

**CITY OF SAN JOSE  
BRANCH LIBRARY 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, 2009**

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
For the Year Ended June 30, 2009

*Table of Contents*

	<i>Page(s)</i>
<b>Independent Auditor’s Report</b> .....	1-2
<b>Financial Statements:</b>	
Balance Sheet .....	3
Statement of Revenues, Expenditures and Changes in Fund Balance.....	4
Notes to the Financial Statements .....	5-8
<b>Other Supplementary Information:</b>	
Combining Schedules of Capital Outlay by Project .....	10-11
<b>Other Reports:</b>	
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 <i>Government Auditing Standards</i> .....	13-14
Status of Prior Year Comment .....	15
Independent Accountant’s Report on Compliance with Measure O.....	17



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Certified Public Accountants & Management Consultants

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SACRAMENTO

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LOS ANGELES

NEWPORT BEACH

SAN DIEGO

City Council and  
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 Branch Library Bond Projects Fund, a fund of the City of San José (City), as of and for the year ended June 30, 2009, 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 Branch Library 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 Branch Library Bond Projects Fund are intended to present the financial position and the changes in financial position of only that portion of the funds of the City that is attributable to the transactions of the Branch Library Bond Projects Fund. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2009 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 Branch Library Bond Projects Fund as of June 30, 2009 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 October 2, 2009 on our consideration of City's internal control over financial reporting as it pertains to the Branch Library 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 Branch Library 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 is presented for purposes of additional analysis and is not a required part of the fund financial statements. Such information has been subjected to the auditing procedures applied in the audit of the fund financial statements and, in our opinion, is fairly stated in all material respects in relation to the fund 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

October 2, 2009

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**

(A Fund of the City of San José)

Balance Sheet

June 30, 2009

**Assets**

Restricted investments:

Investments held with fiscal agents	\$ 58,828,519
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**Liabilities and Fund Balance**

Liabilities:

Accounts payable	\$ 2,725,294
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Accrued salaries, wages and payroll taxes	102,899
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Due to other funds of the City	6,797,764
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Total liabilities	<u>9,625,957</u>
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Fund balance:

Reserved for encumbrances	14,152,057
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Unreserved, undesignated	35,050,505
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Total fund balance	<u>49,202,562</u>
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Total liabilities and fund balance	<u>\$ 58,828,519</u>
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See accompanying notes to the financial statements.

**CITY OF SAN JOSE**  
**BRANCH LIBRARY 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, 2009

<b>Revenues:</b>	
Investment income	\$ 1,486,568
Other	4,151
	<hr/>
Total revenues	1,490,719
	<hr/>
<b>Expenditures:</b>	
Capital outlay:	
Almaden Branch Library & Community Center	8
Bascom Branch Library & Community Center	3,278,673
Berryessa Branch Library	3,500
Calabazas Branch Library	744,611
Cambrian Branch Library	1,674
Dr. Roberto Cruz Alum Rock Branch Library	422
East San José Carnegie Branch Library	6,145,570
Edenvale Branch Library	122,846
Educational Park Branch Library	801,967
Joyce Ellington Branch Library	94,388
Pearl Avenue Branch Library	643,633
Santa Teresa Branch Library	6,764,910
Seven Trees Branch Library & Community Center	4,916,875
Southeast Branch Library	199,995
Willow Glen Branch Library	188,637
Project Administration	650,936
	<hr/>
Total expenditures	24,558,645
	<hr/>
Change in fund balance	(23,067,926)
Fund balance, beginning of year	72,270,488
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<b>Fund balance, end of year</b>	<b>\$ 49,202,562</b>
	<hr/> <hr/>

See accompanying notes to the financial statements.

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Notes to the Financial Statements  
For the Year Ended June 30, 2009

**NOTE 1 – BACKGROUND**

In November 2000, registered voters of the City of San José (City) approved Measure O, the San José Neighborhood Libraries Bond, authorizing the issuance and sale of not to exceed \$211,790,000 general obligation bonds (Libraries Bonds) to be used to fund the acquisition of property and construction of improvements to neighborhood library facilities throughout the City.

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

	<u>Amount</u>	<u>Date</u>
Voter authorization	\$ 211,790,000	November 7, 2000
Bonds issued:		
Series 2001 Bonds	31,000,000	June 6, 2001
Series 2002 Bonds	30,000,000	July 18, 2002
Series 2004 Bonds	58,300,000	July 14, 2004
Series 2005 Bonds	21,300,000	June 23, 2005
Series 2006 Bonds	60,000,000	June 29, 2006
Series 2008 Bonds	5,285,000	June 25, 2008
Total bonds issued	<u>205,885,000</u>	
<b>Authorized but unissued</b>	<u>\$ 5,905,000</u>	

The specific projects approved by the City Council to be funded by the bond proceeds include:

<u>Project</u>	<u>Prior Square Feet</u>	<u>Proposed Square Feet</u>	<u>Status At June 30, 2009</u>
Almaden Branch Library & Community Center	10,715	20,000	Completed
Bascom Branch Library & Community Center	n/a	20,000	In Construction
Berryessa Branch Library	n/a	26,000	Completed
Calabazas Branch Library	5,800	10,000	In Design
Cambrian Branch Library	10,126	28,000	Completed
Dr. Roberto Cruz Alum Rock Branch Library	n/a	26,000	Completed
East San Jose Carnegie Branch Library	7,281	12,000	In Construction
Edenvale Branch Library	n/a	22,200	Completed
Educational Park Branch Library	14,084	18,000	In Design
Evergreen Branch Library	7,448	21,000	Completed
Hillview Branch Library	7,288	21,000	Completed
Joyce Ellington Branch Library	6,715	14,500	Completed
Pearl Avenue Branch Library	7,116	14,000	Completed
Rose Garden Branch Library	6,850	19,000	Completed
Santa Teresa Branch Library	13,860	22,000	In Construction
Seven Trees Branch Library & Community Center	6,769	20,000	In Construction
Southeast Branch Library	n/a	12,000	Pending Site Selection
Tully Community Branch Library	n/a	24,000	Completed
Vineland Branch Library	n/a	24,000	Completed
Willow Glen Branch Library	5,330	13,000	Completed

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2009

**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 Branch Library Bond Projects Fund (Fund) and do not purport to, and do not, present fairly the City's financial position as of June 30, 2009 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 Branch Library 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 Investments*

Investments that are restricted for specified uses by bond covenants or other requirements are classified as restricted. The Fund's restricted investments are held with fiscal agent accounts to be spent only on authorized capital projects. The Fund's restricted investments are subject to the requirements of the City's adopted investment policy and the bond indenture. The Fund's investments are stated at fair value.

*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 daily 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.

*Fund Balance*

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.



**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2009

**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 INVESTMENTS**

A summary of the Fund’s restricted investments at June 30, 2009 are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Moody's Credit Risk Rating</u>	<u>Weighed Average Maturity</u>
State of California Local Agency Investment Fund	\$ 56,882,638	Unrated	235 days
Wells Fargo Treasury Money Market Mutual Fund	<u>1,945,881</u>	Aaa	55 days
<b>Total investments</b>	<u><u>\$ 58,828,519</u></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.

*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’s investment policy 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.

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2009

**NOTE 3 – RESTRICTED INVESTMENTS (Continued)**

*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’s investment policy 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, 2009, 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>Branch Library Bond Projects Fund</u>	<u>Parks and Recreation Bond Projects Fund</u>	<u>Neighborhood Security Bond Projects Funds</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	30,000,000	46,715,000	39,375,000	1,701,525
Series 2004 Bonds	118,700,000	1,928,232	120,628,232	58,300,000	46,000,000	14,400,000	1,928,232
Series 2005 Bonds	46,300,000	803,299	47,103,299	21,300,000	-	25,000,000	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	-	22,100,000	67,900,000	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
<b>Total</b>	<u>\$589,590,000</u>	<u>\$ 9,329,672</u>	<u>\$598,919,672</u>	<u>\$205,885,000</u>	<u>\$228,030,000</u>	<u>\$155,675,000</u>	<u>\$ 9,329,672</u>

**NOTE 5 – COMMITMENTS**

At June 30, 2009, the Fund has related outstanding project construction and other commitments as follows:

<u>Project</u>	<u>Amount</u>
Bascom Branch Library & Community Center	\$ 6,731,500
Berryessa Branch Library	32,255
Calabazas Branch Library	50,128
East San José Carnegie Branch Library	585,677
Educational Park Branch Library	375,332
Pearl Avenue Branch Library	9,800
Santa Teresa Branch Library	2,055,081
Seven Trees Branch Library & Community Center	4,237,458
Southeast Branch Library	53,192
Project Administration	21,634
<b>Total reserved for encumbrance</b>	<u>\$ 14,152,057</u>

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**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Combining Schedules of Capital Outlay by Project  
For the Period for June 6, 2001 through June 30, 2009

	2001	2002	2003	2004	2005
<b>Revenues:</b>					
Investment income	\$ 133,145	\$ 1,171,104	\$ 2,152,449	\$ 102,310	\$ 1,529,968
Intergovernmental	-	-	-	-	-
Other	-	-	26,792	-	14,355
<b>Total revenues</b>	<b>133,145</b>	<b>1,171,104</b>	<b>2,179,241</b>	<b>102,310</b>	<b>1,544,323</b>
<b>Expenditures:</b>					
Capital outlay:					
Almaden Branch Library & Community Center	8,900	3,662	391,731	348,318	3,796,919
Bascom Branch Library & Community Center	-	12,021	20,853	3,588,176	2,809,525
Berryessa Branch Library	29,371	513,793	1,871,441	2,939,419	3,949,386
Calabazas Branch Library	-	-	-	-	-
Cambrian Branch Library	-	13,490	10,352	567,576	1,967,365
Dr. Roberto Cruz Alum Rock Branch Library	-	1,572,645	1,649,173	2,623,886	6,730,704
East San José Carnegie Branch Library	-	-	-	-	-
Edenvale Branch Library	-	13,902	12,595	62,782	361,625
Educational Park Branch Library	-	-	-	-	-
Evergreen Branch Library	-	-	26,655	951,248	3,060,594
Hillview Branch Library	-	39,666	49,450	701,752	1,925,367
Joyce Ellington Branch Library	-	-	-	98,928	162,453
Pearl Avenue Branch Library	-	-	-	-	18,655
Rose Garden Branch Library	-	30,882	920,059	1,889,343	3,932,886
Santa Teresa Branch Library	-	-	-	-	-
Seven Trees Branch Library & Community Center	-	-	-	-	-
Southeast Branch Library	-	12,956	22,425	1,388	-
Tully Community Branch Library	56,288	1,595,093	996,780	5,097,574	3,960,015
Vineland Branch Library	170,588	867,627	6,209,272	1,832,853	-
Willow Glen Branch Library	-	-	-	7,717	16,737
Project Administration	140,668	518,746	721,843	879,112	1,137,939
Debt service:					
Arbitrage rebate payment	-	-	-	-	-
<b>Total expenditures</b>	<b>405,815</b>	<b>5,194,483</b>	<b>12,902,629</b>	<b>21,590,072</b>	<b>33,830,170</b>
Deficiency of revenues under expenditures	(272,670)	(4,023,379)	(10,723,388)	(21,487,762)	(32,285,847)
<b>Other Financing Sources:</b>					
Bond proceeds	31,000,000	-	30,000,000	-	79,600,000
Change in fund balance	30,727,330	(4,023,379)	19,276,612	(21,487,762)	47,314,153
Fund balance, beginning of period	-	30,727,330	26,703,951	45,980,563	24,492,801
<b>Fund balance, end of period</b>	<b>\$ 30,727,330</b>	<b>\$ 26,703,951</b>	<b>\$ 45,980,563</b>	<b>\$ 24,492,801</b>	<b>\$ 71,806,954</b>

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Combining Schedules of Capital Outlay by Project  
For the Period for June 6, 2001 through June 30, 2009

2006	2007	2008	2009	Total	
\$ 3,047,142	\$ 5,670,140	\$ 3,551,248	\$ 1,486,568	\$ 18,844,074	<b>Revenues:</b>
706,000	714,000	748,000	-	2,168,000	Investment income
20,641	8,219	-	4,151	74,158	Intergovernmental
					Other
<u>3,773,783</u>	<u>6,392,359</u>	<u>4,299,248</u>	<u>1,490,719</u>	<u>21,086,232</u>	Total revenues
					<b>Expenditures:</b>
					Capital outlay:
3,018,030	497,885	147,140	8	8,212,593	Almaden Branch Library & Community Center
60,926	1,602,517	676,987	3,278,673	12,049,678	Bascom Branch Library & Community Center
25,022	63	-	3,500	9,331,995	Berryessa Branch Library
-	61,418	402,605	744,611	1,208,634	Calabazas Branch Library
7,357,309	2,026,217	21,414	1,674	11,965,397	Cambrian Branch Library
1,037,586	92,465	12,248	422	13,719,129	Dr. Roberto Cruz Alum Rock Branch Library
147,183	804,089	1,949,315	6,145,570	9,046,157	East San José Carnegie Branch Library
765,275	7,446,744	1,214,474	122,846	10,000,243	Edenvale Branch Library
-	4,115	611,391	801,967	1,417,473	Educational Park Branch Library
5,945,766	208,622	-	-	10,192,885	Evergreen Branch Library
6,742,348	1,641,332	86	-	11,100,001	Hillview Branch Library
832,135	3,531,201	4,996,233	94,388	9,715,338	Joyce Ellington Branch Library
757,173	2,113,187	4,552,391	643,633	8,085,039	Pearl Avenue Branch Library
2,571,175	-	45,294	-	9,389,639	Rose Garden Branch Library
123,696	833,145	1,307,672	6,764,910	9,029,423	Santa Teresa Branch Library
17,879	577,146	915,389	4,916,875	6,427,289	Seven Trees Branch Library & Community Center
-	-	30	199,995	236,794	Southeast Branch Library
-	-	-	-	11,705,750	Tully Community Branch Library
281	-	18,083	-	9,098,704	Vineland Branch Library
539,321	3,204,884	4,799,513	188,637	8,756,809	Willow Glen Branch Library
905,966	715,082	726,408	650,936	6,396,700	Project Administration
-	-	683,000	-	683,000	Debt service:
					Arbitrage rebate payment
<u>30,847,071</u>	<u>25,360,112</u>	<u>23,079,673</u>	<u>24,558,645</u>	<u>177,768,670</u>	Total expenditures
(27,073,288)	(18,967,753)	(18,780,425)	(23,067,926)	(156,682,438)	Deficiency of revenues under expenditures
					<b>Other Financing Sources:</b>
60,000,000	-	5,285,000	-	205,885,000	Bond proceeds
32,926,712	(18,967,753)	(13,495,425)	(23,067,926)	49,202,562	Change in fund balance
<u>71,806,954</u>	<u>104,733,666</u>	<u>85,765,913</u>	<u>72,270,488</u>	<u>-</u>	Fund balance, beginning of period
<u>\$ 104,733,666</u>	<u>\$ 85,765,913</u>	<u>\$ 72,270,488</u>	<u>\$ 49,202,562</u>	<u>\$ 49,202,562</u>	<b>Fund balance, end of period</b>

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Certified Public Accountants & Management Consultants

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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 Branch Library Bond Projects Fund (Fund), a fund of the City of San José (City), as of and for the year ended June 30, 2009, and have issued our report thereon dated October 2, 2009. 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

October 2, 2009



**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Status of Prior Year Comment  
For the Year Ended June 30, 2009

2008 Comment: ***2008-A – Year-end Expenditure Accrual Process***

Condition/Effect: During our audit, we noted the City did not record several accruals during the preparation of its year-end Comprehensive Annual Financial Statements (CAFR) for Fiscal Years 2005 and 2007, respectively, as the City did not consider these transactions to be material in relation to the City’s basic financial statements taken as a whole. Since this audit is performed at the Fund level, the transactions noted are considered to be material to the Fund and should be recorded in the proper year of the Fund’s financial statements.

Recommendation: We recommend the City perform an expenditure and accrual analysis at the Fund’s appropriate materiality threshold during its year-end financial reporting process in order to properly record expenditures in the period when a liability is incurred.

Status: Implemented.

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SACRAMENTO

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN DIEGO

City Council and  
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 for the year ended June 30, 2009 as follows:

- Bond proceeds were used for expanding and improving aging branch libraries to reduce noise, add parking, and add space for more books and computers; and building new libraries in neighborhoods throughout the City.
- Bond proceeds were not used for library administrators' salaries.
- Annual audits were performed.
- A citizen's oversight committee was established.

Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, 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, 2009.

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 & O'Connell LLP*  
Certified Public Accountants  
Walnut Creek, California

October 2, 2009