

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, 2012



Certified Public Accountants.

CITY OF SAN JOSE
BRANCH LIBRARY BOND PROJECTS FUND
(A Fund of the City of San José)
For the Year Ended June 30, 2012

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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, 2012, 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 Branch Library Bond Project 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 Branch Library 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 activities 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, 2012 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, 2012 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 November 2, 2012 on our consideration of City's internal control over the Branch Library 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 not presented the management's discussion and analysis that governmental 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 Governmental Accounting Standards Board 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 for the year ended June 30, 2012 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 of America, the Branch Library Bond Projects Fund's financial statements as of and for the period June 6, 2001 through June 30, 2008, and the years ended June 30, 2009, 2010, and 2011, which are not presented with the accompanying financial statements. In our reports dated March 13, 2009, October 2, 2009, December 2, 2010, and September 30, 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 financial statements for the period June 6, 2001 through June 30, 2008, and the years ended June 30, 2009, 2010, and 2011 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 June 6, 2001 through June 30, 2008, and the years ended June 30, 2009, 2010, and 2011. The 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 June 6, 2001 through June 30, 2008, and the years ended June 30, 2009, 2010, and 2011 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
November 2, 2012

CITY OF SAN JOSE
BRANCH LIBRARY BOND PROJECTS FUND
(A Fund of the City of San José)
Balance Sheet
June 30, 2012

Assets

Restricted investments:

Investments held with fiscal agents \$ 17,856,637

Liabilities and Fund Balance

Liabilities:

Accounts payable \$ 516,090

Accrued salaries, wages and payroll taxes 7,352

Due to other funds of the City 5,997,771

Total liabilities 6,521,213

Fund balance:

Restricted for Branch Library projects 11,335,424

Total liabilities and fund balance \$ 17,856,637

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, 2012

Revenues:

Investment income	\$ 77,734
Intergovernmental	366,112
	<hr/>
Total revenues	443,846
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Expenditures:

Capital outlay:	
Calabazas Branch Library	1,587,922
Educational Park Branch Library	868,760
Seven Trees Branch Library & Community Center	119,540
Southeast Branch Library	1,107,127
Project Administration	1,199,744
Intergovernmental	748,000
	<hr/>
Total expenditures	5,631,093
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Change in fund balance	(5,187,247)
Fund balance, beginning of year	16,522,671
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Fund balance, end of year	\$ 11,335,424
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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)
Notes to the Financial Statements
For the Year Ended June 30, 2012

NOTE 1 – BACKGROUND

In November 2000, registered voters of the City of San José (City) approved Measure O, the San José Neighborhood Libraries Bonds, authorizing the issuance and sale of general obligation bonds (Libraries Bonds) not to exceed \$211,790,000 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>	
Authorized but unissued	<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, 2012</u>
Almaden Branch Library & Community Center	20,000	64,000	Completed
Bascom Branch Library & Community Center	20,000	40,000	Completed but unopened
Berryessa Branch Library	n/a	26,000	Completed
Calabazas Branch Library	5,800	10,420	Completed but unopened
Cambrian Branch Library	10,126	27,800	Completed
Dr. Roberto Cruz Alum Rock Branch Library	n/a	26,000	Completed
East San Jose Carnegie Branch Library	7,281	10,220	Completed
Edenvale Branch Library	n/a	22,000	Completed
Educational Park Branch Library	14,084	18,000	Completed but unopened
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	Completed
Seven Trees Branch Library & Community Center	20,000	60,000	Completed but unopened
Southeast Branch Library	n/a	12,000	Site purchased; Construction beginning 2013
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, 2012

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, 2012 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 (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 of investments 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 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.

Intergovernmental Revenues

During the year ended June 30, 2012, the City contributed \$366,112 from the City's GO Bonds Parks & Libraries Debt Service Fund to the Fund for reimbursement of library related costs.

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, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intergovernmental Expenditures

During the years ended June 30, 2006, 2007, and 2008, the City contributed funds in the amount of \$706,000, \$714,000 and \$748,000, respectively, to cover the Fund’s project administration costs from the City’s Library Construction and Conveyance Tax Fund. Project savings and higher than estimated investment income allowed the Fund to partially reimburse these prior years’ transfers in the amount of \$706,000, \$714,000, and \$748,000, respectively, during the years ended June 30, 2010, 2011, and 2012.

Fund Balance

Under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the financial statements reporting for 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, 2012.

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, contributors, 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 INVESTMENTS

A summary of the Fund’s restricted investments at June 30, 2012 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	\$ 17,444,832	Unrated	268 days
Wells Fargo Treasury Money Market Mutual Fund	411,805	Aaa	55 days
Total investments	<u>\$ 17,856,637</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
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, 2012

NOTE 3 – RESTRICTED INVESTMENTS (Continued)

The Fund maintains its investments in the City's cash and investment pool. At June 30, 2012, the Fund had a negative balance in the City's cash and investment pool, which has been reported as due to other City funds in the balance sheet. 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 June 30, 2012 basic financial statements. A copy of that report may be obtained by contacting the City's Finance Department at 200 East Santa Clara Street, 13th Floor, San Jose, CA 95113, or can be found at the City's Finance Department web site at <http://www.sanjoseca.gov/>.

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, 2012 was approximately \$21.9 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, 2012 was approximately \$60.5 billion and of that amount, 96.53% was invested in non-derivative financial products and 3.47% 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
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, 2012

NOTE 4 – BOND PROCEEDS

As of June 30, 2012, 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 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	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
Total	<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, 2012, the Fund has related outstanding project construction encumbrances as follows:

<u>Project</u>	<u>Amount</u>
Calabazas Branch Library	\$ 73,160
Educational Park Branch Library	73,372
Seven Trees Branch Library & Community Center	4,786
Branch Efficiency Projects	475,437
Project Administration	2,923
Total project construction encumbrances	<u>\$ 629,678</u>

CITY OF SAN JOSE
BRANCH LIBRARY BOND PROJECTS

(A Fund of the City of San José)

Statements of Revenues, Expenditures and Changes in Fund Balance by Fiscal Year
For the Period June 6, 2001 through June 30, 2012

	2001	2002	2003	2004	2005	2006
Revenues:						
Investment income	\$ 133,145	\$ 1,171,104	\$ 2,152,449	\$ 102,310	\$ 1,529,968	\$ 3,047,142
Intergovernmental	-	-	-	-	-	706,000
Other	-	-	26,792	-	14,355	20,641
Total revenues	133,145	1,171,104	2,179,241	102,310	1,544,323	3,773,783
Expenditures:						
Capital outlay:						
Almaden Branch Library & Community Center	8,900	3,662	391,731	348,318	3,796,919	3,018,030
Bascom Branch Library & Community Center	-	12,021	20,853	3,588,176	2,809,525	60,926
Berryessa Branch Library	29,371	513,793	1,871,441	2,939,419	3,949,386	25,022
Calabazas Branch Library	-	-	-	-	-	-
Cambrian Branch Library	-	13,490	10,352	567,576	1,967,365	7,357,309
Dr. Roberto Cruz Alum Rock Branch Library	-	1,572,645	1,649,173	2,623,886	6,730,704	1,037,586
East San José Carnegie Branch Library	-	-	-	-	-	147,183
Edenvale Branch Library	-	13,902	12,595	62,782	361,625	765,275
Educational Park Branch Library	-	-	-	-	-	-
Evergreen Branch Library	-	-	26,655	951,248	3,060,594	5,945,766
Hillview Branch Library	-	39,666	49,450	701,752	1,925,367	6,742,348
Joyce Ellington Branch Library	-	-	-	98,928	162,453	832,135
Pearl Avenue Branch Library	-	-	-	-	18,655	757,173
Rose Garden Branch Library	-	30,882	920,059	1,889,343	3,932,886	2,571,175
Santa Teresa Branch Library	-	-	-	-	-	123,696
Seven Trees Branch Library & Community Center	-	-	-	-	-	17,879
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	-	281
Willow Glen Branch Library	-	-	-	7,717	16,737	539,321
Project Administration	140,668	518,746	721,843	879,112	1,137,939	905,966
Intergovernmental	-	-	-	-	-	-
Debt service:						
Arbitrage rebate payment	-	-	-	-	-	-
Total expenditures	405,815	5,194,483	12,902,629	21,590,072	33,830,170	30,847,071
Deficiency of revenues under expenditures	(272,670)	(4,023,379)	(10,723,388)	(21,487,762)	(32,285,847)	(27,073,288)
Other Financing Sources:						
Bond proceeds	31,000,000	-	30,000,000	-	79,600,000	60,000,000
Change in fund balance	30,727,330	(4,023,379)	19,276,612	(21,487,762)	47,314,153	32,926,712
Fund balance, beginning of period	-	30,727,330	26,703,951	45,980,563	24,492,801	71,806,954
Fund balance, end of period	\$ 30,727,330	\$ 26,703,951	\$ 45,980,563	\$ 24,492,801	\$ 71,806,954	\$ 104,733,666

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

(A Fund of the City of San José)

Statements of Revenues, Expenditures and Changes in Fund Balance by Fiscal Year
For the Period June 6, 2001 through June 30, 2012

2007	2008	2009	2010	2011	2012	Total	
\$ 5,670,140	\$ 3,551,248	\$ 1,486,568	\$ 473,966	\$ 162,896	\$ 77,734	\$ 19,558,670	Revenues:
714,000	748,000	-	325,136	-	366,112	2,859,248	Investment income
8,219	-	4,151	-	-	-	74,158	Intergovernmental
6,392,359	4,299,248	1,490,719	799,102	162,896	443,846	22,492,076	Other
							Total revenues
							Expenditures:
							Capital outlay:
497,885	147,140	8	-	-	-	8,212,593	Almaden Branch Library & Community Center
1,602,517	676,987	3,278,673	5,681,015	2,012,108	-	19,742,801	Bascom Branch Library & Community Center
63	-	3,500	191,863	646,358	-	10,170,216	Berryessa Branch Library
61,418	402,605	744,611	653,616	4,366,496	1,587,922	7,816,668	Calabazas Branch Library
2,026,217	21,414	1,674	-	-	-	11,965,397	Cambrian Branch Library
92,465	12,248	422	-	188	-	13,719,317	Dr. Roberto Cruz Alum Rock Branch Library
804,089	1,949,315	6,145,570	716,033	19,378	-	9,781,568	East San José Carnegie Branch Library
7,446,744	1,214,474	122,846	-	-	-	10,000,243	Edenvale Branch Library
4,115	611,391	801,967	3,630,614	4,821,219	868,760	10,738,066	Educational Park Branch Library
208,622	-	-	96,342	114,514	-	10,403,741	Evergreen Branch Library
1,641,332	86	-	-	3,361	-	11,103,362	Hillview Branch Library
3,531,201	4,996,233	94,388	582	5,052	-	9,720,972	Joyce Ellington Branch Library
2,113,187	4,552,391	643,633	-	-	-	8,085,039	Pearl Avenue Branch Library
-	45,294	-	-	-	-	9,389,639	Rose Garden Branch Library
833,145	1,307,672	6,764,910	2,685,185	123,968	-	11,838,576	Santa Teresa Branch Library
577,146	915,389	4,916,875	4,579,905	614,859	119,540	11,741,593	Seven Trees Branch Library & Community Center
-	30	199,995	169,629	289,701	1,107,127	1,803,251	Southeast Branch Library
-	-	-	-	-	-	11,705,750	Tully Community Branch Library
-	18,083	-	28,829	11,078	-	9,138,611	Vineland Branch Library
3,204,884	4,799,513	188,637	-	-	-	8,756,809	Willow Glen Branch Library
715,082	726,408	650,936	500,821	259,175	1,199,744	8,356,440	Project Administration
-	-	-	706,000	714,000	748,000	2,168,000	Intergovernmental
-	683,000	-	-	-	-	683,000	Debt service:
							Arbitrage rebate payment
25,360,112	23,079,673	24,558,645	19,640,434	14,001,455	5,631,093	217,041,652	Total expenditures
(18,967,753)	(18,780,425)	(23,067,926)	(18,841,332)	(13,838,559)	(5,187,247)	(194,549,576)	Deficiency of revenues under expenditures
							Other Financing Sources:
-	5,285,000	-	-	-	-	205,885,000	Bond proceeds
(18,967,753)	(13,495,425)	(23,067,926)	(18,841,332)	(13,838,559)	(5,187,247)	11,335,424	Change in fund balance
104,733,666	85,765,913	72,270,488	49,202,562	30,361,230	16,522,671	-	Fund balance, beginning of period
<u>\$ 85,765,913</u>	<u>\$ 72,270,488</u>	<u>\$ 49,202,562</u>	<u>\$ 30,361,230</u>	<u>\$ 16,522,671</u>	<u>\$ 11,335,424</u>	<u>\$ 11,335,424</u>	Fund balance, end of period

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City Council and
Members of the Citizen's Oversight Committee
City of San José, California

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

We have audited the accompanying financial statements of the Branch Library Bond Projects Fund (Fund), a fund of the City of San José (City), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 2, 2012. Our report includes an explanatory paragraph that the financial statements of the Fund present the financial position and the changes in financial position of only that portion of the governmental activities and the nonmajor funds of the City that is attributable to the activities of the Fund 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
November 2, 2012

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, 2012 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, 2012.

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
November 2, 2012

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