

**SAN JOSÉ – SANTA CLARA  
CLEAN WATER FINANCING AUTHORITY**  
(A Component Unit of the  
City of San José, California)

Independent Auditor's Reports,  
Management's Discussion and Analysis,  
and Basic Financial Statements

For the Year Ended June 30, 2009

**SAN JOSÉ – SANTA CLARA**  
**CLEAN WATER FINANCING AUTHORITY**  
(A Component Unit of the City of San José, California)  
For the Year Ended June 30, 2009

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The Board of Directors  
San José – Santa Clara Clean Water Financing Authority  
San José, California

### **Independent Auditor's Report**

We have audited the accompanying basic financial statements of the San José – Santa Clara Clean Water Financing Authority (the Authority), a component unit of the City of San José (the City), California, 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 Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. 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 related to the Authority. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2009, and the changes in its financial position and its cash flows 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 the City's internal control over financial reporting related to the Authority 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 management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Macias Gini & Connell LLP*  
Certified Public Accountants

Walnut Creek, California  
October 2, 2009

**SAN JOSÉ - SANTA CLARA  
CLEAN WATER FINANCING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

The following discussion and analysis of San José - Santa Clara Clean Water Financing Authority (the Authority) financial performance provides an overview of its financial activities for the year ended June 30, 2009. The City of San José's Finance Department prepared this discussion and analysis. Please read it in conjunction with the Authority's basic financial statements, which begin on page 5. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rest solely with management of the Authority. To the best of our knowledge and belief, the basic financial statements, as presented, are accurate in all material respects.

***Financial Statements***

The Authority's financial statements are those of a special-purpose government engaged only in providing debt financing for the acquisition and construction of additions and improvements to the existing wastewater treatment plant and related facilities, known as the San José - Santa Clara Water Pollution Control Plant (the Plant). Under Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments*, public entities like the Authority that have only business-type activities may present only enterprise fund financial statements as follows: (1) statement of net assets (deficit); (2) statement of revenues, expenses and changes in net assets (deficit); (3) statement of cash flows; and (4) notes to basic financial statements.

The Authority's basic financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority is reported as a single enterprise fund.

The following table indicates the net assets at June 30, 2009 and 2008:

	2009	2008
Current assets	\$ 3,484,093	\$ 3,219,868
Noncurrent assets	6,874,348	751,857
Total assets	10,358,441	3,971,725
Current liabilities	4,798,504	4,561,990
Noncurrent liabilities	64,541,149	67,339,376
Total liabilities	69,339,653	71,901,366
Net assets (deficit)	\$ (58,981,212)	\$ (67,929,641)

**Statement of Net Assets (Deficit)**

The increase of noncurrent assets to \$6.9 million was mainly due to receipt of advances from the City of San José in the amount of \$6.2 million during the year to fund the 2005A and 2009A Bonds Reserves in order to satisfy the Debt Service Reserve Requirement pursuant to the bond indenture.

Total net deficit decreased by \$8.9 million for the year ended June 30, 2009. The decrease is primarily the result of the Authority's scheduled principal payment of \$4.5 million and receipt of payment from other participating agencies to redeem their shares of the outstanding Series 2005B bonds in the amount of \$4.7 million during the year.

The Authority's assets at June 30, 2009 were \$59.0 million less than its liabilities. The Authority has issued debt for the acquisition and construction of additions and improvements to the existing wastewater treatment plant and related facilities, known as the Plant. The Authority does not have title to Plant land or any capital improvements to the Plant, and capital assets acquired under the Joint Exercise of Powers Agreement (the CWFA Agreement) are conveyed to the Cities in accordance with the provisions of the CWFA Agreement. Since assets are conveyed to the Cities while the debt remains on the Authority's

**SAN JOSÉ - SANTA CLARA  
CLEAN WATER FINANCING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

books, the Authority has a net deficit at June 30, 2009, which is expected to be eliminated in future years through the receipt of Base Payments and Additional Payments from the City of San José.

The following table indicates the changes in net assets for the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 7,094,139	\$ 6,591,470
Operating expenses	<u>(60,209)</u>	<u>(91,686)</u>
Operating income	<u>7,033,930</u>	<u>6,499,784</u>
Nonoperating revenues (expenses):		
Investment income	20,151	7,090
Bond interest expense	(2,806,646)	(2,749,522)
Payments from the West Valley Sanitation District and Cupertino Sanitary District for bonds refunding	<u>4,700,994</u>	<u>-</u>
Total net nonoperating revenues (expenses)	<u>1,914,499</u>	<u>(2,742,432)</u>
Change in net assets	8,948,429	3,757,352
Net assets (deficit), beginning of year	<u>(67,929,641)</u>	<u>(71,686,993)</u>
Net assets (deficit), end of year	<u><u>\$ (58,981,212)</u></u>	<u><u>\$ (67,929,641)</u></u>

**Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)**

The Statement of Revenues, Expenses, and Changes in Net Assets identified various revenue and expense items which impact the change in net assets.

The Authority's operating revenues increased by \$0.5 million during the year ended June 30, 2009. The increase in operating revenues is primarily due to the increase of \$0.2 million of base payment received from the participating agencies related to the bond principal.

Operating expenses were comprised of administrative expenses including trustee charges and remarketing fees. Net nonoperating revenues increased by \$4.7 million during the year ended June 30, 2009. The increase was mainly due to the receipt of payments from other participating agencies to redeem their allocation of the outstanding Series 2005B bonds in the amount of \$4.7 million during the year.

***Long-term Debt***

Long-term debt of the Authority was \$62.8 million, which was comprised of \$62.7 million of outstanding principal and \$2.2 million of unamortized premium partially offset by \$2.1 million of unamortized loss on refunding. During the fiscal year ended June 30, 2009, the Authority issued Series 2009 A fixed-rate sewer revenue refunding bonds to current refund the Authority's Series 2005 B variable-rate sewer revenue refunding bonds. The outstanding bonds will be repaid with Base Payments consisting of contributions by the City and the Plant's participating outside users in future years.

***Request for Information***

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 200 E. Santa Clara Street, San Jose, CA 95113.

**SAN JOSE - SANTA CLARA**  
**CLEAN WATER FINANCING AUTHORITY**  
(A Component Unit of the City of San Jose, California)  
Statement of Net Assets (Deficit)  
June 30, 2009

**Assets**

Current assets:

Restricted cash and cash equivalents (Note 4)	\$ 242,822
Accrued interest receivable	39,244
Base payment receivable	<u>3,202,027</u>
Total current assets	<u>3,484,093</u>

Noncurrent assets:

Deferred costs	803,510
Restricted investments (Note 4)	<u>6,070,838</u>
Total noncurrent assets	<u>6,874,348</u>
Total assets	<u>10,358,441</u>

**Liabilities**

Current liabilities:

Bond interest payable	302,027
Bonds payable - current (Note 5)	<u>4,496,477</u>
Total current liabilities	<u>4,798,504</u>

Noncurrent liabilities:

Advance from the City of San Jose (Note 6)	6,249,375
Bonds payable - noncurrent (Note 5)	<u>58,291,774</u>
Total noncurrent liabilities	<u>64,541,149</u>
Total liabilities	<u>69,339,653</u>

**Net assets (deficit)**

Unrestricted (deficit)	<u><u>\$ (58,981,212)</u></u>
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See accompanying notes to basic financial statements.

**SAN JOSE - SANTA CLARA**  
**CLEAN WATER FINANCING AUTHORITY**  
(A Component Unit of the City of San Jose, California)  
Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)  
For the Year Ended June 30, 2009

<b>Operating revenues:</b>	
Base payments and additional payments from the City of San Jose	<u>\$ 7,094,139</u>
<b>Operating expenses:</b>	
Administrative and other costs	<u>60,209</u>
Operating income	<u>7,033,930</u>
<b>Nonoperating revenues (expenses):</b>	
Investment income	20,151
Bond interest	(2,806,646)
Payments from the West Valley Sanitation District and Cupertino Sanitary District for bonds refunding	<u>4,700,994</u>
Total nonoperating revenues, net	<u>1,914,499</u>
Change in net assets	8,948,429
<b>Net assets (deficit), beginning of year</b>	<u>(67,929,641)</u>
<b>Net assets (deficit), end of year</b>	<u><u>\$ (58,981,212)</u></u>

See accompanying notes to basic financial statements.



**SAN JOSE - SANTA CLARA**  
**CLEAN WATER FINANCING AUTHORITY**  
(A Component Unit of the City of San Jose, California)  
Statement of Cash Flows  
For the Year Ended June 30, 2009

Cash flows from operating activities:	
Cash received from the City of San Jose, principal portion	\$ 4,480,000
Cash received from the City of San Jose, interest portion	2,452,990
Cash payments for general and administrative expenses	<u>(60,209)</u>
Net cash provided by operating activities	<u>6,872,781</u>
Cash flows from noncapital financing activities:	
Cash paid for principal on bonds	(4,480,000)
Cash paid for interest on bonds	(2,510,874)
Cash paid for the refunding of Series 2005B	(4,332)
Cash received from refunding bond escrow deposited into the cost of issuance account	465,855
Cash paid for Series 2009A cost of issuance	(439,042)
Advances from the City of San Jose	<u>6,249,375</u>
Net cash used in noncapital financing activities	<u>(719,018)</u>
Cash flows from investing activities:	
Investment earnings on restricted cash and investments	26,868
Purchase of investments	<u>(6,116,799)</u>
Net cash used in investing activities	<u>(6,089,931)</u>
Net change in cash and cash equivalents	63,832
Cash and cash equivalents:	
Beginning of year	<u>178,990</u>
End of year	<u>\$ 242,822</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 7,033,930
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in base payment receivable	<u>(161,149)</u>
Net cash provided by operating activities	<u>\$ 6,872,781</u>
Noncash noncapital financing and investing activities:	
Amortization of deferred costs	\$ 82,138
Retirement of deferred costs due to current year refunding	305,251
Amortization of deferred loss on refunding	315,901
Retirement of deferred loss on refunding due to current year refunding	64,867
Amortization of bond premium	163,416
Refunding payment from other participating agencies directly deposited into the refunded bond escrow	4,700,994
Payment to refunded bond escrow from refunding bond proceeds	22,890,529
Change in fair value of investments	45,961

See accompanying notes to basic financial statements.

**SAN JOSÉ – SANTA CLARA**  
**CLEAN WATER FINANCING AUTHORITY**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2009

**NOTE 1 – REPORTING ENTITY**

The San José - Santa Clara Clean Water Financing Authority (the Authority), an enterprise unit of the City of San José, California, was created pursuant to the Joint Exercise of Powers Agreement (the CWFA Agreement) on March 1, 1981, as amended, between the City of San José and the City of Santa Clara (the Cities) to operate and finance the acquisition and construction of additions and improvements to the existing wastewater treatment plant and related facilities, known as the San José - Santa Clara Water Pollution Control Plant (the Plant).

The Authority and the Cities entered into an Improvement Agreement on July 1, 1982, as amended, under which Base Payments are made by the City of San José from Net System Revenues of the sewer system operated by San José. Such payments have been adjusted under the amendments to be at least equal to 1.15 times the annual debt service required by Sewer Revenue Bonds issued through the Authority, and are solely secured by a pledge of the sewer system's Net System Revenues.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The fiscal agent, as trustee for the bondholders, is required to maintain separate funds for specified activities. The accompanying financial statements reflect the transactions executed by the fiscal agent and the Authority for financing activities and are presented in accordance with accounting principles generally accepted in the United States (GAAP).

***Basis of Accounting***

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds are used to account for activities that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges for the activity.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for using the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Revenues are recorded when earned, and expenses are recorded when the related liabilities are incurred.

**SAN JOSÉ – SANTA CLARA**  
**CLEAN WATER FINANCING AUTHORITY**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2009

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

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Authority is Base Payments from the City of San José. Operating expenses for the Authority include administrative and other costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City of San José, as the administering agent of the Authority, has established certain funds to account for its sewer collections and plant operations, which are integral to the Authority, including the South Bay Water Recycling Fund, which was established to account for construction activity partially financed through the Authority, and the Clean Water Financing Authority Payment Fund, which is used to collect funds to be transferred to the Authority as Base Payments.

***Restricted Cash, Cash Equivalents and Investments***

Cash, cash equivalents and investments are restricted and held by a fiscal agent. Investments are accounted for in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires governmental entities to report certain investments at fair value and recognize the corresponding change in fair value of investments in the year in which the change occurred. The Authority reports its investments at fair value. The fair value is based on quoted market information obtained from the fiscal agent or other sources.

For purposes of accompanying statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

***Donated Services***

As agent for the Authority, the City of San José incurs certain administrative costs on behalf of the Authority. The City of San José has not charged the Authority for any of these costs incurred through June 30, 2009. Any such charges would be substantially offset by Additional Payments for administrative costs by the City of San José under the Improvement Agreement. The net effect of the donated services is not material and has not been reflected in the accompanying basic financial statements.

***Deferred Costs, Deferred Loss on Refunding, and Original Issue Premiums***

Original issue premiums and bond issuance costs are deferred and amortized using the straight-line method over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Unamortized bond issuance costs are reported as deferred charges. Gains or losses occurring from refunding are deferred and amortized over the shorter of the life of the refunded debt or refunding debt. Amortization of these balances is recorded as a component of interest expense.

**SAN JOSÉ – SANTA CLARA**  
**CLEAN WATER FINANCING AUTHORITY**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2009

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

*Capital Assets*

The Authority does not have title to Plant land or any capital improvements to the Plant, and capital assets acquired under the CWFA agreement are conveyed to the Cities in accordance with the provisions of the CWFA Agreement.

*Use of Estimates*

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

At June 30, 2009, the Authority has a net deficit of \$58,981,212, which is expected to be eliminated in future years through the receipt of Base Payments and Additional Payments from the City of San José.

**NOTE 4 – RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS**

Certain bond resolutions require that amounts be held by a fiscal agent (a trust department of a qualifying financial institution) as trustee for the bondholders. The Authority's bond indenture authorizes the Authority to invest in the following:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Credit Rating Limits</u>
Federal securities	None	None
Federal agencies and instrumentalities	None	None
Securities or receipts evidencing ownership interest in obligations or specified portions of federal obligations	None	None
Obligations of any state or territory of the United States or any agency or political subdivisions thereof	None	At least as high as each series of bonds
Time certificates of deposit	None	Aa or AA
Dollar denominated bankers' acceptances	180 days	Aa or AA
Repurchase agreements	None	None
Investment agreements	None	None
State of California Local Agency Investment Fund	None	None
Government money market portfolios or money market funds restricted to obligations issued or guaranteed by the United States	None	Aa or AA
City of San José Investment Portfolio	None	None
Other investments consistent with the City of San José's Investment Policy	None	None

**SAN JOSÉ – SANTA CLARA**  
**CLEAN WATER FINANCING AUTHORITY**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2009

**NOTE 4 – RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

*Interest Rate Risk* – State law limits investment maturities to five years as a means of managing entities' exposure to fair value losses arising from increasing interest rates. At June 30, 2009, the Authority invested \$242,822 in JP Morgan 100% U.S. Treasury money market mutual funds with a weighted average maturity of 41 days. The Authority also invested \$6,070,838 in Federal Home Loan Bank Notes with a maturity date of May 15, 2012.

*Credit Risk* – The Authority's investment in money market mutual funds and Federal Home Loan Bank Notes are both rated Aaa by Moody's Investors Service.

**NOTE 5 - BONDS PAYABLE**

*Series 2005A and 2005B Bonds*

On October 5, 2005, the Authority issued \$54,020,000 of Series 2005A and \$27,130,000 of Series 2005B sewer revenue refunding bonds. The proceeds of the Series 2005A bonds were used to refund the Authority's Series 1995A sewer revenue bonds. The proceeds of the Series 2005B bonds were used to refund the Authority's Series 1995B sewer revenue bonds. The 1995 Bonds were issued to pay for a project to recycle treated wastewater from the San José - Santa Clara Water Pollution Control Plant for irrigation and industrial uses in San José, Santa Clara and Milpitas. Debt service is payable from the Authority's revenue which consists primarily of payments to the Authority from Net System Revenues of the sewer system operated by the City of San José.

The Series 2005A bonds bear interest at fixed rates ranging from 3.25% to 5.00% and have a final maturity date of November 15, 2016. On January 29, 2009, the Authority refunded the Series 2005B bonds with its issuance of the Series 2009A bonds.

*Series 2009A Bonds*

On January 29, 2009, the Authority issued \$21,420,000 of Series 2009A sewer revenue refunding bonds with fixed interest rates ranging from 3.00% to 5.00% maturing from November 15, 2016 through November 15, 2020. The net proceeds of \$22,424,674 (including original issue premium of \$1,470,529 net of \$465,855 deposited into the cost of issuance trustee account for underwriting fees and other issuance costs) plus \$4,332 available debt service funds, and \$4,700,994 base rental prepayments from the West Valley Sanitation District and the Cupertino Sanitary District were used to current refund the Authority's Series 2005B variable-rate sewer revenue refunding bonds. Debt service is payable from the Authority's revenue which consists of payments to the Authority from Net System Revenues of the sewer system operated by the City of San José.

This refunding of variable-rate bonds with a series of fixed-rate bonds constitutes a restructuring of the Series 2005B Bonds, which had been negatively impacted by disruptions in the financial markets related to rating agency downgrades of bond insurers and liquidity providers. The Series 2009A Bonds financing structure removed the bond insurance which provided credit enhancement and the liquidity facility which provided liquidity support to the Series 2005B Bonds. The Series 2005B Bonds were redeemed on January 29, 2009, and have been removed from the Authority's financial statements.

**SAN JOSÉ – SANTA CLARA**  
**CLEAN WATER FINANCING AUTHORITY**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2009

**NOTE 5 - BONDS PAYABLE (Continued)**

Changes in long-term debt during the year ended June 30, 2009, were as follows:

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009	Balance due within one year
Sewer Revenue Bonds					
2005 Series A	\$ 45,745,000	\$ -	\$ (4,480,000)	\$ 41,265,000	\$ 4,640,000
2005 Series B	27,130,000	-	(27,130,000)	-	-
2009 Series A	-	21,420,000	-	21,420,000	-
Subtotal Sewer Revenue Bonds	72,875,000	21,420,000	(31,610,000)	62,685,000	4,640,000
Unamortized Premium	933,423	1,470,529	(163,416)	2,240,536	236,163
Unamortized Loss on Refunding	(2,147,935)	(370,118)	380,768	(2,137,285)	(379,686)
Total	<u>\$ 71,660,488</u>	<u>\$ 22,520,411</u>	<u>\$ (31,392,648)</u>	<u>\$ 62,788,251</u>	<u>\$ 4,496,477</u>

Annual future bond principal and interest repayments as of June 30, 2009, are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 4,640,000	\$ 2,340,813	\$ 6,980,813
2011	4,790,000	2,187,575	6,977,575
2012	4,945,000	2,010,838	6,955,838
2013	5,125,000	1,822,250	6,947,250
2014	5,320,000	1,632,813	6,952,813
2015 - 2019	27,280,000	4,770,408	32,050,408
2020 - 2021	10,585,000	468,288	11,053,288
Total	<u>\$ 62,685,000</u>	<u>\$ 15,232,985</u>	<u>\$ 77,917,985</u>

**NOTE 6 – ADVANCE FROM THE CITY OF SAN JOSÉ**

During fiscal year ended June 30, 2009, the City of San José's Wastewater Treatment System enterprise fund advanced \$6,249,375 to the Authority. The Authority deposited the funds received into the 2005A and 2009A Bonds reserve accounts in order to satisfy the Debt Service Reserve Requirement pursuant to the bond indenture. The advances will be repaid to the City of San José when the Debt Service Reserve Requirement is met through the surety policy issued by Financial Security Assurance, Inc. or when no bonds remain outstanding.



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SAN DIEGO

The Board of Directors  
San José – Santa Clara Clean Water Financing Authority  
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 basic financial statements of the San José – Santa Clara Clean Water Financing Authority (the Authority), a component unit of the City of San José (the City), California, 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 related to the Authority 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 financial reporting related to the Authority. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting related to the Authority.

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 Authority'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 Authority'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 Authority's Board of Directors, the City of San José, and the City of Santa Clara 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