

**CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)**

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

For the Year Ended June 30, 2022



Certified
Public
Accountants

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
For the Year Ended June 30, 2022

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Independent Auditor's Report

City Council and
Members of the Library Parcel Tax Oversight Committee
City of San José, California

Opinion

We have audited the financial statements of the Library Parcel Tax Fund (Fund), a fund of the City of San José (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund of the City of San José, as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

As discussed in Note 2, 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, 2022, the changes in its financial position, or where applicable, its cash flows 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.

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; and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Budgetary Basis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2022 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 the Fund's 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 the Fund's financial reporting and compliance.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California
November 4, 2022

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CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
Balance Sheet
June 30, 2022

Assets

Equity in pooled cash and investments held in the City Treasury	\$ 5,809,093
Accrued interest receivable	<u>5,755</u>
Total assets	<u><u>\$ 5,814,848</u></u>

Liabilities and Fund Balance

Liabilities:	
Accounts payable	\$ 79,123
Accrued salaries, wages and payroll taxes	<u>396,910</u>
Total liabilities	476,033
Fund balance:	
Restricted for neighborhood library services	<u>5,338,815</u>
Total liabilities and fund balance	<u><u>\$ 5,814,848</u></u>

See accompanying notes to the financial statements.

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND

(A Fund of the City of San José)

Statement of Revenues, Expenditures, and Change in Fund Balance

For the Year Ended June 30, 2022

Revenues:

Library parcel tax	\$ 10,075,288
Investment income	35,714
Unrealized gain/(loss) on investment	<u>(67,118)</u>
Total revenues	<u>10,043,884</u>

Expenditures:

Personal services	7,827,360
Materials acquisition	1,261,631
Non-personal services/equipment	1,819,439
Automation projects	485,216
Annual audit	<u>14,315</u>
Total expenditures	<u>11,407,961</u>

Other Financing Uses:

Transfers out	<u>(46,341)</u>
Change in fund balance	(1,410,418)
Fund balance, beginning of year	<u>6,749,233</u>
Fund balance, end of year	<u><u>\$ 5,338,815</u></u>

See accompanying notes to the financial statements.

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
Notes to the Financial Statements
For the Year Ended June 30, 2022

NOTE 1 – DESCRIPTION OF REPORTING ENTITY

In November 2004, registered voters of the City of San José (City) approved Measure S, a parcel tax for library specific purposes. The parcel tax replaced the ten-year Library Benefit Assessment District that ended on June 30, 2005. Beginning on July 1, 2005, the parcel tax is collected with the annual Santa Clara County property taxes for each fiscal year until June 30, 2018. In the June 2014 Primary Election, over 81.0% of San Jose voters approved continuing the Library Parcel Tax for an additional 25 years beginning with fiscal year 2015-2016. Proceeds from the library parcel tax may only be expended for library purposes, including the following:

- the acquisition of library books and materials and related costs to maintain library collections at all libraries;
- the development and delivery of homework and educational programs for all age groups to support literacy and lifelong learning;
- the repair, equipping, and staffing of libraries; and
- the cost of collection and administration of the library parcel tax.

The City Council may, by resolution of the City Council, increase the library parcel tax rates if the City Council finds that the cost of living in the City as shown on the Consumer Price Index (CPI) has increased over the preceding period. The increase in the library parcel tax rate shall not exceed the increase in the CPI for the applicable period, but in no event shall the increase exceed 3.0%. For the year ended June 30, 2022, the increase in the library parcel tax rate was 1.57%.

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 Library Parcel Tax Fund (Fund) and do not purport to, and do not, present fairly the City's financial position as of June 30, 2022, and the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A special revenue fund (governmental fund) is used to account for the City's library parcel tax activities. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Proceeds of specific revenue sources establish that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.

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

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

enough thereafter to pay liabilities of the current period. The Fund considers parcel tax (property tax) revenues and investment income to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to vacation, sick leave, claims and judgments are recorded only when payment is due.

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 Fund 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, 2022. Restricted fund balances are 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 – CASH AND INVESTMENTS

Cash and investments balances of the Fund are pooled and invested in the City's investment pool. The Fund's portion of this pool is displayed on the balance sheet as "equity in pooled cash and investments held in the City Treasury" and are subject to the requirements of the City's adopted investment policy. The amounts held in the City's investment pool can be withdrawn upon demand. Income earned or losses arising from pooled investments are allocated on a monthly basis by the City's Finance Department to the Fund based on the average daily cash balances. These investments are reported at fair value generally based on quoted market prices in the accompanying financial statements and the corresponding change in fair value of investments are reported in the year in which the change occurred.

At June 30, 2022, the City's investment pool invested in U.S. government and agency securities, commercial paper, negotiable certificates of deposit, money market funds, corporate medium-term notes, and California's Local Agency Investment Fund as authorized by the City's investment policy. The weighted average maturity of the City's investment pool is 533 days. Additional information regarding the characteristics of the City's entire investment pool can be found in the City's basic financial statements for the year ended June 30, 2022. 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>.

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2022

NOTE 4 – INTERGOVERNMENTAL EXPENDITURES

The City issued lease revenue bonds and commercial paper to pay for the City Hall construction costs. The Fund’s share of the debt service is calculated as a percentage of library staff occupying City Hall coupled with an estimated use of the Council Chambers and other City Hall offices and as a percentage of central services that benefit all departments. For the year ended June 30, 2022, the Fund’s share of the debt service paid to the City was \$46,341.

NOTE 5 – OTHER COMMITMENTS

At June 30, 2022, the Fund has outstanding encumbrances for the following activities:

Activity	Amounts
Materials acquisition	\$ 102,410
Non-personal services/equipment	190,161
Annual audit	15,013
Automation projects	68,077
Total encumbrances	\$ 375,661

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CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Budgetary Basis
For the Year Ended June 30, 2022

	Original Budget	Final Budget	Budgetary Basis Actual	Variance Over (Under)	GAAP Adjustments	GAAP Basis
Revenues:						
Library parcel tax	\$ 10,034,950	\$ 10,034,950	\$ 10,075,288	\$ 40,338	\$ -	\$ 10,075,288
Investment income/(losses)	-	-	35,714	35,714	-	35,714
Unrealized gain/(loss) on investment	100,000	100,000	(67,118)	(167,118)	-	(67,118)
Total revenues	<u>10,134,950</u>	<u>10,134,950</u>	<u>10,043,884</u>	<u>(91,066)</u>	<u>-</u>	<u>10,043,884</u>
Expenditures:						
Personal services	7,865,972	7,868,112	7,827,360	(40,752)	-	7,827,360
Materials acquisition	1,455,538	1,455,538	1,364,041	(91,497)	(102,410)	1,261,631
Non-personal services/equipment	2,122,518	2,122,518	2,009,600	(112,918)	(190,161)	1,819,439
Automation projects	-	-	553,293	553,293	(68,077)	485,216
Annual audit	17,000	17,000	29,328	12,328	(15,013)	14,315
Total expenditures	<u>11,461,028</u>	<u>11,463,168</u>	<u>11,783,622</u>	<u>320,454</u>	<u>(375,661)</u>	<u>11,407,961</u>
Excess of revenues over expenditures	(1,326,078)	(1,328,218)	(1,739,738)	(411,520)	375,661	(1,364,077)
Other financing uses:						
Transfer out	(46,341)	(46,341)	(46,341)	-	-	(46,341)
Change in fund balance	<u>\$ (1,372,419)</u>	<u>\$ (1,374,559)</u>	<u>(1,739,738)</u>	<u>\$ (411,520)</u>	<u>375,661</u>	<u>(1,410,418)</u>
Fund balance, beginning of year			5,740,673		-	6,749,233
Liquidation of prior year encumbrances			143,972		(143,972)	-
Fund balance, end of year			<u>\$ 4,144,907</u>		<u>\$ 231,689</u>	<u>\$ 5,338,815</u>

See accompanying note to the required supplementary information.

CITY OF SAN JOSE
LIBRARY PARCEL TAX FUND
(A Fund of the City of San José)
Note to the Required Supplementary Information
For the Year Ended June 30, 2022

Budgetary Information

The adopted budget represents the financial and organizational plan by which the policies and programs approved by the City Council will be implemented. It includes: (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation. Annual budgets are prepared for the Library Parcel Tax Fund.

The annual appropriation ordinance adopts the budget at the appropriation level by expenditure category (personal services, non-personal services) within departments. Accordingly, the lowest level of budgetary control exercised by the City Council is the appropriation level within a department.

Budgetary Results Reconciled to GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than the accounting principles generally accepted in the United States of America (GAAP) basis. The results of operations are presented in the accompanying budget and actual comparison schedule in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis are as follows:

- Certain accounts such as the change in fair value of investments included in the City's GAAP basis amounts, for which no formal budgets are prepared, are excluded from the budgetary basis comparison schedule.
- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis comparison schedule, while encumbered amounts are not recognized as expenditures on the GAAP basis until the equipment, supplies, or services are received.



**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 Library Parcel Tax Oversight Committee
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 Library Parcel Tax Fund (Fund), a fund of the City of San José (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2022.

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) as a basis for designing 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 a 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.

Report on 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 financial statements. 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
November 4, 2022



Independent Accountant's Report on Compliance with Measure S

City Council and
Members of the Library Parcel Tax Oversight Committee
City of San José, California

We have examined the City of San José's (City) compliance with certain provisions of Measure S for the year ended June 30, 2022 as follows:

- Parcel tax is used for the acquisition of library books and materials and related costs to maintain library collections at all libraries; the development and delivery of homework and educational programs for all age groups to support literacy and lifelong learning; the repair, equipping, and staffing of libraries; and the cost of collection and administration of the library parcel tax.
- The City's annual parcel tax, \$25 (2006 annual parcel tax) for single-family residences and proportional for other properties, will be adjusted for inflation capped at 3% annually and will be limited to ten years. In the June 2014 Primary Election, the City's voters approved to continue the Library Parcel Tax for an additional 25 years beginning fiscal year 2015-2016.
- Independent 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. Those standards require that we plan and perform the examination to obtain reasonable assurance whether the City complied with the specified requirements, in all material respects, with the specified requirements referenced above. 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, whether due to fraud or error. We believe the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

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, 2022.

Walnut Creek, California
November 4, 2022