

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY
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, 2010

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
For the Year Ended June 30, 2010

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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 Neighborhood Security Bond Projects Fund, a fund of the City of San José (City), as of and for the year ended June 30, 2010, 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 Neighborhood Security 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 Neighborhood Security Bond Projects Fund are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and nonmajor fund of the City that is attributable to the transactions of the Neighborhood Security Bond Projects Fund. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2010 and the changes in its financial position for the year 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 Neighborhood Security Bond Projects Fund as of June 30, 2010 and the changes in financial position thereof for the year 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 1, 2011 on our consideration of City's internal control over financial reporting as it pertains to the Neighborhood Security 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 Neighborhood Security Bond Projects Fund has not presented the management's discussion and analysis 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.

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.

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

Certified Public Accountants
Walnut Creek, California

March 1, 2011

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND

(A Fund of the City of San José)

Balance Sheet

June 30, 2010

Assets

Advance and deposits	\$ 3,470
Restricted assets:	
Equity in pooled cash and investments held in City Treasury	7
Investments held with fiscal agents	22,136,174
Total assets	<u>\$ 22,139,651</u>

Liabilities and Fund Balance

Liabilities:

Accounts payable	\$ 707,291
Accrued salaries, wages and payroll taxes	61,959
Due to the City	1,339,726
Total liabilities	<u>2,108,976</u>

Fund balance:

Reserved for encumbrances	5,702,925
Reserved for noncurrent advances and deposits	3,470
Unreserved, undesignated	14,324,280
Total fund balance	<u>20,030,675</u>
Total liabilities and fund balance	<u>\$ 22,139,651</u>

See accompanying notes to the financial statements.

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY 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, 2010

Revenues:

Investment income	\$ 373,090
Intergovernmental	471,321
Other	224
	844,635
Total revenues	844,635

Expenditures:

Capital outlay:	
South San Jose Police Substation	19,919,027
Fire Station 12 - Relocation	239,355
Fire Training Center	202,773
Fire Station 17 - Relocation	59,044
Fire Station 36	684,950
Fire Station 2 - Rebuild	1,946,674
Fire Station 21 - Relocation	141,105
Fire Station 19 - Relocation	2,310,508
Fire Station 37	348,850
Emergency Communication and Dispatch Center	40,675
Program-Wide Administration	377,131
	26,270,092
Total expenditures	26,270,092
Change in fund balance	(25,425,457)
Fund balance, beginning of year	45,456,132
Fund balance, end of year	\$ 20,030,675

See accompanying notes to the financial statements.

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND

(A Fund of the City of San José)
Notes to the Financial Statements
For the Year Ended June 30, 2010

NOTE 1 – BACKGROUND

In March 2002, registered voters of the City of San José (City) approved Measure O (2002), the San José 911, Fire, Police, Paramedic and Neighborhood Security Act, authorizing the issuance and sale of not to exceed \$159,000,000 in general obligation bonds (Neighborhood Security Bonds) to be used to fund the construction of fire and police stations, training facilities and 911 communications facilities and the cost of land acquisition for the improvements to neighborhood security facilities throughout the City.

The table below sets forth the amount of Neighborhood Security general obligation bonds authorized and issued pursuant to Measure O (2002):

	Amount	Date
Voter authorization	\$ 159,000,000	March 5, 2002
Bonds issued:		
Series 2002 Bonds	39,375,000	July 18, 2002
Series 2004 Bonds	14,400,000	July 14, 2004
Series 2005 Bonds	25,000,000	June 23, 2005
Series 2007 Bonds	67,900,000	June 20, 2007
Series 2009 Bonds	9,000,000	June 25, 2009
Total bonds issued	155,675,000	
Authorized but unissued	\$ 3,325,000	

As of June 30, 2010, significant projects approved by the City Council to be funded by the bond proceeds which remain to be completed are as follows:

Projects
<i>Fire</i>
Fire Station 2 - Rebuild
Fire Station 19 - Relocation
Fire Station 21 - Relocation
Fire Station 36
Fire Station 37
<i>Police</i>
South San Jose Police Substation

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND

(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2010

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 Neighborhood Security Bond Projects Fund (Fund) and do not purport to, and do not, present fairly the City's financial position as of June 30, 2010 and the changes in its financial position 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 Neighborhood Security 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 monthly 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 Revenues

During the year ended June 30, 2010, the City transferred \$15,646 from the City's General Fund and \$175,000 from the Construction and Conveyance Tax Fund to reimburse the Fund for ineligible costs recorded in prior years. The City also reimbursed the Fund's arbitrage rebate payments in the amount of \$254,000 previously made during the year ended June 30, 2008.

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND

(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2010

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, 2010 are as follows:

<u>Type of Cash and Investment</u>	<u>Fair Value</u>	<u>Standard and Poor's Credit Risk Rating</u>	<u>Weighted Average Maturity</u>
City of San Jose Cash and Investment Pool	\$ 7	Unrated	122 days
State of California Local Agency Investment Fund	20,583,236	Unrated	203 days
Wells Fargo Treasury Money Market Mutual Fund	1,552,938	AAAm	54 days
Total restricted cash and investments	\$ 22,136,181		

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.

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, 2010 was approximately \$23.2 billion. Of that amount, 94.58% was invested in non-derivative financial products and 5.42% 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.

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND

(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2010

NOTE 3 – RESTRICTED CASH AND INVESTMENTS (Continued)

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 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 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, 2010, 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>Neighborhood Security Bond Projects Funds</u>	<u>Branch Library Bond Projects Fund</u>	<u>Parks and Recreation Bond Projects Fund</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	39,375,000	30,000,000	46,715,000	1,701,525
Series 2004 Bonds	118,700,000	1,928,232	120,628,232	14,400,000	58,300,000	46,000,000	1,928,232
Series 2005 Bonds	46,300,000	803,299	47,103,299	25,000,000	21,300,000	-	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	67,900,000	-	22,100,000	965,400
Series 2008 Bonds	33,100,000	516,037	33,616,037	-	5,285,000	27,815,000	516,037
Series 2009 Bonds	9,000,000	276,396	9,276,396	9,000,000	-	-	276,396
Total	<u>\$589,590,000</u>	<u>\$ 9,329,672</u>	<u>\$598,919,672</u>	<u>\$155,675,000</u>	<u>\$205,885,000</u>	<u>\$228,030,000</u>	<u>\$ 9,329,672</u>

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND

(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2010

NOTE 5 – COMMITMENTS

At June 30, 2010, the Fund has related outstanding project construction and other commitments as follows:

<u>Project</u>	<u>Amount</u>
Fire Station 2 - Rebuild	\$ 68,281
Fire Station 17 - Relocation	8,996
Fire Station 19 - Relocation	123,000
Fire Station 21 - Relocation	21
Fire Station 36	4,140,202
Fire Station 37	201,051
Fire Station Upgrades	4,312
South San Jose Police Substation	927,097
Program-Wide Administration	229,965
Total reserved for encumbrances	\$ 5,702,925

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND

(A Fund of the City of San José)

Combining Schedules of Revenues, Expenditures and Changes in Fund Balances by Fiscal Year

For the Period from July 18, 2002 through June 30, 2010

	2003	2004	2005	2006
Revenues:				
Investment income	\$ 1,883,039	\$ (19,507)	\$ 975,304	\$ 2,457,695
Intergovernmental	15,985	-	3,516	23,277
Other	-	-	-	-
Total revenues	<u>1,899,024</u>	<u>(19,507)</u>	<u>978,820</u>	<u>2,480,972</u>
Expenditures:				
Capital outlay:				
West Community Policing Center	70,470	883,494	122,776	957,277
South San Jose Police Substation	179,540	377,820	348,739	9,735,667
Fire Station 12 - Relocation	29,754	26,897	92,201	440,270
Fire Station 34	103,094	42,250	186,697	479,074
Fire Station 35	54,999	30,810	178,582	542,443
Fire Station Upgrades	841,968	3,778,809	1,513,869	1,296,646
Fire Training Center	514,334	471,868	31,600	19,581
Land Acquisition - Fire Stations	12,319	1,807,683	837,322	71,578
Central Community Police Station Exterior Improvement	46,224	277,158	-	-
Fire Station 25 - Relocation	-	123,604	174,437	790,976
Fire Station 17 - Relocation	-	141,647	122,727	393,669
Fire Station 23 - Relocation	-	79,182	12,420	(885)
Driver Safety Training Center	-	277,353	784	60,652
Fire Station 36	-	34,524	32,919	101,540
Fire Station 2 - Rebuild	-	-	45,527	161,100
Fire Station 21 - Relocation	-	-	28,367	23,206
Fire Station 19 - Relocation	-	-	-	76,699
Fire Station 37	-	-	-	-
Emergency Communication and Dispatch Center	-	-	33,132	204,710
East Community Policing Center	-	-	-	10,662
Program-Wide Administration	337,602	599,688	765,881	491,705
Debt service:				
Arbitrage rebate payment	-	-	-	-
Total expenditures	<u>2,190,304</u>	<u>8,952,787</u>	<u>4,527,980</u>	<u>15,856,570</u>
Deficiency of revenues under expenditures	(291,280)	(8,972,294)	(3,549,160)	(13,375,598)
Other Financing Sources:				
Bond proceeds	39,375,000	-	39,400,000	-
Change in fund balances	39,083,720	(8,972,294)	35,850,840	(13,375,598)
Fund balances, beginning of period	-	39,083,720	30,111,426	65,962,266
Fund balances, end of period	<u>\$ 39,083,720</u>	<u>\$ 30,111,426</u>	<u>\$ 65,962,266</u>	<u>\$ 52,586,668</u>

2007	2008	2009	2010	Total	
					Revenues:
\$ 2,971,704	\$ 4,480,517	\$ 1,575,558	\$ 373,090	\$ 14,697,400	Investment income
-	53,345	-	471,321	567,444	Intergovernmental
5,804	1,638	-	224	7,666	Other
<u>2,977,508</u>	<u>4,535,500</u>	<u>1,575,558</u>	<u>844,635</u>	<u>15,272,510</u>	Total revenues
					Expenditures:
					Capital outlay:
1,687	-	-	-	2,035,704	West Community Policing Center
2,574,867	14,304,632	36,082,247	19,919,027	83,522,539	South San Jose Police Substation
1,169,548	2,062,278	667,871	239,355	4,728,174	Fire Station 12 - Relocation
5,519,245	429,302	8,486	-	6,768,148	Fire Station 34
4,034,453	1,744,558	1,054	-	6,586,899	Fire Station 35
634,971	370,999	21,043	-	8,458,305	Fire Station Upgrades
424,012	365,954	101,873	202,773	2,131,995	Fire Training Center
1,628,273	1,244,849	678,057	-	6,280,081	Land Acquisition - Fire Stations
-	-	-	-	323,382	Central Community Police Station Exterior Improvement
4,015,770	503,414	(8,277)	-	5,599,924	Fire Station 25 - Relocation
866,247	2,475,700	684,731	59,044	4,743,765	Fire Station 17 - Relocation
-	-	-	-	90,717	Fire Station 23 - Relocation
106,955	234,180	1,491	-	681,415	Driver Safety Training Center
170,186	525,454	488,177	684,950	2,037,750	Fire Station 36
192,336	365,212	1,988,703	1,946,674	4,699,552	Fire Station 2 - Rebuild
14,570	17,461	146,267	141,105	370,976	Fire Station 21 - Relocation
181,362	741,318	2,194,558	2,310,508	5,504,445	Fire Station 19 - Relocation
-	76,089	45,349	348,850	470,288	Fire Station 37
231,834	89,442	880,006	40,675	1,479,799	Emergency Communication and Dispatch Center
34,189	5,406	-	-	50,257	East Community Policing Center
505,100	579,748	441,865	377,131	4,098,720	Program-Wide Administration
-	254,000	-	-	254,000	Debt service:
<u>22,305,605</u>	<u>26,389,996</u>	<u>44,423,501</u>	<u>26,270,092</u>	<u>150,916,835</u>	Arbitrage rebate payment
(19,328,097)	(21,854,496)	(42,847,943)	(25,425,457)	(135,644,325)	Total expenditures
					Deficiency of revenues under expenditures
					Other Financing Sources:
67,900,000	-	9,000,000	-	155,675,000	Bond proceeds
48,571,903	(21,854,496)	(33,847,943)	(25,425,457)	20,030,675	Change in fund balances
52,586,668	101,158,571	79,304,075	45,456,132	-	Fund balances, beginning of period
<u>\$ 101,158,571</u>	<u>\$ 79,304,075</u>	<u>\$ 45,456,132</u>	<u>\$ 20,030,675</u>	<u>\$ 20,030,675</u>	Fund balances, end of period

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City Council and
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 Neighborhood Security Bond Projects Fund (Fund), a fund of the City of San José (City), as of and for the year ended June 30, 2010, and have issued our report thereon dated March 1, 2011. 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.

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 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 Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in 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 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*.

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
Certified Public Accountants
Walnut Creek, California

March 1, 2011

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND

(A Fund of the City of San José)
Status of Prior Year Comment
For the Year Ended June 30, 2010

2009 Comment:

2009-A – Timely Analysis of Expenditures and Reimbursements of Funds Paid Using the City’s Cash Pool

Condition/Effect:

During our audit, we noted that the City did not request for reimbursements from bond proceeds for several expenditures recorded in the Fund. Subsequently, the City performed an analysis of all unreimbursed expenditures and determined that these unreimbursed expenditures are comprised of eligible costs of \$203,018 and ineligible cost of \$235,497.

Recommendation:

We recommend the City periodically analyze and review expenditures that have not been reimbursed for more than 6 months to ensure that only eligible expenditures are recorded in the Fund and expenditures paid using the City’s Cash Pool are reimbursed from the bond funds held with trustees on a timely basis.

Status:

For the costs deemed eligible, the City submitted the request to the trustee during the year-ended June 30, 2010 to reimburse for these eligible costs from bond proceeds.

For the costs deemed ineligible, the City transferred funds from the City’s General Fund and Construction and Conveyance Tax Fund to partially reimburse the Fund for the ineligible costs during the year ended June 30, 2010. The City is planning to transfer the remaining \$44,851 from other City funds to reimburse the balance during fiscal year ending June 30, 2011.

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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 O (2002) for the year ended June 30, 2010 as follows:

- Bond proceeds were used for the construction of fire and police stations, training facilities and 911 communications facilities and the cost of land acquisition for these improvements.
- Bond proceeds will be deposited in a special account.
- A citizen's oversight committee was established and review annual reports of the expenditures of the bond proceeds.

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, 2010.

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

Certified Public Accountants
Walnut Creek, California

March 1, 2011

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