

City Council
City of San José, California

INDEPENDENT AUDITOR'S REPORT

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (the City), as of and for the year ended June 30, 2010, and have issued our report thereon dated November 22, 2010. Our report contains an explanatory paragraph describing the City's adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and an emphasis of a matter paragraph regarding that the City's defined benefit pension plans' and postemployment healthcare plans' unfunded actuarially accrued liabilities.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the accounting and financial reporting provisions of Section 5.2 of the Improvement Agreement between the San José-Santa Clara Clean Water Financing Authority, the City of Santa Clara, and the City, dated July 1, 1982, as amended and supplemented. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the San José-Santa Clara Clean Water Financing Authority's Governing Board, the City of Santa Clara, and the City, 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

November 22, 2010