

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)

Reports of Independent Certified Public Accountants,
Financial Statements and
Required Supplementary Information

For the Year Ended June 30, 2017

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
For the Year Ended June 30, 2017

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Report on the financial statements

We have audited the accompanying financial statements of the Library Parcel Tax Fund (the “Fund”), a fund of the City of San José (the “City”) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

Our responsibility is to express 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 Fund’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 Fund’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 Library Parcel Tax Fund as of June 30, 2017, 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 matter

As discussed in Note 2 to the financial statements, the financial statements present only the Library Parcel Tax Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Budgetary Basis for the year ended June 30, 2017 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 13, 2017, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Grant Thornton LLP

San José, California
October 13, 2017

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
Balance Sheet
June 30, 2017

Assets

Equity in pooled cash and investments held in the City Treasury	\$ 11,646,145
Accrued interest receivable	43,538
Total assets	<u>11,689,683</u>

Liabilities and Fund Balance

Liabilities:

Accounts payable	149,751
Accrued salaries, wages and payroll taxes	461,804
Total liabilities	<u>611,555</u>

Fund balance:

Restricted for neighborhood library services	11,078,128
Total liabilities and fund balance	<u>\$ 11,689,683</u>

See accompanying notes to the financial statements.

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND

(A Fund of the City of San José)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2017

	June 30, 2017
Revenues:	
Library parcel tax	\$ 8,670,279
Investment income	57,985
Total revenues	8,728,264
Expenditures:	
Personal services	5,830,221
Materials acquisition	1,765,139
Non-personal services/equipment	1,226,510
Automation projects	413,067
Mayor Innovation Fellows Program	88,200
Annual audit	16,160
Intergovernmental	57,929
Total expenditures	9,397,226
Change in fund balance	(668,962)
Fund balance, beginning of year	11,747,090
Fund balance, end of year	\$ 11,078,128

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 Year Ended June 30, 2017

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 specific 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 for each fiscal year until June 30, 2015. In the June 2014 Primary Election, over 81% of San Jose voters approved continuing the Library Parcel Tax for an additional 25 years beginning with fiscal year 2015-2016. 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 3 percent. For the year ended June 30, 2017, the increase in the Library Parcel Tax rate was 3.0% percent.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present only the financial position as of June 30, 2017 and the changes in financial position of the Library Parcel Tax Fund (“Fund”) for the year then ended in accordance with accounting principles generally accepted in the United States of America. They do not purport to, and do not, present fairly the City’s financial position as of June 30, 2017 and the changes in its financial position for the year then ended.

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 and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Proceeds of specific revenue sources establish that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, expenditures related to vacation, sick leave, claims and judgments are recorded only when payment is due.

Fund Balance

Under Governmental Accounting Standards Board 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, 2017. Restricted fund balances are 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.

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 Fund are pooled and invested in the City's investment pool. The Fund's portion of this pool is displayed on the balance sheet as "equity in pooled cash and investments held in the City Treasury" and are subject to the requirements of the City's adopted investment policy. The amounts held in the City's investment pool can be withdrawn upon demand. Income earned or losses arising from pooled investments are allocated on a monthly basis by the City's Finance Department to the Fund based on the average weekly cash balances. These investments are reported at fair value generally based on quoted market prices in the accompanying financial statements, the corresponding changes in fair value of investments are reported in the year in which the change occurred, and categorizing its fair value measurements within the fair value hierarchy established by generally accepted accounting principle.

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2017

NOTE 3 – CASH AND INVESTMENTS (Continued)

At June 30, 2017, the City's investment pool invested in U.S. government and agency securities, commercial paper, negotiable certificates of deposit, money market funds, corporate medium-term notes, and California's Local Agency Investment Fund as authorized by the City's investment policy. The weighted average maturity of the City's investment pool is 513 days. Additional information regarding the characteristics of the City's entire investment pool can be found in the City's basic financial statements for the year ended June 30, 2017. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department website at <http://www.csjfinance.org/>.

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, 2017 was approximately \$22.8 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, 2017 was approximately \$77.6 billion and of that amount, 60.79% was invested in US Treasuries and agencies, 27.73% in depository securities, 10.60% in commercial paper, 0.83% in loans, and 0.05% in mortgages. 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.

NOTE 4 – INTERGOVERNMENTAL EXPENDITURES

The City issued lease revenue bonds and commercial paper to pay for the City Hall construction costs. The Fund's share of the debt service is calculated as a percentage of library staff occupying City Hall coupled with an estimated use of the Council Chambers and other City Hall offices and as a percentage of central services that benefit all departments. For the year ended June 30, 2017, the Fund's share of the debt service paid to the City was \$57,929.

NOTE 5 – OTHER COMMITMENTS

At June 30, 2017, the Fund has outstanding encumbrances for the following activities:

Activity	Amount
Materials acquisition	\$ 85,355
Annual audit	16,160
Automation projects	8,342
Total encumbrances	<u>\$ 109,857</u>

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis Actual</u>	<u>Variance Over (Under)</u>	<u>GAAP Adjustments</u>	<u>GAAP Basis</u>
Revenues:						
Library parcel tax	\$ 8,656,236	\$ 8,656,236	\$ 8,670,279	\$ 14,043	\$ -	\$ 8,670,279
Investment income	75,000	75,000	114,059	39,059	(56,074)	57,985
Total revenues	<u>8,731,236</u>	<u>8,731,236</u>	<u>8,784,338</u>	<u>53,102</u>	<u>(56,074)</u>	<u>8,728,264</u>
Expenditures:						
Personal services	6,340,156	6,340,156	5,830,221	(509,935)	-	5,830,221
Materials acquisition	2,180,501	2,180,501	1,850,494	(330,007)	(85,355)	1,765,139
Non-personal services/equipment	1,314,000	1,314,000	1,226,510	(87,490)	-	1,226,510
Automation projects	421,409	421,409	421,409	-	(8,342)	413,067
Mayor Innovation Fellows Program	88,400	88,400	88,200	(200)	-	88,200
Annual audit	33,160	33,160	32,320	(840)	(16,160)	16,160
Intergovernmental	57,929	57,929	57,929	-	-	57,929
Total expenditures	<u>10,435,555</u>	<u>10,435,555</u>	<u>9,507,083</u>	<u>(928,472)</u>	<u>(109,857)</u>	<u>9,397,226</u>
Change in fund balance	<u>\$ (1,704,319)</u>	<u>\$ (1,704,319)</u>	<u>(722,745)</u>	<u>\$ 981,574</u>	<u>53,783</u>	<u>(668,962)</u>
Fund balance, beginning of year			11,661,406		85,684	11,747,090
Liquidation of prior year encumbrances			54,462		(54,462)	-
Fund balance, end of year			<u>\$ 10,993,123</u>		<u>\$ 85,005</u>	<u>\$ 11,078,128</u>

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT
AUDITING STANDARDS***

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City of San José, California

We have audited, 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, the financial statements of the Library Parcel Tax Fund (the “Fund”), a fund of the City of San José (the “City”), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated October 13, 2017.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Fund’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund’s internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund’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 the Fund’s 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 from 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*.

Intended purpose

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 Fund'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 Fund's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



San José, California
October 13, 2017



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH MEASURE S

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We have examined the City of San José's (the "City") compliance with certain provisions of Measure S for the year ended June 30, 2017 as follows:

- Parcel tax was used for 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's annual parcel tax, \$25 (2006 annual parcel tax) for single-family residences and proportional for other properties, was adjusted for inflation capped at 3% annually and limited to ten years. (In the June 2014 Primary Election, the City's voters approved to continue the Library Parcel Tax for an additional 25 years beginning fiscal year 2015-2016)
- 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 the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States 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 the specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2017.

This report is intended solely for the information and use of the City Council, the Library and Early Education Commission, 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.

Grant Thornton LLP

San José, California
October 13, 2017