

**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 Year Ended June 30, 2013

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
For the Year Ended June 30, 2013

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## Independent Auditor's Report

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

### Report on the Financial Statements

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 and for the year ended June 30, 2013, and the related notes to the 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 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 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 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 opinion.

#### *Opinion*

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, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As discussed in Note 2 to the financial statements, the financial statements present only the Branch Library Bond Projects Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying statements of revenues, expenditures and changes in fund balance by fiscal year for the period June 6, 2001 through June 30, 2013 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information for the year ended June 30, 2013 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 for the year ended June 30, 2013 is fairly stated in all material respects in relation to the financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the Branch Library Bond Projects Fund's financial statements as of and for the period June 6, 2001 through June 30, 2008, and the years ended June 30, 2009, 2010, 2011, and 2012 which are not presented with the accompanying financial statements. In our reports dated March 13, 2009, October 2, 2009, December 2, 2010, September 30, 2011, and November 2, 2012 respectively, we expressed unqualified opinions on the Fund's financial statements. Those audits were conducted for the purposes of forming an opinion on the financial statements as a whole. The accompanying other supplementary information related to the financial statements for the period June 6, 2001 through June 30, 2008, and the years ended June 30, 2009, 2010, 2011 and 2012 is presented for purposes of additional analysis and is not a required part of the 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 financial statements for the period June 6, 2001 through June 30, 2008, and the years ended June 30, 2009, 2010, 2011 and 2012. The information has been subjected to the auditing procedures applied in the audits of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the financial statements or to the 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 for the period June 6, 2001 through June 30, 2008, and the years ended June 30, 2009, 2010, 2011 and 2012 is fairly stated in all material respects in relation to the financial statements from which they have been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013 on our consideration of the City's internal control over the Branch Library Bond Projects Fund's 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 & Connell LLP*

Walnut Creek, California  
October 21, 2013

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**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Balance Sheet  
June 30, 2013

**Assets**

Restricted investments:

Investments held with fiscal agents	\$ 16,621,268
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**Liabilities and Fund Balance**

Liabilities:

Accounts payable	\$ 57,784
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Accrued salaries, wages and payroll taxes	6,098
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Due to other funds of the City	4,348,703
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Total liabilities	<u>4,412,585</u>
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Fund balance:

Restricted for Branch Library projects	<u>12,208,683</u>
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Total liabilities and fund balance	<u>\$ 16,621,268</u>
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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 Year Ended June 30, 2013

**Revenues:**

Investment income	\$ 52,164
	<hr/>
Total revenues	52,164
	<hr/>

**Expenditures:**

Capital outlay:	
Calabazas Branch Library	24,283
Educational Park Branch Library	(237,426)
Southeast Branch Library	566,103
Branch efficiency projects	1,089,489
Miscellaneous post-construction costs	103,697
Project administration	101,759
	<hr/>
Total expenditures	1,647,905
	<hr/>
Deficiency of revenues under expenditures	(1,595,741)

**Other Financing Sources:**

Proceeds from sale of land	2,469,000
	<hr/>
Change in fund balance	873,259
	<hr/>
Fund balance, beginning of year	11,335,424
	<hr/>
<b>Fund balance, end of year</b>	<b>\$ 12,208,683</b>
	<hr/> <hr/>

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 Year Ended June 30, 2013

**NOTE 1 – BACKGROUND**

In November 2000, registered voters of the City of San José (City) approved Measure O, the San José Neighborhood Libraries Bonds, authorizing the issuance and sale of general obligation bonds (Libraries Bonds) not to exceed \$211,790,000 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:

	<u>Amount</u>	<u>Date</u>
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	<u>205,885,000</u>	
<b>Authorized but unissued</b>	<u>\$ 5,905,000</u>	

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

<u>Project</u>	<u>Prior Square Feet</u>	<u>Proposed Square Feet</u>	<u>Status At June 30, 2013</u>
Almaden Branch Library & Community Center	20,000	64,000	Completed
Bascom Branch Library & Community Center	20,000	40,000	Completed
Berryessa Branch Library	n/a	26,000	Completed
Calabazas Branch Library	5,800	10,420	Completed
Cambrian Branch Library	10,126	27,800	Completed
Dr. Roberto Cruz Alum Rock Branch Library	n/a	26,000	Completed
East San Jose Carnegie Branch Library	7,281	10,220	Completed
Edenvale Branch Library	n/a	22,000	Completed
Educational Park Branch Library	14,084	18,000	Completed
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	Completed
Seven Trees Branch Library & Community Center	20,000	60,000	Completed
Southeast Branch Library	n/a	16,000	Design in progress
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 Year Ended June 30, 2013

**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, 2013 and the changes in its financial position, or, where applicable, its cash flows for the year then ended 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 (e.g., bond proceeds and investment income) that are restricted, committed, or assigned to expenditures for capital outlays, including 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 revenues to be available if 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, expenditures related to vacation, sick leave, claims and judgments are recorded only when payment is due.

*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 in 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 indentures. The fair value of investments is based on quoted market information obtained from fiscal agents or other sources.

*Due to Other Funds of the City*

The Fund's cash and investments balance is 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 other funds of the City." It is the City's policy not to charge interest to those funds that have 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.

**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 Year Ended June 30, 2013

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Sale of Land*

During the year ended June 30, 2013, the City sold 1.3 acres of property in the amount of \$2,469,000 located at 1015 Bascom Avenue originally purchased for \$3,472,000 with bond proceeds due to a change in the location of the project.

*Library Expenditures*

As of June 30, 2013, the City recorded adjustments to expenditures in the amount of \$237,426 due to project issues with subcontractors.

*Fund Balance*

Under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the balance sheets of governmental funds classify fund balances based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent. The Fund only has restricted fund balance at June 30, 2013.

Restricted fund balance represents amounts when constraints placed on use of resources are either: (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. The City will spend the most restricted dollars in accordance with restrictions imposed before less restricted resources in the following order: (a) committed and (b) assigned.

*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 INVESTMENTS**

A summary of the Fund’s restricted investments at June 30, 2013 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	\$ 14,036,958	Unrated	278 days
Wells Fargo Treasury Money Market Mutual Fund	2,584,310	Aaa	55 days
<b>Total investments</b>	<u><u>\$ 16,621,268</u></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.

**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 Year Ended June 30, 2013

**NOTE 3 – RESTRICTED INVESTMENTS (Continued)**

The Fund maintains its unrestricted cash in the City's cash and investment pool. At June 30, 2013, the Fund had a negative balance in the City's cash and investment pool, which has been reported as due to other City funds in the balance sheet. It is not possible to disclose relevant information about the Fund's separate portion of the cash and investment pool as there are no specific investments belonging to the Fund itself. Information regarding the characteristics of the entire investment pool can be found in the City's basic financial statements for the year ended June 30, 2013. A copy of that report may be obtained by contacting the City's Finance Department at 200 East Santa Clara Street, 13<sup>th</sup> Floor, San Jose, CA 95113, or can be found at the City's Finance Department web site at <http://www.sanjoseca.gov/>.

Government Code Section 16429.1 authorizes each local government agency to invest funds in the LAIF administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2013 was approximately \$21.2 billion. LAIF is part of the State's Pooled Money Investment Account (PMIA.) The total amount recorded by all public agencies in PMIA at June 30, 2013 was approximately \$58.8 billion and of that amount, 98.04% was invested in non-derivative financial products and 1.96% in structured notes and asset backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Fund's position in the pool.

*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 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.

*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 requirement, 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 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 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.

**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 Year Ended June 30, 2013

**NOTE 4 – COMMITMENTS**

At June 30, 2013, the Fund has related outstanding project encumbrances as follows:

<u>Project</u>	<u>Amount</u>
Calabazas Branch Library	\$ 21,850
Educational Park Branch Library	384,791
Seven Trees Branch Library & Community Center	1,500
Southeast Branch Library	<u>919,566</u>
<b>Total project encumbrances</b>	<u><u>\$ 1,327,707</u></u>

**CITY OF SAN JOSE  
BRANCH LIBRARY BOND PROJECTS**

(A Fund of the City of San José)

Statements of Revenues, Expenditures and Changes in Fund Balance by Fiscal Year  
For the Period June 6, 2001 through June 30, 2013

	2001	2002	2003	2004	2005	2006	2007
<b>Revenues:</b>							
Investment income	\$ 133,145	\$ 1,171,104	\$ 2,152,449	\$ 102,310	\$ 1,529,968	\$ 3,047,142	\$ 5,670,140
Intergovernmental	-	-	-	-	-	706,000	714,000
Other	-	-	26,792	-	14,355	20,641	8,219
<b>Total revenues</b>	<b>133,145</b>	<b>1,171,104</b>	<b>2,179,241</b>	<b>102,310</b>	<b>1,544,323</b>	<b>3,773,783</b>	<b>6,392,359</b>
<b>Expenditures:</b>							
Capital outlay:							
Almaden Branch Library & Community Center	8,900	3,662	391,731	348,318	3,796,919	3,018,030	497,885
Bascom Branch Library & Community Center	-	12,021	20,853	3,588,176	2,809,525	60,926	1,602,517
Berryessa Branch Library	29,371	513,793	1,871,441	2,939,419	3,949,386	25,022	63
Calabazas Branch Library	-	-	-	-	-	-	61,418
Cambrian Branch Library	-	13,490	10,352	567,576	1,967,365	7,357,309	2,026,217
Dr. Roberto Cruz Alum Rock Branch Library	-	1,572,645	1,649,173	2,623,886	6,730,704	1,037,586	92,465
East San José Carnegie Branch Library	-	-	-	-	-	147,183	804,089
Edenvale Branch Library	-	13,902	12,595	62,782	361,625	765,275	7,446,744
Educational Park Branch Library	-	-	-	-	-	-	4,115
Evergreen Branch Library	-	-	26,655	951,248	3,060,594	5,945,766	208,622
Hillview Branch Library	-	39,666	49,450	701,752	1,925,367	6,742,348	1,641,332
Joyce Ellington Branch Library	-	-	-	98,928	162,453	832,135	3,531,201
Pearl Avenue Branch Library	-	-	-	-	18,655	757,173	2,113,187
Rose Garden Branch Library	-	30,882	920,059	1,889,343	3,932,886	2,571,175	-
Santa Teresa Branch Library	-	-	-	-	-	123,696	833,145
Seven Trees Branch Library & Community Center	-	-	-	-	-	17,879	577,146
Southeast Branch Library	-	12,956	22,425	1,388	-	-	-
Tully Community Branch Library	56,288	1,595,093	996,780	5,097,574	3,960,015	-	-
Vineland Branch Library	170,588	867,627	6,209,272	1,832,853	-	281	-
Willow Glen Branch Library	-	-	-	7,717	16,737	539,321	3,204,884
Branch efficiency projects	-	-	-	-	-	-	-
Miscellaneous post-construction costs	-	-	-	-	-	-	-
Project administration	140,668	518,746	721,843	879,112	1,137,939	905,966	715,082
Intergovernmental	-	-	-	-	-	-	-
Debt service:							
Arbitrage rebate payment	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>405,815</b>	<b>5,194,483</b>	<b>12,902,629</b>	<b>21,590,072</b>	<b>33,830,170</b>	<b>30,847,071</b>	<b>25,360,112</b>
Excess (deficiency) of revenues over (under) expenditures	(272,670)	(4,023,379)	(10,723,388)	(21,487,762)	(32,285,847)	(27,073,288)	(18,967,753)
<b>Other Financing Sources:</b>							
Bond proceeds	31,000,000	-	30,000,000	-	79,600,000	60,000,000	-
Proceeds from sale of land	-	-	-	-	-	-	-
<b>Change in fund balance</b>	<b>30,727,330</b>	<b>(4,023,379)</b>	<b>19,276,612</b>	<b>(21,487,762)</b>	<b>47,314,153</b>	<b>32,926,712</b>	<b>(18,967,753)</b>
Fund balance, beginning of period	-	30,727,330	26,703,951	45,980,563	24,492,801	71,806,954	104,733,666
<b>Fund balance, end of period</b>	<b>\$ 30,727,330</b>	<b>\$ 26,703,951</b>	<b>\$ 45,980,563</b>	<b>\$ 24,492,801</b>	<b>\$ 71,806,954</b>	<b>\$ 104,733,666</b>	<b>\$ 85,765,913</b>

**CITY OF SAN JOSE  
BRANCH LIBRARY BOND PROJECTS**

(A Fund of the City of San José)

Statements of Revenues, Expenditures and Changes in Fund Balance by Fiscal Year  
For the Period June 6, 2001 through June 30, 2013

2008	2009	2010	2011	2012	2013	Total	
\$ 3,551,248	\$ 1,486,568	\$ 473,966	\$ 162,896	\$ 77,734	\$ 52,164	\$ 19,610,834	<b>Revenues:</b>
748,000	-	325,136	-	366,112	-	2,859,248	Investment income
-	4,151	-	-	-	-	74,158	Intergovernmental
4,299,248	1,490,719	799,102	162,896	443,846	52,164	22,544,240	Other
							Total revenues
							<b>Expenditures:</b>
147,140	8	-	-	-	-	8,212,593	Capital outlay:
676,987	3,278,673	5,681,015	2,012,108	-	-	19,742,801	Almaden Branch Library & Community Center
-	3,500	191,863	646,358	-	-	10,170,216	Bascom Branch Library & Community Center
402,605	744,611	653,616	4,366,496	1,587,922	24,283	7,840,951	Berryessa Branch Library
21,414	1,674	-	-	-	-	11,965,397	Calabazas Branch Library
12,248	422	-	188	-	-	13,719,317	Cambrian Branch Library
1,949,315	6,145,570	716,033	19,378	-	-	9,781,568	Dr. Roberto Cruz Alum Rock Branch Library
1,214,474	122,846	-	-	-	-	10,000,243	East San José Carnegie Branch Library
611,391	801,967	3,630,614	4,821,219	868,760	(237,426)	10,500,640	Edenvale Branch Library
-	-	96,342	114,514	-	-	10,403,741	Educational Park Branch Library
86	-	-	3,361	-	-	11,103,362	Evergreen Branch Library
4,996,233	94,388	582	5,052	-	-	9,720,972	Hillview Branch Library
4,552,391	643,633	-	-	-	-	8,085,039	Joyce Ellington Branch Library
45,294	-	-	-	-	-	9,389,639	Pearl Avenue Branch Library
1,307,672	6,764,910	2,685,185	123,968	-	-	11,838,576	Rose Garden Branch Library
915,389	4,916,875	4,579,905	614,859	119,540	-	11,741,593	Santa Teresa Branch Library
30	199,995	169,629	289,701	1,107,127	566,103	2,369,354	Seven Trees Branch Library & Community Center
-	-	-	-	-	-	11,705,750	Southeast Branch Library
18,083	-	28,829	11,078	-	-	9,138,611	Tully Community Branch Library
4,799,513	188,637	-	-	-	-	8,756,809	Vineland Branch Library
-	-	-	-	992,826	1,089,489	2,082,315	Willow Glen Branch Library
-	-	-	-	-	103,697	103,697	Branch efficiency projects
726,408	650,936	500,821	259,175	206,918	101,759	7,465,373	Miscellaneous post-construction costs
-	-	706,000	714,000	748,000	-	2,168,000	Project administration
683,000	-	-	-	-	-	683,000	Intergovernmental
23,079,673	24,558,645	19,640,434	14,001,455	5,631,093	1,647,905	218,689,557	Debt service:
							Arbitrage rebate payment
(18,780,425)	(23,067,926)	(18,841,332)	(13,838,559)	(5,187,247)	(1,595,741)	(196,145,317)	Total expenditures
							Excess (deficiency) of revenues over (under) expenditures
5,285,000	-	-	-	-	-	205,885,000	<b>Other Financing Sources:</b>
-	-	-	-	-	2,469,000	2,469,000	Bond proceeds
(13,495,425)	(23,067,926)	(18,841,332)	(13,838,559)	(5,187,247)	873,259	12,208,683	Proceeds from sale of land
85,765,913	72,270,488	49,202,562	30,361,230	16,522,671	11,335,424	-	Change in fund balance
\$ 72,270,488	\$ 49,202,562	\$ 30,361,230	\$ 16,522,671	\$ 11,335,424	\$ 12,208,683	\$ 12,208,683	Fund balance, beginning of period
							<b>Fund balance, end of period</b>

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**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***

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

We have audited, in accordance with the 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, the financial statements of the Branch Library Bond Projects Fund (Fund), a fund of the City of San José (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over the Fund's financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 City's internal control over the Fund's financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over the Fund's financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & Connell LLP

Walnut Creek, California  
October 21, 2013

### Independent Accountant's Report on Compliance with Measure O

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

We have examined the City of San José's (City) compliance with certain provisions of Measure O for the year ended June 30, 2013 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 year ended June 30, 2013.

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 & Connell LLP*

Walnut Creek, California  
October 21, 2013

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