

**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, 2014

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**CITY OF SAN JOSE**  
**NEIGHBORHOOD SECURITY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
For the Year Ended June 30, 2014

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## **Independent Auditor's Report**

City Council  
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 Neighborhood Security Bond Projects Fund, a fund of the City of San José (City), as of and for the year ended June 30, 2014, 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 Neighborhood Security Bond Projects Fund as of June 30, 2014 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 Neighborhood Security Bond Projects Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014, and the changes in its financial position, or, when applicable, its cash flows 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***

#### ***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 July 18, 2002 through June 30, 2014 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, 2014 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, 2014 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 Neighborhood Security Bond Projects Fund's financial statements as of and for the period July 18, 2002 through June 30, 2009, and as of and for the years ended June 30, 2010, 2011, 2012, and 2013, which are not presented with the accompanying financial statements. In our reports dated March 1, 2011, March 1, 2011, September 30, 2011, November 9, 2012, and November 21, 2013, 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 July 18, 2002 through June 30, 2009, and the years ended June 30, 2010, 2011, 2012, and 2013 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 July 18, 2002 through June 30, 2009, and the years ended June 30, 2010, 2011, 2012, and 2013. This 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 July 18, 2002 through June 30, 2009, and the years ended June 30, 2010, 2011, 2012, and 2013, 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 November 14, 2014 on our consideration of the 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* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 14, 2014

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**CITY OF SAN JOSE**  
**NEIGHBORHOOD SECURITY BOND PROJECTS FUND**

(A Fund of the City of San José)

Balance Sheet

June 30, 2014

**Assets**

Restricted assets:

Equity in pooled cash and investments held in the City Treasury	\$ 74,138
Investments held with fiscal agents	<u>5,879,839</u>
Total assets	<u><u>5,953,977</u></u>

**Liabilities and Fund Balance**

Liabilities:

Accounts payable	\$ 4,040
Accrued salaries, wages and payroll taxes	<u>1,833</u>
Total liabilities	5,873

Fund balance:

Restricted for Neighborhood Security Bond Projects	<u>5,948,104</u>
Total liabilities and fund balance	<u><u>\$ 5,953,977</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, 2014

<b>Revenues:</b>	
Investment income	<u>\$ 16,699</u>
<b>Expenditures:</b>	
Capital outlay:	
South San José police substation	207,779
Fire Station upgrades	8,953
Fire Station 36	322,833
Fire Station 21 - relocation	435,260
Fire Station 37	(5,000)
Program-wide administration	<u>7,500</u>
Total expenditures	<u>977,325</u>
Change in fund balance	(960,626)
Fund balance, beginning of year	<u>6,908,730</u>
<b>Fund balance, end of year</b>	<u><u>\$ 5,948,104</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)  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

**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):

	<u>Amount</u>	<u>Date</u>
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	<u>155,675,000</u>	
<b>Authorized but unissued</b>	<u><u>\$ 3,325,000</u></u>	

As of June 30, 2014, the outstanding project approved by the City Council to be funded by the bond proceeds, which remain to be completed is the Fire Station 21 – Relocation project.

**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, 2014 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance 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.

**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, 2014

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

*Fire Station 37 Expenditures*

As of June 30, 2014, the City recorded a \$5,000 reduction to Fire Station 37 from a vendor refund.

*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, 2014. 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, contributions, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

**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, 2014

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

*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, 2014 are as follows:

<u>Type of Cash and Investments</u>	<u>Fair Value</u>	<u>Moody's Credit Risk Rating</u>	<u>Weighted Average Maturity</u>
City of San José Cash and Investment Pool	\$ 74,138	Unrated	532 days
State of California Local Agency Investment Fund	5,708,610	Unrated	232 days
Wells Fargo Treasury Money Market Mutual Fund	171,229	Aaa	55 days
<b>Total restricted cash and investments</b>	<u>\$ 5,953,977</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.

The Fund maintains its operating cash in the City’s cash and investment pool. At June 30, 2014, the Fund had a balance in the amount of \$74,138 in the City’s cash and investment pool. 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, 2014. 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 website at <http://www.csjfinance.org>.

The amounts held in the City’s investment pool can be withdrawn upon demand. The weighted average maturity of the City’s investment pool is 532 days. Income earned or losses arising from investments in the City’s cash and investment pool are allocated on a monthly basis by the City’s Finance Department to the Fund based on the average weekly cash balances.

**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, 2014

**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, 2014 was approximately \$21.1 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, 2014 was approximately \$64.8 billion and of that amount, 98.14% was invested in non-derivative financial products and 1.86% 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  
For the Year Ended June 30, 2014

**NOTE 4 – COMMITMENTS**

At June 30, 2014, the Fund has related outstanding project construction encumbrances as follows:

<b>Project</b>	<b>Amount</b>
South San Jose Police Substation	\$ 2,021
Fire Station Upgrades	3,266
Fire Station 21 - Relocation	5,199,870
Program-Wide Administration	78,325
<b>Total project encumbrances</b>	<b>\$ 5,283,482</b>

**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 July 18, 2002 Through June 30, 2014

	2003	2004	2005	2006	2007	2008
<b>Revenues:</b>						
Investment income	\$ 1,883,039	\$ (19,507)	\$ 975,304	\$ 2,457,695	\$ 2,971,704	\$ 4,480,517
Intergovernmental	15,985	-	3,516	23,277	-	53,345
Other	-	-	-	-	5,804	1,638
Total revenues	<u>1,899,024</u>	<u>(19,507)</u>	<u>978,820</u>	<u>2,480,972</u>	<u>2,977,508</u>	<u>4,535,500</u>
<b>Expenditures:</b>						
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	14,304,632
Fire Station 12 - Relocation	29,754	26,897	92,201	440,270	1,169,548	2,062,278
Fire Station 34	103,094	42,250	186,697	479,074	5,519,245	429,302
Fire Station 35	54,999	30,810	178,582	542,443	4,034,453	1,744,558
Fire Station Upgrades	841,968	3,778,809	1,513,869	1,296,646	634,971	370,999
Fire Training Center	514,334	471,868	31,600	19,581	424,012	365,954
Land Acquisition - Fire Stations	12,319	1,807,683	837,322	71,578	1,628,273	1,244,849
Central Community Police Station						
Exterior Improvement	46,224	277,158	-	-	-	-
Fire Station 25 - Relocation	-	123,604	174,437	790,976	4,015,770	503,414
Fire Station 17 - Relocation	-	141,647	122,727	393,669	866,247	2,475,700
Fire Station 23 - Relocation	-	79,182	12,420	(885)	-	-
Driver Safety Training Center	-	277,353	784	60,652	106,955	234,180
Fire Station 36	-	34,524	32,919	101,540	170,186	525,454
Fire Station 2 - Rebuild	-	-	45,527	161,100	192,336	365,212
Fire Station 21 - Relocation	-	-	28,367	23,206	14,570	17,461
Fire Station 19 - Relocation	-	-	-	76,699	181,362	741,318
Fire Station 37	-	-	-	-	-	76,089
Emergency Communication and Dispatch Center	-	-	33,132	204,710	231,834	89,442
East Community Policing Center	-	-	-	10,662	34,189	5,406
Program-Wide Administration	337,602	599,688	765,881	491,705	505,100	579,748
Debt service:						
Arbitrage rebate payment	-	-	-	-	-	254,000
Total expenditures	<u>2,190,304</u>	<u>8,952,787</u>	<u>4,527,980</u>	<u>15,856,570</u>	<u>22,305,605</u>	<u>26,389,996</u>
Deficiency of revenues under expenditures	(291,280)	(8,972,294)	(3,549,160)	(13,375,598)	(19,328,097)	(21,854,496)
<b>Other Financing Sources:</b>						
Bond proceeds	<u>39,375,000</u>	-	<u>39,400,000</u>	-	<u>67,900,000</u>	-
Change in fund balance	39,083,720	(8,972,294)	35,850,840	(13,375,598)	48,571,903	(21,854,496)
Fund balance, beginning of period	-	39,083,720	30,111,426	65,962,266	52,586,668	101,158,571
<b>Fund balance, end of period</b>	<u>\$ 39,083,720</u>	<u>\$ 30,111,426</u>	<u>\$ 65,962,266</u>	<u>\$ 52,586,668</u>	<u>\$ 101,158,571</u>	<u>\$ 79,304,075</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 July 18, 2002 Through June 30, 2014

2009	2010	2011	2012	2013	2014	Total	
\$ 1,575,558	\$ 373,090	\$ 100,409	\$ 53,152	\$ 33,799	\$ 16,699	\$ 14,901,459	<b>Revenues:</b>
-	471,321	44,851	-	250,000	-	862,295	Investment income
-	224	-	-	-	-	7,666	Intergovernmental
1,575,558	844,635	145,260	53,152	283,799	16,699	15,771,420	Other
							Total revenues
							<b>Expenditures:</b>
							Capital outlay:
-	-	-	-	-	-	2,035,704	West Community Policing Center
36,082,247	19,919,027	2,954,253	987,371	96,995	207,779	87,768,937	South San Jose Police Substation
667,871	239,355	-	7,429	-	-	4,735,603	Fire Station 12 - Relocation
8,486	-	-	-	-	-	6,768,148	Fire Station 34
1,054	-	-	-	-	-	6,586,899	Fire Station 35
21,043	-	-	-	18,103	8,953	8,485,361	Fire Station Upgrades
101,873	202,773	-	2,959	-	-	2,134,954	Fire Training Center
678,057	-	3,470	-	-	-	6,283,551	Land Acquisition - Fire Stations
							Central Community Police Station
-	-	-	-	-	-	323,382	Exterior Improvement
(8,277)	-	-	-	-	-	5,599,924	Fire Station 25 - Relocation
684,731	59,044	-	681	4,518	-	4,748,964	Fire Station 17 - Relocation
-	-	-	-	-	-	90,717	Fire Station 23 - Relocation
1,491	-	-	-	-	-	681,415	Driver Safety Training Center
488,177	684,950	2,770,694	2,870,789	301,107	322,833	8,303,173	Fire Station 36
1,988,703	1,946,674	295,368	93,744	-	-	5,088,664	Fire Station 2 - Rebuild
146,267	141,105	167,752	401,603	1,038,814	435,260	2,414,405	Fire Station 21 - Relocation
2,194,558	2,310,508	131,853	39,930	25,024	-	5,701,252	Fire Station 19 - Relocation
45,349	348,850	610,160	29,104	778	(5,000)	1,105,330	Fire Station 37
880,006	40,675	-	-	-	-	1,479,799	Emergency Communication and Dispatch Center
-	-	-	-	-	-	50,257	East Community Policing Center
441,865	377,131	354,053	264,400	133,204	7,500	4,857,877	Program-Wide Administration
-	-	-	-	-	-	254,000	Debt service:
44,423,501	26,270,092	7,287,603	4,698,010	1,618,543	977,325	164,520,991	Arbitrage rebate payment
(42,847,943)	(25,425,457)	(7,142,343)	(4,644,858)	(1,334,744)	(960,626)	(148,749,571)	Total expenditures
							Deficiency of revenues under expenditures
9,000,000	-	-	-	-	-	155,675,000	<b>Other Financing Sources:</b>
(33,847,943)	(25,425,457)	(7,142,343)	(4,644,858)	(1,334,744)	(960,626)	6,925,429	Bond proceeds
79,304,075	45,456,132	20,030,675	12,888,332	8,243,474	6,908,730	-	Change in fund balance
\$ 45,456,132	\$ 20,030,675	\$ 12,888,332	\$ 8,243,474	\$ 6,908,730	\$ 5,948,104	\$ 6,925,429	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 Neighborhood Security Bond Projects Fund (Fund), a fund of the City of San José (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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. Accordingly, we do not express an opinion on the effectiveness of the City’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 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 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*.

## **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 & O'Connell LLP

Walnut Creek, California

November 14, 2014

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

City Council  
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 (2002) for the year ended June 30, 2014 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, 2014.

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 É O'Connell LPA*  
Walnut Creek, California  
November 14, 2014

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