,835	52,835	52,835	-	-	52,835
Total expenditures	<u>7,494,782</u>	<u>8,568,614</u>	<u>4,890,992</u>	<u>3,677,622</u>	<u>(26,999)</u>	<u>4,863,993</u>
Change in fund balances	<u>\$ (1,169,782)</u>	<u>\$ (2,243,614)</u>	1,741,620	<u>\$ 3,985,234</u>	18,406	1,760,026
Fund balances, beginning of year			3,901,309		5,437	3,906,746
Prior year encumbrances			29,502		(29,502)	-
Fund balances, end of year			<u>\$ 5,672,431</u>		<u>\$ (5,659)</u>	<u>\$ 5,666,772</u>

See accompanying note to the required supplementary information.

CITY OF SAN JOSE
Library Parcel Tax Fund
(A Fund of the City of San José)
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Budgetary Basis
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Budgetary Basis Actual	Variance Over (Under)	GAAP Adjustments	GAAP Basis
Revenues:						
Library parcel tax	\$ 6,300,000	\$ 6,300,000	\$ 6,707,311	\$ 407,311	\$ -	\$ 6,707,311
Investment income	50,000	50,000	195,214	145,214	76,289	271,503
Total revenues	<u>6,350,000</u>	<u>6,350,000</u>	<u>6,902,525</u>	<u>552,525</u>	<u>76,289</u>	<u>6,978,814</u>
Expenditures:						
Personal services	3,813,747	4,019,969	3,795,049	224,920	-	3,795,049
Materials acquisition	1,700,000	1,700,000	1,549,612	150,388	(84,012)	1,465,600
Non-personal services/equipment	615,499	615,499	331,897	283,602	(99,697)	232,200
Automation projects	1,000,000	1,000,000	523,219	476,781	(5,100)	518,119
Intergovernmental	66,489	66,489	66,489	-	-	66,489
Total expenditures	<u>7,195,735</u>	<u>7,401,957</u>	<u>6,266,266</u>	<u>1,135,691</u>	<u>(188,809)</u>	<u>6,077,457</u>
Change in fund balances	<u>\$ (845,735)</u>	<u>\$ (1,051,957)</u>	636,259	<u>\$ 1,688,216</u>	265,098	901,357
Fund balances, beginning of year			5,672,431		(5,659)	5,666,772
Prior year encumbrances			26,999		(26,999)	-
Fund balances, end of year			<u>\$ 6,335,689</u>		<u>\$ 232,440</u>	<u>\$ 6,568,129</u>

See accompanying note to the required supplementary information.

CITY OF SAN JOSE
Library Parcel Tax Fund
(A Fund of the City of San José)
Note to the Required Supplementary Information
For the Years Ended June 30, 2006, 2007 and 2008

Budgetary Information

The adopted budget represents the financial and organizational plan by which the policies and programs approved by the City Council will be implemented. It includes: (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation. Annual budgets are prepared for the Library Parcel Tax Fund.

The annual appropriation ordinance adopts the budget at the appropriation level by expenditure category (personal services, non-personal services) within departments. Accordingly, the lowest level of budgetary control exercised by the City Council is the appropriation level within a department.

Budgetary Results Reconciled to GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than the accounting principles generally accepted in the United States (GAAP) basis. The results of operations are presented in the accompanying budget and actual comparison schedules in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis are as follows:

- Certain accounts such as the change in fair value of investments included in the City's GAAP basis amounts, for which no formal budgets are prepared, are excluded from the budgetary basis financial statements.
- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until the equipment, supplies, or services are received.



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 Library Parcel Tax Fund, a fund of the City of San José (City), as of June 30, 2006, 2007 and 2008 and for the years then ended, 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 Library Parcel Tax Fund 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 Library Parcel Tax Fund internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library Parcel Tax Fund internal control over financial reporting.

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 that is more than inconsequential will not be prevented or detected by the internal control.


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. We did not identify any deficiencies in the internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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



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

Independent Accountant's Report

We have examined the City of San José's (City) compliance with certain provisions of Measure S for the three years ended June 30, 2008 as follows:

- Parcel tax is used for buying needed books and materials; preventing severe reductions in hours; and preventing deep cuts in children's reading programs.
- The City's annual parcel tax, \$25 for single-family residences and proportional for other properties, will be adjusted for inflation capped at 3% annually and will be limited to ten years.
- Independent audits will be performed.
- A citizen oversight committee will be 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 three years ended 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