

**CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND
PROJECTS FUND
(A Fund of the City of San José)**

Independent Auditor's Reports,
Financial Statements,
Other Supplementary Information and
Independent Accountant's Report

For the Year Ended June 30, 2019



Certified
Public
Accountants

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
For the Year Ended June 30, 2019

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Independent Auditor's Report

City Council and
Members of the Neighborhoods Commission
City of San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Neighborhood Security Bond Projects Fund (Fund), a fund of the City of San José (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Neighborhood Security Bond Projects Fund as of June 30, 2019 and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2019, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying statements of revenues, expenditures, and change in fund balance (supplementary information) by fiscal year for the period July 18, 2002 through June 30, 2019 are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary 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 supplementary information for the year ended June 30, 2019 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information for the year ended June 30, 2019 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 Fund's financial statements as of and for the period July 18, 2002 through June 30, 2009, and as of and for the years ended June 30, 2010 through 2015 which are not presented with the accompanying financial statements. In our reports dated March 1, 2011, November 29, 2010, September 30, 2011, November 9, 2012, November 21, 2013, November 14, 2014, and October 9, 2015 respectively, we expressed unmodified 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 supplementary information for the period July 18, 2002 through June 30, 2009, and the years ended June 30, 2010 through 2015 has been subjected to the auditing procedures applied in the audits of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information for the period July 18, 2002 through June 30, 2009 and the years ended June 30, 2010 through 2015 is fairly stated in all material respects in relation to the financial statements from which they have been derived.

Other Matters (Continued)

The financial statements of the Fund as of and for the years ended June 30, 2016 and 2017 were audited by other auditors. Those auditors expressed unmodified opinions on those reports dated November 15, 2016 and October 13, 2017, respectively. Those auditors' reports also stated that the Statements of Revenues, Expenditures, and Change in Fund Balance by fiscal year for the years ended June 30, 2016 and 2017 were fairly stated, in all material respects, in relation to the financial statements as a whole.

The financial statements of the Funds as of and for the year ended June 30, 2018 were not audited as there were no expenditures incurred. The Statements of Revenues, Expenditure, and Change in Fund Balance by fiscal year for the year ended June 30, 2018 was not audited.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2019 on our consideration of the City's internal control over the 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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini É O'Connell LPA

Walnut Creek, California
October 15, 2019

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CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
Balance Sheet
June 30, 2019

Assets

Restricted assets:

Equity in pooled cash and investments held in the City Treasury	\$ 1,185,973
Investments held with fiscal agents	448,418
	\$ 1,634,391
Total assets	\$ 1,634,391

Liabilities and Fund Balance

Liabilities:

Accrued salaries, wages and payroll taxes	\$ 9,050
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Fund balance:

Restricted for Neighborhood Security Bond Projects	1,625,341
	\$ 1,634,391
Total liabilities and fund balance	\$ 1,634,391

See accompanying notes to the financial statements.

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
Statement of Revenues, Expenditures, and Change in Fund Balance
For the Year Ended June 30, 2019

Revenues:	
Investment income	\$ 7,806
Other	3,753
	<hr/>
Total revenues	11,559
	<hr/>
Expenditures:	
Capital outlay:	
Fire Station 21	96,253
Fire Facilities Remediation	211,066
	<hr/>
Total expenditures	307,319
	<hr/>
Change in fund balance	(295,760)
Fund balance, beginning of year	1,921,101
	<hr/>
Fund balance, end of year	\$ 1,625,341
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See accompanying notes to the financial statements.

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
Notes to the Financial Statements
For the Year Ended June 30, 2019

NOTE 1 – BACKGROUND

In March 2002, registered voters of the City of San José (City) approved Measure O (2002), the San José 911, Fire, Police, Paramedic and Neighborhood Security Act, authorizing the issuance and sale of general obligation bonds (Neighborhood Security Bonds) not to exceed \$159,000,000 to be used to fund the construction of fire and police stations, training facilities and 911 communications facilities and the cost of land acquisition for the improvements to neighborhood security facilities throughout the City.

The table below sets forth the amount of Neighborhood Security Bonds authorized and issued pursuant to Measure O (2002):

	<u>Amount</u>	<u>Date</u>
Voter authorization	\$ 159,000,000	March 5, 2002
Bonds issued:		
Series 2002 Bonds	39,375,000	July 18, 2002
Series 2004 Bonds	14,400,000	July 14, 2004
Series 2005 Bonds	25,000,000	June 23, 2005
Series 2007 Bonds	67,900,000	June 20, 2007
Series 2009 Bonds	<u>9,000,000</u>	June 25, 2009
Total bonds issued	<u>155,675,000</u>	
Authorized but unissued	<u>\$ 3,325,000</u>	

As of June 30, 2019, the outstanding project approved by the City Council to be funded by the bond proceeds, which remain to be completed is South San Jose Substation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present only the financial position and the change in financial position of the Neighborhood Security Bond Projects Fund (Fund) and do not purport to, and do not, present fairly the City’s financial position as of June 30, 2019 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A capital projects fund (governmental fund) is used to account for the City’s Neighborhood Security Bond Projects activities. Capital projects funds are used to account for financial resources (e.g., bond proceeds and investment income) that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition of land or acquisition and construction of major governmental facilities.

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The Fund’s activity is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to vacation, sick leave, claims and judgments are recorded only when payment is due.

Restricted Cash and Investments

Cash and investments that are restricted for specified uses by bond covenants or other requirements are classified as restricted. The Fund’s restricted cash and investments are held in the City Treasury and 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 indentures. The fair value of investments is based on quoted market information obtained from fiscal agents or other sources.

Fund Balance

Under Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the balance sheets of governmental funds classify fund balances based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent. The Fund only has restricted fund balance at June 30, 2019. 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.

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, 2019 are as follows:

Type of investment	Fair Value	Moody’s Credit Risk Rating	Weighted Average Maturity
City of San José cash and investment pool	\$ 1,185,973	Unrated	661 days
Wells Fargo Treasury Money Market Mutual Fund	448,418	AAAm	33 days
Total investments	\$ 1,634,391		

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2019

NOTE 3 – RESTRICTED INVESTMENTS (CONTINUED)

The Fund has investments subject to provisions of the bond indentures of its various bond issues. According to the bond indentures, the Fund is permitted to invest in the City's cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. government agencies, time deposits, money market mutual funds invested in U.S. government securities, along with various other investments.

The Fund maintains its investments in the City's cash and investment pool. The amounts held in the City's investment pool can be withdrawn upon demand. Income and losses arising from the investment activity of pooled cash are allocated to the participating funds on a monthly basis, based on their proportionate shares of the average weekly cash balance. Information regarding the characteristics of the entire investment pool can be found in the City's basic financial statements for the fiscal year ended June 30, 2019. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department Website 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, 2019 was approximately \$23.9 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, 2019 was approximately \$105.7 billion and of that amount, 98.23% was invested in non-derivative financial products and 1.77% 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.

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2019

NOTE 3 – RESTRICTED INVESTMENTS (CONTINUED)

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’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, range from 10 days to 5 years depending on the investment classification.

Fair Value Measurement Categorization

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities. The City’s investment in Wells Fargo Money Market Mutual Funds is measured at level 1 inputs, while investments in the City’s cash and investment pool and LAIF are not subject to fair value hierarchy.

NOTE 4 – COMMITMENTS

At June 30, 2019, the Fund has related outstanding project construction encumbrances as follows:

Project	Amount
South San José Substation	\$ 60,878

NOTE 5 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through October 15, 2019, the date the financial statements were available to be issued.

On July 9, 2019, the City sold Series 2019C Bonds for \$158,185,000 and Series 2019D Bonds for \$103,935,000 to refund Branch Library Bond Projects Funds, Parks and Recreation Bond Projects Fund and Neighborhood Security Bond Projects Funds. For the portion related the Neighborhood Security Projects Fund, under Measure O 2002, the bond proceeds will be dedicated to finance projects including rehabilitation of fire station. The Series 2019C Bonds were available for delivery through the facilities of DTC on July 25, 2019.

No other subsequent events have occurred that would have a material impact on the presentation of the Fund’s financial statements.

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
Statements of Revenues, Expenditures, and Change in Fund Balance by Fiscal Year
For the Period July 18, 2002 Through June 30, 2019

	2003	2004	2005	2006	2007	2008	2009
Revenues:							
Investment income	\$ 1,883,039	\$ (19,507)	\$ 975,304	\$ 2,457,695	\$ 2,971,704	\$ 4,480,517	\$ 1,575,558
Intergovernmental	15,985	-	3,516	23,277	-	53,345	-
Other	-	-	-	-	5,804	1,638	-
Total revenues	1,899,024	(19,507)	978,820	2,480,972	2,977,508	4,535,500	1,575,558
Expenditures:							
Capital outlay:							
West Community Policing Center	70,470	883,494	122,776	957,277	1,687	-	-
South San Jose Police Substation	179,540	377,820	348,739	9,735,667	2,574,867	14,304,632	36,082,247
Fire Station 12 - Relocation	29,754	26,897	92,201	440,270	1,169,548	2,062,278	667,871
Fire Station 34	103,094	42,250	186,697	479,074	5,519,245	429,302	8,486
Fire Station 35	54,999	30,810	178,582	542,443	4,034,453	1,744,558	1,054
Fire Station Upgrades	841,968	3,778,809	1,513,869	1,296,646	634,971	370,999	21,043
Fire Training Center	514,334	471,868	31,600	19,581	424,012	365,954	101,873
Land Acquisition - Fire Stations	12,319	1,807,683	837,322	71,578	1,628,273	1,244,849	678,057
Central Community Police Station							
Exterior Improvement	46,224	277,158	-	-	-	-	-
Fire Station 25 - Relocation	-	123,604	174,437	790,976	4,015,770	503,414	(8,277)
Fire Station 17 - Relocation	-	141,647	122,727	393,669	866,247	2,475,700	684,731
Fire Station 23 - Relocation	-	79,182	12,420	(885)	-	-	-
Driver Safety Training Center	-	277,353	784	60,652	106,955	234,180	1,491
Fire Station 36	-	34,524	32,919	101,540	170,186	525,454	488,177
Fire Station 2 - Rebuild	-	-	45,527	161,100	192,336	365,212	1,988,703
Fire Station 21	-	-	28,367	23,206	14,570	17,461	146,267
Fire Station 19 - Relocation	-	-	-	76,699	181,362	741,318	2,194,558
Fire Station 37	-	-	-	-	-	76,089	45,349
Fire Facilities Remediation	-	-	-	-	-	-	-
Emergency Communication and Dispatch Center	-	-	33,132	204,710	231,834	89,442	880,006
East Community Policing Center	-	-	-	10,662	34,189	5,406	-
Program-Wide Administration	337,602	599,688	765,881	491,705	505,100	579,748	441,865
Debt service:							
Arbitrage rebate payment	-	-	-	-	-	254,000	-
Total expenditures	2,190,304	8,952,787	4,527,980	15,856,570	22,305,605	26,389,996	44,423,501
Deficiency of revenues under expenditures	(291,280)	(8,972,294)	(3,549,160)	(13,375,598)	(19,328,097)	(21,854,496)	(42,847,943)
Other Financing Sources:							
Transfer out	-	-	-	-	-	-	-
Bond proceeds	39,375,000	-	39,400,000	-	67,900,000	-	9,000,000
Change in fund balance	39,083,720	(8,972,294)	35,850,840	(13,375,598)	48,571,903	(21,854,496)	(33,847,943)
Fund balance, beginning of period	-	39,083,720	30,111,426	65,962,266	52,586,668	101,158,571	79,304,075
Fund balance, end of period	\$ 39,083,720	\$ 30,111,426	\$ 65,962,266	\$ 52,586,668	\$ 101,158,571	\$ 79,304,075	\$ 45,456,132

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
Statements of Revenues, Expenditures, and Change in Fund Balance by Fiscal Year
For the Period July 18, 2002 Through June 30, 2019

	2010	2011	2012	2013	2014	2015	2016
Revenues:							
Investment income	\$ 373,090	\$ 100,409	\$ 53,152	\$ 33,799	\$ 16,699	\$ 13,860	\$ 11,588
Intergovernmental	471,321	44,851	-	250,000	-	-	-
Other	224	-	-	-	-	1,170,717	1,329,999
Total revenues	844,635	145,260	53,152	283,799	16,699	1,184,577	1,341,587
Expenditures:							
Capital outlay:							
West Community Policing Center	-	-	-	-	-	-	-
South San Jose Police Substation	19,919,027	2,954,253	987,371	96,995	207,779	285,821	301,129
Fire Station 12 - Relocation	239,355	-	7,429	-	-	-	-
Fire Station 34	-	-	-	-	-	-	-
Fire Station 35	-	-	-	-	-	-	-
Fire Station Upgrades	-	-	-	18,103	8,953	-	-
Fire Training Center	202,773	-	2,959	-	-	-	-
Land Acquisition - Fire Stations	-	3,470	-	-	-	-	-
Central Community Police Station							
Exterior Improvement	-	-	-	-	-	-	-
Fire Station 25 - Relocation	-	-	-	-	-	-	-
Fire Station 17 - Relocation	59,044	-	681	4,518	-	-	-
Fire Station 23 - Relocation	-	-	-	-	-	-	-
Driver Safety Training Center	-	-	-	-	-	-	-
Fire Station 36	684,950	2,770,694	2,870,789	301,107	322,833	-	-
Fire Station 2 - Rebuild	1,946,674	295,368	93,744	-	-	-	-
Fire Station 21	141,105	167,752	401,603	1,038,814	435,260	4,337,279	1,647,198
Fire Station 19 - Relocation	2,310,508	131,853	39,930	25,024	-	-	-
Fire Station 37	348,850	610,160	29,104	778	(5,000)	-	-
Fire Facilities Remediation	-	-	-	-	-	-	-
Emergency Communication and Dispatch Center	40,675	-	-	-	-	-	-
East Community Policing Center	-	-	-	-	-	-	-
Program-Wide Administration	377,131	354,053	264,400	133,204	7,500	5,075	-
Debt service:							
Arbitrage rebate payment	-	-	-	-	-	-	-
Total expenditures	26,270,092	7,287,603	4,698,010	1,618,543	977,325	4,628,175	1,948,327
Deficiency of revenues under expenditures	(25,425,457)	(7,142,343)	(4,644,858)	(1,334,744)	(960,626)	(3,443,598)	(606,740)
Other Financing Sources:							
Transfer out	-	-	-	-	-	-	-
Bond proceeds	-	-	-	-	-	-	-
Change in fund balance	(25,425,457)	(7,142,343)	(4,644,858)	(1,334,744)	(960,626)	(3,443,598)	(606,740)
Fund balance, beginning of period	45,456,132	20,030,675	12,888,332	8,243,474	6,908,730	5,948,104	2,504,506
Fund balance, end of period	\$ 20,030,675	\$ 12,888,332	\$ 8,243,474	\$ 6,908,730	\$ 5,948,104	\$ 2,504,506	\$ 1,897,766

(Continued)

CITY OF SAN JOSE
NEIGHBORHOOD SECURITY BOND PROJECTS FUND
(A Fund of the City of San José)
Statements of Revenues, Expenditures, and Change in Fund Balance by Fiscal Year
For the Period July 18, 2002 Through June 30, 2019

	(Unaudited)			
	2017	2018	2019	Total
Revenues:				
Investment income	\$ 3,971	\$ 16,019	\$ 7,806	\$ 14,954,703
Intergovernmental	-	-	-	862,295
Other	214,167	-	3,753	2,726,302
Total revenues	218,138	16,019	11,559	18,543,300
Expenditures:				
Capital outlay:				
West Community Policing Center	-	-	-	2,035,704
South San Jose Police Substation	-	-	-	88,355,887
Fire Station 12 - Relocation	-	-	-	4,735,603
Fire Station 34	-	-	-	6,768,148
Fire Station 35	-	-	-	6,586,899
Fire Station Upgrades	-	-	-	8,485,361
Fire Training Center	-	-	-	2,134,954
Land Acquisition - Fire Stations	-	-	-	6,283,551
Central Community Police Station				
Exterior Improvement	-	-	-	323,382
Fire Station 25 - Relocation	-	-	-	5,599,924
Fire Station 17 - Relocation	-	-	-	4,748,964
Fire Station 23 - Relocation	-	-	-	90,717
Driver Safety Training Center	-	-	-	681,415
Fire Station 36	-	-	-	8,303,173
Fire Station 2 - Rebuild	-	-	-	5,088,664
Fire Station 21	10,822	-	96,253	8,505,957
Fire Station 19 - Relocation	-	-	-	5,701,252
Fire Station 37	-	-	-	1,105,330
Fire Facilities Remediation	-	-	211,066	211,066
Emergency Communication and Dispatch Center	-	-	-	1,479,799
East Community Policing Center	-	-	-	50,257
Program-Wide Administration	-	-	-	4,862,952
Debt service:				
Arbitrage rebate payment	-	-	-	254,000
Total expenditures	10,822	-	307,319	172,392,959
Deficiency of revenues under expenditures	207,316	16,019	(295,760)	(153,849,659)
Other Financing Sources:				
Transfer out	(200,000)	-	-	(200,000)
Bond proceeds	-	-	-	155,675,000
Change in fund balance	7,316	16,019	(295,760)	1,625,341
Fund balance, beginning of period	1,897,766	1,905,082	1,921,101	-
Fund balance, end of period	\$ 1,905,082	\$ 1,921,101	\$ 1,625,341	\$ 1,625,341

(Concluded)

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

City Council and
Members of the Neighborhoods Commission
City of San José, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Neighborhood Security Bond Projects Fund (Fund), a fund of the City of San José (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over the Fund's financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
October 15, 2019



Independent Accountant's Report on Compliance with Measure O

City Council
Members of the Neighborhoods Commission
City of San José, California

We have examined the City of San José's (City) compliance with certain provisions of Measure O (2002) for the year ended June 30, 2019 as follows:

- Bond proceeds were used for the construction of fire and police stations, training facilities and 911 communications facilities and the cost of land acquisition for these improvements.
- Bond proceeds were deposited in a special account.
- A citizen's oversight committee was established and reviews annual reports of the expenditures of the bond proceeds.

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about the City's compliance with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about the City's compliance with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with the specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2019.

This report is intended solely for the information and use of the City Council, the Neighborhoods Commission, 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

Walnut Creek, California
October 15, 2019