

**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, 2011

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
For the Year Ended June 30, 2011

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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, 2011, 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 the Neighborhood Security Bond Projects Fund's financial reporting. 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 to the financial statements, 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 the nonmajor governmental funds 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, 2011 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, 2011 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.

As discussed in Note 2 to the financial statements, as of June 30, 2011, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011 on our consideration of City's internal control over the Neighborhood Security 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* and should be considered in assessing the results of our audit.

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 basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB 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. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying other supplementary information 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. The information 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 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, the Neighborhood Security Bond Projects Fund's financial statements as of and for the period from July 18, 2002 through June 30, 2009 and the year ended June 30, 2010, which are not presented with the accompanying financial statements. In our reports dated March 1, 2011 and March 1, 2011, 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 period from July 18, 2002 through June 30, 2009 and the year ended June 30, 2010 financial statements 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 period from July 18, 2002 through June 30, 2009 and the year ended June 30, 2010 financial statements. The information has been subjected to the auditing procedures applied in the audit 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 from July 18, 2002 through June 30, 2009 and the year ended June 30, 2010, is fairly stated in all material respects in relation to the financial statements from which they have been derived.

 Macias Gini & Connell LLP

Walnut Creek, California
September 30, 2011

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND

(A Fund of the City of San José)

Balance Sheet

June 30, 2011

Assets

Restricted assets:

Equity in pooled cash and investments held in City Treasury	\$ 7
Investments held with fiscal agents	<u>16,823,634</u>
Total assets	<u><u>\$ 16,823,641</u></u>

Liabilities and Fund Balance

Liabilities:

Accounts payable	\$ 885,496
Accrued salaries, wages and payroll taxes	77,541
Due to other funds of the City	<u>2,972,272</u>
Total liabilities	<u>3,935,309</u>

Fund balance:

Restricted for Neighborhood Security Bond Projects	<u>12,888,332</u>
Total liabilities and fund balance	<u><u>\$ 16,823,641</u></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, 2011

Revenues:

Investment income	\$ 100,409
Intergovernmental	44,851
	145,260
Total revenues	145,260

Expenditures:

Capital outlay:	
South San Jose Police Substation	2,954,253
Land Acquisition - Fire Stations	3,470
Fire Station 36	2,770,694
Fire Station 2 - Rebuild	295,368
Fire Station 21 - Relocation	167,752
Fire Station 19 - Relocation	131,853
Fire Station 37	610,160
Program-Wide Administration	354,053
	7,287,603
Total expenditures	7,287,603
Change in fund balance	(7,142,343)
Fund balance, beginning of year	20,030,675
Fund balance, end of year	\$ 12,888,332

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, 2011

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 general obligation bonds (Neighborhood Security Bonds) not to exceed \$159,000,000 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, 2011, significant projects approved by the City Council to be funded by the bond proceeds, which remain to be completed are as follows:

- Projects**
-
- Fire***
- Fire Station 2 - Rebuild
 - Fire Station 19 - Relocation
 - Fire Station 21 - Relocation
 - Fire Station 36
 - Fire Station 37
- Police***
- 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, 2011

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, 2011 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 (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 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.

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 indenture. The fair value 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 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 other funds of 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, 2011, the City contributed \$44,851 from the City's Construction and Conveyance Tax Fund to reimburse the Fund for ineligible costs recorded in prior years.

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, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

In June 2011, the City established a policy on Governmental Fund Balance Financial Reporting to provide necessary clarification on the terminology used in the fund balance classifications and assist with adhering to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 outlines the requirement to report the fund balance for governmental funds in specific classifications (nonspendable, restricted, committed, assigned and unassigned), which create a hierarchy primarily based on the extent to which the City is bound to the constraints on the specific purposes for which funds can be spent. The Fund only has restricted fund balance at June 30, 2011.

Restricted fund balance are amounts when constraints placed on use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributions, 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; (b) assigned and (c) unassigned.

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, 2011 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	376 days
State of California Local Agency Investment Fund	14,398,337	Unrated	237 days
Wells Fargo Treasury Money Market Mutual Fund	2,425,297	Aaa	50 days
Total restricted cash and investments	<u>\$ 16,823,641</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
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, 2011

NOTE 3 – RESTRICTED CASH AND INVESTMENTS (Continued)

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, 2011 was approximately \$24.0 billion. Of that amount, 94.99% was invested in non-derivative financial products and 5.01% 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
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, 2011

NOTE 4 – BOND PROCEEDS

As of June 30, 2011, 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 Service 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>

NOTE 5 – COMMITMENTS

At June 30, 2011, the Fund has related outstanding project construction encumbrances as follows:

<u>Project</u>	<u>Amount</u>
Fire Station 2 - Rebuild	\$ 30,433
Fire Station 19 - Relocation	31,309
Fire Station 21 - Relocation	720
Fire Station 36	2,210,456
Fire Station 37	45,950
Fire Station Upgrades	4,312
South San Jose Police Substation	387,620
Program-Wide Administration	127,995
Total project construction encumbrances	<u>\$ 2,838,795</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, 2011

NOTE 4 – BOND PROCEEDS

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	<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 Service 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>

NOTE 5 – COMMITMENTS

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Program-Wide Administration	127,995
Total project construction encumbrances	<u>\$ 2,838,795</u>

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND

(A Fund of the City of San José)

Statements of Revenues, Expenditures and Changes in Fund Balance by Fiscal Year
For the Period from July 18, 2002 through June 30, 2011

	2003	2004	2005	2006	2007
Revenues:					
Investment income	\$ 1,883,039	\$ (19,507)	\$ 975,304	\$ 2,457,695	\$ 2,971,704
Intergovernmental	15,985	-	3,516	23,277	-
Other	-	-	-	-	5,804
Total revenues	1,899,024	(19,507)	978,820	2,480,972	2,977,508
Expenditures:					
Capital outlay:					
West Community Policing Center	70,470	883,494	122,776	957,277	1,687
South San Jose Police Substation	179,540	377,820	348,739	9,735,667	2,574,867
Fire Station 12 - Relocation	29,754	26,897	92,201	440,270	1,169,548
Fire Station 34	103,094	42,250	186,697	479,074	5,519,245
Fire Station 35	54,999	30,810	178,582	542,443	4,034,453
Fire Station Upgrades	841,968	3,778,809	1,513,869	1,296,646	634,971
Fire Training Center	514,334	471,868	31,600	19,581	424,012
Land Acquisition - Fire Stations	12,319	1,807,683	837,322	71,578	1,628,273
Central Community Police Station Exterior Improvement	46,224	277,158	-	-	-
Fire Station 25 - Relocation	-	123,604	174,437	790,976	4,015,770
Fire Station 17 - Relocation	-	141,647	122,727	393,669	866,247
Fire Station 23 - Relocation	-	79,182	12,420	(885)	-
Driver Safety Training Center	-	277,353	784	60,652	106,955
Fire Station 36	-	34,524	32,919	101,540	170,186
Fire Station 2 - Rebuild	-	-	45,527	161,100	192,336
Fire Station 21 - Relocation	-	-	28,367	23,206	14,570
Fire Station 19 - Relocation	-	-	-	76,699	181,362
Fire Station 37	-	-	-	-	-
Emergency Communication and Dispatch Center	-	-	33,132	204,710	231,834
East Community Policing Center	-	-	-	10,662	34,189
Program-Wide Administration	337,602	599,688	765,881	491,705	505,100
Debt service:					
Arbitrage rebate payment	-	-	-	-	-
Total expenditures	2,190,304	8,952,787	4,527,980	15,856,570	22,305,605
Deficiency of revenues under expenditures	(291,280)	(8,972,294)	(3,549,160)	(13,375,598)	(19,328,097)
Other Financing Sources:					
Bond proceeds	39,375,000	-	39,400,000	-	67,900,000
Change in fund balance	39,083,720	(8,972,294)	35,850,840	(13,375,598)	48,571,903
Fund balance, beginning of period	-	39,083,720	30,111,426	65,962,266	52,586,668
Fund balance, end of period	\$ 39,083,720	\$ 30,111,426	\$ 65,962,266	\$ 52,586,668	\$ 101,158,571

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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, 2011, and have issued our report thereon dated September 30, 2011. Our report includes an explanatory paragraph indicating that the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and an explanatory paragraph describing management's omission of the management's discussion and analysis required by accounting principles generally accepted in the United States of America. 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over the Fund's financial reporting, 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 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.

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

Walnut Creek, California
September 30, 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, 2011

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 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, 2011 to reimburse eligible costs from bond proceeds.

For the costs deemed ineligible, the City transferred the remaining \$44,851 from other City funds to reimburse the balance during the year ended 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 on Compliance with Measure O

We have examined the City of San José's (City) compliance with certain provisions of Measure O (2002) for the year ended June 30, 2011 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 reviews 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, 2011.

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
September 30, 2011

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