CITY OF SAN JOSE, CALIFORNIA

Single Audit Reports

Basic Financial Statements with
Federal Compliance Section

For the Year Ended June 30, 2009

CITY OF SAN JOSE, CALIFORNIA

For the Year Ended June 30, 2009

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For the Year Ended June 30, 2009

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Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (the City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I.E. to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* on July 1, 2008.

As discussed in Note IV.D. to the financial statements, on July 24, 2009, the State of California passed legislation that will require payments totaling $75.0 million in property tax increment revenues to the Supplemental Educational Revenue Augmentation Fund on May 10, 2010 and May 10, 2011. A class-action lawsuit has been filed that includes a challenge to the constitutionality of the State's revenue shift. While the ultimate outcome of the lawsuit cannot presently be determined, if unsuccessful, the payments required under the State legislation are material and will require significant modifications to the San José Redevelopment Agency's operations and initiatives.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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; the schedules of revenues, expenditures, and changes in fund balances – budget and actual for the General Fund and the Housing Activities Fund; and the schedules of funding progress listed in the table of contents are not a required part of the basic financial statements but are 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 do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards and schedule of revenues and expenditures of passenger facility charges are presented for purposes of additional analysis as required by OMB Circular A-133 and the *Passenger Facility Charges Guide,* respectively, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
November 4, 2009

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview of the City of San José's activities and financial performance for the fiscal year ended June 30, 2009. We encourage readers to read the MD&A in conjunction with the basic financial statements that immediately follow it, with the letter of transmittal at the beginning of the Introductory Section, and with other portions of this Comprehensive Annual Financial Report. All amounts have been rounded to the nearest one hundred thousand dollars and one tenth of a percent.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities at June 30, 2009 by $6.416 billion (net assets). Of this amount, unrestricted net assets of $372.2 million may be used to meet the City's ongoing obligations to citizens and creditors. In addition, restricted net assets of $757.8 million are dedicated to specific purposes and $5.286 billion is invested in capital assets, net of related debt.
- Total net assets decreased by $376.5 million or 5.5 percent during 2008-2009 from $6.793 billion to $6.416 billion. Depreciation expense of $396.4 million accounts for this decrease. Excluding depreciation, net assets increased by $19.9 million.
- Governmental funds reported combined ending fund balances of $1.416 billion at June 30, 2009, which are $88.0 million or 5.9 percent less than the June 30, 2008 balances. Decreases in fund balances for the General Fund ($65.9 million), Special Assessment Districts ($5.5 million), and other nonmajor funds ($100.9 million) were offset by the fund balance increases of the Redevelopment Agency ($6.7 million), Housing Activities ($38.4 million) and San José Financing Authority Debt Service ($39.3 million). Unreserved fund balance comprises $678.5 million or 47.9 percent of combined governmental fund balances at June 30, 2009 and is available to meet the City's current and future spending needs at its discretion.
- Unreserved fund balance for the General Fund is $178.8 million at June 30, 2009 and represents 24.9 percent of total General Fund expenditures during 2008-2009.
- Total long-term obligations increased by $142.9 million during 2008-2009 to $5.272 billion at June 30, 2009, an increase of 2.8 percent over the amount at June 30, 2008. Primary factors leading to this increase during the year include the issuance of $117.3 million of Redevelopment Agency tax allocation bonds to finance multiple redevelopment projects within the San José Redevelopment Agency's Merged Area Redevelopment Project, an addition of a $50.0 million Bank of New York Housing Set-Aside Term Loan to finance affordable housing programs, and the issuance of $125.0 million of City of San José Financing Authority lease revenue bonds to refund prior bonds and commercial paper related to the Civic Center, Civic Center Garage, and the Ice Center Expansion projects. These additions to long-term debt were offset by $88.1 million of refunded City of San José Financing Authority lease revenue bonds and $88.8 million in principal reductions for governmental activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction to the City of San José's basic financial statements which are comprised of four components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements
- Required Supplementary Information

In addition, this report also contains other supplementary information.

Government-wide Financial Statements

Government-wide Financial Statements provide readers with a broad overview of the City of San José's finances in a manner similar to that of a private-sector business.

The ***statement of net assets*** presents information on all assets and liabilities and reports the difference between the two as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating.

The ***statement of activities*** presents information showing how the net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Examples include revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements address functions that principally are supported by taxes and intergovernmental revenues (*governmental activities)* and other functions that intend to recover all or in part a portion of their costs through user fees and charges (*business-type activities).* The governmental activities of the City of San José include general government, public safety, capital maintenance, community services, and sanitation. Its business-type activities include airport, wastewater treatment, water supply, and various parking management operations.

The government-wide financial statements include not only the primary government of the City of San José, but also a legally separate redevelopment agency and three legally separate financing authorities for which the City is financially accountable.

Fund Financial Statements

Fund Financial Statements report information about groupings of related accounts used to maintain control over resources segregated for specific activities or objectives. As do other state and local governments, the City of San José uses fund accounting to ensure and demonstrate finance-related legal compliance. Each City fund falls into one of three categories: *governmental funds*, *proprietary funds*, or *fiduciary funds*.

Governmental funds account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows* and *outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City of San José's capacity to finance its programs in the near future.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate comparison between *governmental funds* and *governmental activities.*

The governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances present information separately for the General Fund, Redevelopment Agency, Housing Activities, Special Assessment Districts, and the San José Financing Authority Debt Service, which are all classified as major funds. These statements also report several individual governmental funds classified as nonmajor funds such as special revenue, debt service, and capital projects funds which are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of San José adopts an annual appropriated budget for its General Fund and Housing Activities. This report includes budgetary comparison statements to demonstrate compliance with these budgets.

Proprietary funds generally account for services charged to external or internal customers through fees. Proprietary funds provide the same type of information as shown in the government-wide financial statements for *business-type activities*, only in more detail. The City of San José accounts for its airport, wastewater treatment, water supply, and parking management operations in proprietary funds.

Fiduciary funds account for resources held for the benefit of City of San José employees and outside parties in a similar manner as that for proprietary funds. Pension plan trust funds, private purpose trust funds, and agency funds are reported as fiduciary funds. The government-wide financial statements do not include fiduciary funds as their resources are not available to support City of San José programs.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information includes the budgetary schedules for General Fund and Housing Activities. In addition, pension and other postemployment healthcare schedules present the City of San José's progress towards funding its obligation to provide future pension and other postemployment healthcare benefits for its active and retired employees.

Combining and individual fund statements and schedules referred to earlier provide information for nonmajor governmental funds and fiduciary funds and are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of net assets: As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City of San José, assets exceeded liabilities by $6.416 billion at the June 30, 2009 close of the current fiscal year.

The following table is a condensed summary of the City's net assets for governmental and business-type activities:

Statement of Net Assets
June 30, 2009 and 2008
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008
Assets:						
Current and other assets........ $	1,844,380	1,951,906	990,886	1,112,121	2,835,266	3,064,027
Capital assets......................	7,631,580	7,806,763	1,941,182	1,621,811	9,572,762	9,428,574
Total assets................	9,475,960	9,758,669	2,932,068	2,733,932	12,408,028	12,492,601
Liabilities:						
Current and other liabilities.....	293,019	301,689	426,657	268,948	719,676	570,637
Long-term liabilities...............	4,095,351	3,929,063	1,176,719	1,200,114	5,272,070	5,129,177
Total liabilities.............	4,388,370	4,230,752	1,603,376	1,469,062	5,991,746	5,699,814
Net assets:						
Invested in capital assets, net of related debt............	4,400,552	4,769,191	885,744	823,223	5,286,296	5,592,414
Restricted net assets............	654,124	662,863	103,694	160,153	757,818	823,016
Unrestricted net assets..........	32,914	95,863	339,254	281,494	372,168	377,357
Total net assets........... $	5,087,590	5,527,917	1,328,692	1,264,870	6,416,282	6,792,787

At June 30, 2009, the City of San José reported positive balances in all three categories of net assets.

At $5.286 billion, investment in capital assets (infrastructure, land, buildings, other improvements, vehicles, and equipment, less outstanding debt used to acquire them) comprise 82.4 percent of the City of San José's total net assets. Since these assets are not liquid and they provide services to citizens, they are not available for future spending.

Of the total net assets, $372.2 million or 5.8 percent represents unrestricted net assets available for meeting the City's ongoing obligations to citizens and creditors. Governmental activities show a balance of $32.9 million in unrestricted net assets and business-type activities show a balance of $339.3 million. An additional portion of the City's net assets representing $757.8 million or 11.8 percent of the total are subject to legal restrictions on their use.

During 2008-2009, the City of San José's total net assets decreased by $376.5 million or 5.5 percent. Although the increase in City expenses is only 4.5% this year, compared to 8.3% in the prior year, the unprecedented downturn in the economy has resulted in declining revenues that were not able to keep pace with the increase in expenses.

Notable changes in the statement of net assets between June 30, 2009 and June 30, 2008 include:

- Capital assets increased by $144.2 million or 1.5 percent compared to the prior fiscal year. Governmental capital assets decreased by $175.2 million, but were offset by an increase in business-type capital assets of $319.4 million. The decrease in governmental capital assets resulted from asset additions of $186.0 million less $350.2 million in depreciation expense for major infrastructure and other assets and asset deletions of $10.9 million. The increase in business-type capital assets was due primarily to the continued Norman Y. Mineta San José International Airport (Airport) expansion construction projects in the amount of $344.2 million which was partially offset by business-type activities depreciation expense of $46.2 million.

- Current and other assets decreased by $228.8 million or 7.5 percent due to a $107.5 million decrease for governmental activities and a $121.2 million decrease for business-type activities. The decreases primarily resulted from reduced cash balances as governmental activities bond proceeds were spent on parks, libraries, and public safety bond projects, and business-type activities bond proceeds were spent on the Airport's expansion construction projects.

- Long-term liabilities increased by a net amount of $142.9 million or 2.8 percent principally due to the issuance of Redevelopment Agency tax allocation bonds to finance redevelopment projects, City of San José General Obligation Bonds to improve public safety, and San José Financing Authority Lease Revenue Bonds to refund prior bonds and commercial paper related to the Civic Center, Civic Center Garage and Ice Center Expansion project. In addition, the Redevelopment Agency had an addition of $50.0 million Housing Set-Aside Term Loan to finance affordable housing programs.

- Current and other liabilities for the City increased by $149.0 million or 26.1 percent. This increase was primarily due to $137.3 million increase in business type short term commercial paper, and accounts payable of $16.0 million mainly in connection with the Airport expansion project. In addition, other increases include accrued liabilities for year-end accrual of salaries and wages payable of $12.2 million, unearned revenue of $9.8 million mainly related to receipt of unearned sales taxes, interest payable of $7.8 million related to increases in outstanding debt, and due to outside agencies of $7.7 million representing an increase in tax increments due from the Redevelopment Agency to the County of Santa Clara. Total increases were offset by a $36.2 million reduction in governmental short-term commercial paper which was refinanced by the issuance of City of San José Financing Authority Series 2008B Bonds and miscellaneous decreases in advances, deposits, and reimbursable credits and other liabilities of $5.8 million.

- Unrestricted net assets for governmental activities decreased by $62.9 million or 65.7 percent resulting in a $32.9 million unrestricted net assets balance at year-end. A significant part of this reduction in unrestricted net assets is the result of the continued recognition of the City's net other postemployment benefit obligation (NOPEBO) that reduced net assets by an additional $52.6 million in 2009 after recording an initial NOPEBO of $66.7 million in the prior year.

Analysis of activities: The following table indicates the changes in net assets for governmental and business-type activities:

Statement of Activities
For the Years Ended June 30, 2009 and 2008
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008
Revenues:						
Program revenues:						
Fees, fines, and charges for services........... $	297,788	325,853	327,374	303,480	625,162	629,333
Operating grants and contributions...............	115,965	94,357	9,326	8,444	125,291	102,801
Capital grants and contributions...................	26,306	48,075	18,618	9,162	44,924	57,237
General revenues:						
Property taxes...	507,273	495,731	-	-	507,273	495,731
Utility taxes...	93,619	82,255	-	-	93,619	82,255
Franchise fees...	41,067	41,064	-	-	41,067	41,064
Transient occupancy taxes..........................	19,261	23,900	-	-	19,261	23,900
Sales taxes shared revenue........................	127,802	149,500	-	-	127,802	149,500
State of California in-lieu............................	8,839	9,244	-	-	8,839	9,244
Business license tax.................................	38,597	39,901	-	-	38,597	39,901
Unrestricted interest and investment earnings.	34,092	65,721	18,434	29,232	52,526	94,953
Other revenue...	40,372	53,420	-	-	40,372	53,420
Total revenues......................................	1,350,981	1,429,021	373,752	350,318	1,724,733	1,779,339
Expenses:						
General government.................................	172,077	142,886	-	-	172,077	142,886
Public safety...	463,196	476,570	-	-	463,196	476,570
Capital maintenance.................................	595,547	569,636	-	-	595,547	569,636
Community services.................................	276,396	211,511	-	-	276,396	211,511
Sanitation...	122,705	113,525	-	-	122,705	113,525
Interest and fiscal charges..........................	166,672	170,852	-	-	166,672	170,852
Norman Y. Mineta San José International Airport...	-	-	140,641	153,927	140,641	153,927
Wastewater Treatment System....................	-	-	126,788	134,882	126,788	134,882
Municipal Water System............................	-	-	25,416	26,017	25,416	26,017
Parking System.......................................	-	-	11,800	10,127	11,800	10,127
Total expenses.....................................	1,796,593	1,684,980	304,645	324,953	2,101,238	2,009,933
Excess (deficiency) before transfers	(445,612)	(255,959)	69,107	25,365	(376,505)	(230,594)
Transfers..	5,285	9,383	(5,285)	(9,383)	-	-
Change in net assets.............................	(440,327)	(246,576)	63,822	15,982	(376,505)	(230,594)
Net assets at beginning of year	5,527,917	5,774,493	1,264,870	1,248,888	6,792,787	7,023,381
Net assets at end of year........................... $	5,087,590	5,527,917	1,328,692	1,264,870	6,416,282	6,792,787

Governmental activities: Net assets for governmental activities decreased by $440.3 million or 8.0 percent during 2008-2009 from $5.528 billion to $5.088 billion. Total revenues decreased at a rate of 5.5 percent compared to expenses increasing at a rate of 6.6 percent. During 2007-2008, revenues and expenses increased at rates of 9.1 percent and 7.1 percent, respectively.

Significant elements of the decrease in net assets for governmental activities from June 30, 2008 to June 30, 2009 are as follows:

- Contributing to the decrease in total revenues, Capital grants and contributions decreased by $21.8 million or 45.3 percent principally due to a reduction of capital donations from developers. Operating Grants and Contributions, on the other hand, increased by $21.6 million or 22.9 percent primarily due to increases in State and Federal grants for street maintenance, recognition of developer parkland in-lieu fees, and developer revenue from low-income housing projects. Fees, fines and charges for services also decreased by $28.1 million or 8.6 percent due principally to reduced interest income on developer loans and lower developer in-lieu fees, plus the passage of Measure J, which ended the Emergency Communications System Support Fee (ECSS) and replaced it with a telephone line tax that is now classified as a general revenue.

- The overall decrease in interest and investment earnings of $31.6 million or 48.1 percent was due to lower cash balances combined with a lower interest yield. The pre-payment of the City's contribution to its two retirement plans in August 2008 along with a drop in revenues and an increase in expenditures during 2008-2009 resulted in a significantly lower cash balance. The City's annualized investment interest yield for the General Fund also dropped from 4.1 percent as of June 30, 2008 to 2.7 percent as of June 30, 2009, reflecting the lower interest rate environment experienced during the year.

- Due to lower consumer spending habits, sales taxes decreased significantly by $21.7 million or 14.5 percent from the previous year and a loss of businesses due to the economic downturn resulted in a decrease of $1.3 million or 3.3 percent in business license tax revenues. In addition, transient occupancy tax decreased $4.6 million or 19.4 percent. The 2008-2009 Adopted Budget assumed a $14.9 million or 4% increase in transient occupancy tax, however actual revenues ended the year approximately 20% below the 2007-2008 collection level. For the fourteen largest hotels, the average room rate fell from $142 to $130, and the occupancy rate fell from 62.1% to 53.8%. Other revenue experienced a decrease of $13.0 million or 24.4 percent primarily due to a reduction of housing development in the City and the resultant decrease in developer in-lieu fees and one-time revenue received in the prior year for the Redevelopment Agency's share in refinancing of a hotel development loan.

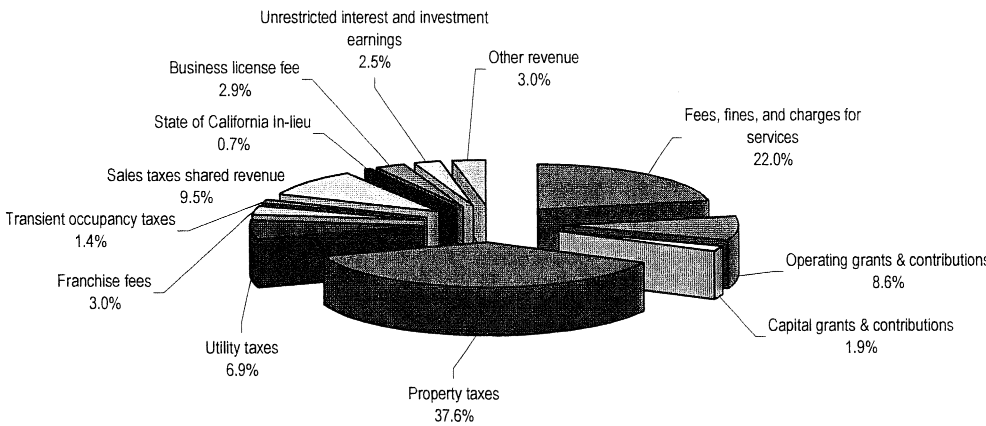
- General government expenses increased by $29.2 million or 20.4 percent between years primarily due to a $12.2 million increase in the City's underfunding of the current year other postemployment benefits annual required contribution ($19.3 million) compared to the prior year unfunded liability contribution ($7.1 million), and increases in General Fund expenditures as explained in more detail in the governmental section later in this document ($17.0 million).

- Public Safety expenses decreased by $13.4 million or 2.8 percent between years primarily due to a $33.8 million current year expense for other postemployment benefits annual required contributions compared to the prior year expense of $50.7 million. This $16.9 million decrease in expense for other postemployment benefits annual required contributions was somewhat offset by a $3.5 million increase in Public Safety expenditures primarily reflecting higher wage and benefits costs.

- Community services expenses increased by $64.9 million or 30.7 percent due mainly to a $46.1 million increase in the loan loss reserve for receivables from developers of various housing projects in the current year compared to a prior year decrease in the loan loss reserve of $16.7 million.

- Depreciation expense for infrastructure and other capital assets was $350.2 million, an increase of 1.3 percent.
- Somewhat offsetting these decreases was an increase in Property tax revenue of $11.5 million or 2.3 percent due to modest growth in secured property tax assessments related to both the residential and commercial sectors, and an increase in utility taxes of $11.4 million primarily due to the recharacterization of the ECSS fee to a telephone line tax as mentioned above.

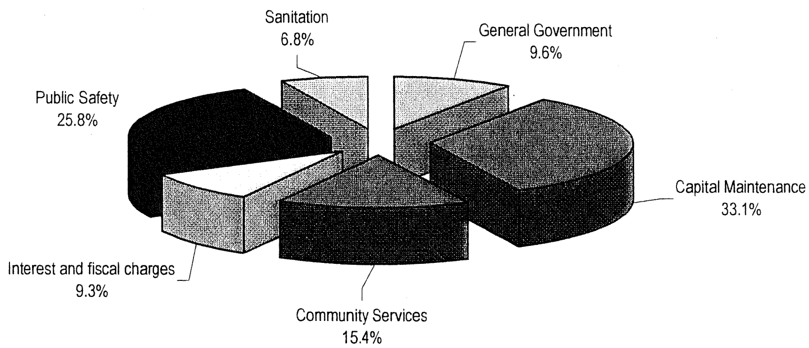
Revenues 2009



The chart above shows the principal components of 2008-2009 revenue sources for governmental activities. Of the $1.351 billion in total revenues generated by governmental activities, 69.1 percent is attributable to three categories: property taxes (37.6 percent); fees, fines, and charges for services (22.0 percent); and sales taxes (9.5 percent). Although the overall percentage of revenues to total revenues for these categories is somewhat consistent with 2007-2008 (68.0 percent), the individual categories experienced mixed results in 2009. While fees, fines, and charges for services remained relatively stable as a percent of total revenues, Property taxes increased 2.9 percent, from 34.7 percent in 2007-2008 to 37.6 percent in 2008-2009, and sales taxes decreased 1.0 percent, from 10.5 percent in 2007-2008 to 9.5 percent in 2008-2009.

The chart on the following page shows the principal categories of 2008-2009 expenses for governmental activities. Of the $1.796 billion in total expenses generated by governmental activities, the categories accounting for 74.3 percent of the total are: capital maintenance (33.1 percent); public safety (25.8 percent); and community services (15.4 percent). Public safety's percentage of overall expenses declined from 28.3 percent in 2007-2008 to 25.8 percent in 2008-2009 due mainly to the lower expense for net other Postemployment benefits contributions of $33.8 million as compared to the $50.7 million expense for the contributions in 2007-2008. Expenses for community services increased by 2.8 percent from the prior year mainly due to a $46.1 million increase in the loan loss reserve for receivables from developers of various housing projects in the current year compared to a prior year decrease in the loan loss reserve of $16.7 million.

Expenses 2009



Business-type activities: Business-type activities net assets increased by $63.8 million or 5.0 percent to $1.329 billion during 2008-2009.

The notable components of the increase in net assets for business-type activities during 2008-2009 are:

- The Norman Y. Mineta San José International Airport (Airport) net assets increased by $24.2 million or 5.6 percent. The Airport incurred an operating loss of $9.8 million in 2008-2009, a decrease of $17.6 million or 64.3 percent compared to the 2007-2008 loss of $27.3 million. Despite the decline in passenger traffic, operating revenues increased by $1.1 million or .9 percent reflecting higher rental and concessions revenue as a result of rate increases. Overall operating expenses of $125.7 million in 2008-2009 were 11.6 percent lower compared to 2007-2008, highlighted by a $9.8 million decrease in operating and maintenance costs due to a lower allocation of other postemployment benefits (OPEB) expenses and a decrease in expenses pertaining to the noise attenuation program. Although there was a slight increase in personnel expenses, it was mitigated by the elimination of 51 positions at mid year. Nonoperating revenues exceeded nonoperating expenses in 2008-2009 by $20.9 million, a decrease of $14.9 million or 41.7 percent from 2007-2008. The net decrease is mainly due to a decrease in investment income of $7.3 million, which is due to the decrease in market interest rate in the current year. The results of operations reflects the combined effect of three years of continued enplanement decreases and potential for further erosion of air service and weakness in concession revenue that could further pressure the Airport's cost profile going forward.

- Wastewater Treatment System net assets increased by $40.5 million or 6.1 percent from $662.1 million to $702.6 million. Operating revenues increased $26.3 million or 21.0 percent from $125.1 million in 2007-2008 to $151.4 million in 2008-2009 primarily due to a 15% sewer rate increase, effective July1, 2008, and increased contributions from the City of Santa Clara and participating agencies to the Treatment Plant's costs. Total operating expenses decreased by $8.2 million or 6.2 percent primarily due to recording lower OPEB expense in the current year than was recorded in the prior year. Net nonoperating revenues decreased by $2.7 million attributable primarily to a decrease in interest and investment earnings. Capital contributions increased by $1.3 million mainly due to an increase in the U.S. Bureau of Reclamation grants for construction of wastewater recycling activities. Transfers-out of $4.2 million in 2008-2009 consisted primarily of transfers to the General Fund for in-lieu taxes and City Hall debt service payments.

- Municipal Water System net assets increased by $0.3 million or 0.4 percent from $82.4 million to $82.7 million. Operating revenues of $25.8 million increased by $1.7 million or 7.2 percent from $24.0 million due mainly to a nearly 9% potable and recycled water sales revenue index rate increase effective July 1, 2008. In addition, operating expenses of $25.3 million decreased $.6 million or 2.1 percent from $25.8 million primarily due to lower operations and maintenance costs as a result of a reduction in program expenditures attributed to economic factors.

- Parking System net assets decreased by $1.2 million or 1.3 percent from $91.7 million to $90.5 million. Operating revenues decreased slightly by $.076 million or .7 percent due primarily to lower activity at parking facilities as a result of the economic downturn. Operating expenses increased by $1.7 million or 16.5 percent reflecting higher operations and maintenance costs and increased staffing costs due to the filling of vacant positions.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses ***fund accounting*** to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The City of San José's governmental funds provide information about near-term inflows, outflows, and resources balances available for spending. Such information is useful in assessing the City's financial requirements for its programs and activities. In particular, unreserved fund balance at the fiscal year end may serve as a useful measure of a government's capacity for spending in future years. Governmental funds reported by the City of San José include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

As of June 30, 2009, the City's governmental funds reported combined fund balances of $1.416 billion, a decrease of $88.0 million or 5.9 percent compared to the balance at June 30, 2008. Unreserved *fund balance* at $678.5 million constitutes 47.9 percent of the combined balances and is available for spending at the City's discretion. The $737.3 million remainder of the governmental fund balances is *reserved* to indicate that it is *not* available for new spending because the following portions have been committed to particular purposes:

- $321.3 million for advances, loans, and other assets that are long-term in nature and thus do not represent currently available resources;
- $213.0 million for contractual commitments of 2008-2009 carried into fiscal year 2009-2010;
- $202.4 million for debt service payable in fiscal year 2009-2010;
- $0.6 million for restricted cash commitments.

Revenues and other financing sources for governmental functions totaled approximately $2.030 billion in 2008-2009, a decrease of $76.5 million or 3.8 percent from 2007-2008 primarily due to lower proceeds from long-term debt, a significant reduction in investment income due to reduced interest rates, and lower sales tax collections.

General Fund: The General Fund is the chief operating fund of the City of San José. At June 30, 2009, its unreserved fund balance is $178.8 million or 84.7 percent of the $211.2 million total General Fund balance. Comparing both unreserved fund balance and total fund balance to total fund expenditures may be useful as a measure of the General Fund's capacity to liquidate future obligations. At June 30, 2009, unreserved fund balance represents 24.9 percent of total General Fund expenditures of $719.4 million, while total fund balance represents 29.4 percent. This measure of financial health shows a decline from the prior fiscal year. At June 30, 2008, the same measures were 32.7 percent and 39.6 percent respectively of $699.1 million in 2007-2008 expenditures.

As anticipated at the beginning of the year, key revenue sources in 2008-09 were not sufficient to meet all expenditure obligations. However, the use of reserves and one-time revenues offset by net transfers into the General Fund resulted in a $65.9 million or 23.8 percent decrease to the General Fund ending fund balance during 2008-2009.

In 2008-2009, General Fund revenues of $663.1 million were $31.3 million or 4.5 percent lower than 2007-2008 revenues of $694.4 million. General Fund revenue declined across all categories with the exception of a $3.6 million increase in intergovernmental revenue, which increased due to a slight increase in grants and reimbursement revenues principally related to a State grant for the Literacy, Enrichment, Art, Recreation, Nurture and Students (LEARNS) after school programs, State reimbursements for fire strike teams expenditures, and federal super urban area security initiative funding for the Interoperable communications system project set to replace the City's existing emergency dispatch analog communication system with a new digital microwave system. The largest decrease was in the interest and other income categories ($21.5 million) due primarily to a significant decrease in investment income ($18.6 million) from decreasing interest rates and lower cash balances combined with various miscellaneous decreases ($2.9 million). Taxes and Special Assessments revenue decreased by $5.7 million primarily due to an on-going decline in General and Proposition 172 sales tax collections ($21.7 million) that were particular impacted during the second half of the year, transient occupancy tax collections ($1.8 million), and motor vehicle in-lieu fees ($0.4 million) due the continuing economic downturn, somewhat offset by an increase in property taxes ($7.1 million), utility taxes ($3.5 million), and receipts from the recently approved Measure J telephone line tax ($7.9 million). Licenses and permits declined $5.4 million primarily due to lower collections of building permits ($2.2 million) due to the economic downturn, a decrease in Disposal Facility taxes ($1.7 million) and decreases in other miscellaneous fines ($1.5 million). In addition, charges for services decreased $2.4 million primarily due to lower fees and charges for planning and building, transportation and public works developer fees ($3.6 million) offset by a $1.3 million increase from the newly implemented business tax administrative fees.

General Fund expenditures of $719.4 million in 2008-2009 were $20.4 million or 2.9 percent higher than 2007-2008 expenditures of $699.1 million. The increase in expenditures was mainly due to increases in general government expenditures of $11.6 million primarily from increased workers' compensation claims ($2.4 million) and retirement payouts ($4.8 million) as well as increased costs in the City Clerk's Office for the November elections ($1.3 million) and miscellaneous other expenditures ($3.1 million) consisting principally of increases in expenditures for public and educational access cable programming services, and the City's comprehensive General Plan update. Public safety expenditures increased $2.8 million because of higher wage, pension, healthcare and benefit costs. Capital maintenance expenditures increased by $2.8 million primarily due to increases in the COPS Interoperable Communications grant expenditures. Infrastructure and fixed asset capital outlay expenditures increased $3.8 million primarily for fire apparatus replacement. Slightly offsetting these increases was a $2.9 million decrease in community services expenditures primarily related to a reduction in planning and building department staffing due to the downturn in the housing market.

Redevelopment fund: The Redevelopment Agency (Agency) fund accounts for the activities of the Redevelopment Agency of the City of San Josė that redevelops and upgrades blighted areas. Fund balance for the Agency's governmental funds increased $6.7 million or 3.2 percent to $213.8 million at June 30, 2009. A deficit of expenditures over revenues of $81.3 million was offset by other financing sources (net) of $88.0 million.

The following are some of the highlights for the Agency:

- Revenues increased by $2.6 million or 1.2 percent to $212.8 million from $210.2 million in the prior fiscal year. This increase is due to a $17.4 million increase in tax increment revenue, attributable mainly to increased commercial and industrial property values netted by a decrease in intergovernmental revenue ($1.5 million), rental income ($.5 million), investment income ($4.4 million) and other revenue ($8.4 million).

- Expenditures decreased $3.4 million, or 1.1 percent from the prior fiscal year primarily due to lower capital outlay costs incurred for the City's parking garages in downtown San Josė.

- Other financing sources decreased $84.2 million over other financing sources of $172.2 million in 2007-2008. The primary decrease is a result of lower bond proceeds of $117.3 million in 2008-2009 compared to $213.0 million in 2007-2008.

Additional information about the Agency's finances appears in their separately issued financial statements.

Housing fund: The Housing Activities fund accounts for the City of San José's commitment to providing low and moderate income residents with a diverse range of safe, decent, and affordable housing opportunities. Objectives include preserving the existing affordable housing stock, increasing the supply of affordable housing, and providing services to homeless and at-risk populations. Redevelopment Agency tax allocation bonds and 20 percent of the gross property tax increment provide the fund's primary resources. As required by California State law, the tax increment revenue is used solely for affordable housing. In addition, Housing funds receive resources from U.S. Department of Housing and Urban Development and California Department of Housing and Community Development. The fund's loans receivable balance (net) which represents loans to developers of various affordable housing projects and First Time Home Buyers increased during the current year by $22.7 million or 8.4 percent to $290.9 million at June 30, 2009 due to an increase in loans to developers for various projects including the First Rosemary Sr., First Rosemary Family, Brookwood, Cornerstone at Japan town, McCreery Courtyards, North Fourth Street, Orvieto, and King Crossing housing projects, and a increase in the valuation allowance in the Housing Activities Fund based on the City's review of the valuation accounts.

Total expenditures increased by $55.9 million to $57.6 million from $1.7 million in the prior fiscal year, which is primarily due to an adjustment in the prior year that reduced the Housing loan loss reserve as compared to an increase in the loan loss reserve in the current year.

Special Assessment Districts fund: The Special Assessment Districts fund accounts for debt issuance and capital improvements related to the specific purposes of seven special assessment and community facilities districts located in different parts of the City of San José. A total of $64.9 million in special assessment debt outstanding at June 30, 2009 is secured by special assessments or taxes charged to owners' real property in the district issuing the debt. The City of San José is not obligated to cure any deficiency or redeem any debt of special assessment districts. However, the City may voluntarily choose to cure a deficiency at its sole discretion. There was no new special assessment debt issued during 2008-2009.

Total expenditures increased by $4.7 million or 58.9 percent to $12.7 million from $8.0 million in the prior fiscal year. This increase is primarily due to $2.1 million reimbursement of development costs to the developers of the Evergreen Specific Plan Property Ownership Partnership.

Financing Authority fund: The City of San José Financing Authority Debt Service fund accounts for the issuance of commercial paper notes secured by lease revenues as a mechanism for financing City of San José public improvements such as the offsite parking garage for City Hall, Phase II improvements of the City's Central Service Yard, non-construction costs for technology, furniture, equipment and relocation services at City Hall, capital improvements at the City's HP Pavilion, and procuring the consolidated utility billing system. The amount of commercial paper notes outstanding decreased from $83.8 million on June 30, 2008 to $47.6 million on June 30, 2009, a net decrease of $36.2 million or 43.2 percent primarily due to the issuance of the City of San José Financing Authority Lease Revenue Bonds, Series 2008B, to redeem $36.6 million of commercial paper notes.

Other financing sources increased by a net $27.4 million or 47.9 percent to $84.5 million. This net difference is the result of a $10.5 million decrease in transfers-in and refunding bonds issued, more than offset by a $37.9 million decrease in transfers-out and payments to refunding bond escrow agents.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. At June 30, 2009, the unrestricted net assets were $120.6 million for the Norman Y. Mineta San José International Airport, $188.4 million for the

Wastewater Treatment System, $9.1 million for the Municipal Water System and $21.2 million for the Parking System. Net assets for proprietary funds grew from $1.265 billion at June 30, 2008 to $1.329 billion at June 30, 2009, an increase of $63.8 million or 5.0 percent.

In an updated report released September 14, 2009, Fitch Ratings downgraded the rating on $1.04 billion of the City of San José' Airport Revenue Bonds from 'A+' to 'A-' (two rating notches). The rating outlook on the bonds remains negative. The downgrade reflects the combined effect of three years of continued enplanement losses that were beyond Fitch's prior expectation and a doubling of the airport's overall debt for the Terminal Area Improvement Plan (TAIP). According to the Fitch Ratings, the negative outlook reflects the potential for further erosion of air service and weakness in concession revenue that could further pressure the airport's cost profile going forward.

Other aspects of proprietary fund activities are discussed in the business-type activities section above.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City of San José charter requires staff to submit operating and capital budgets to the City Council prior to the beginning of a new fiscal year that begins each July 1 and ends on the following June 30. Council approved the 2009-2010 budgets in June 2009. The City is at the end of its *Decade of Investment*, which is transforming much of the City's infrastructure. Major improvements continue in the City's parks, community centers, libraries and public safety facilities and as a result, the City is continuing to dedicate significant resources towards addressing critical service and infrastructure needs in the 2009-2010 budgets.

During the fiscal year ended June 30, 2009, there was a $0.1 million decrease in budgeted revenues between the original and final amended operating budget for the General Fund. The decrease reflected the lower expectations in economically sensitive revenues, such as sales taxes and interest income, due to the downturn in the economy.

In addition, there was a $3.4 million decrease in appropriations between the original and final amended operating budget for the General Fund. Following are the main components of the net decrease:

- A supplemental appropriation of $12.1 million to Public Safety that included increases related to the establishment of a new agreement with the San José Police Officers' Association.
- A supplemental appropriation of $1.6 million increase for Sanitation to provide funding to public school districts that have waste reduction and recycling cooperation agreements with the City.
- A supplemental appropriation of $13.4 million for Capital Maintenance that included decreases related to street maintenance repairs and resurfacing, and traffic calming.
- A supplemental appropriation of $3.1 million decrease for General Government primarily reflecting a decrease in the FMC Debt Service appropriation due to a reduction in debt service payments as a result of the refunding of the related City of San José Financing Authority Lease Revenue Bonds.
- A supplemental appropriation of $0.6 million decrease for Community Services due to recognition of departmental staffing savings.

Actual budgetary basis expenditures of $746.1 million were $68.2 million less than the amended budget and $71.6 million less than the original budget. Savings were experienced over all expenditure categories.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of San José's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities together amounted to $9.573 billion at June 30, 2009. This investment includes land, infrastructure, structures and improvements, vehicles, equipment, intangible assets, and construction-in-progress. The City of San José's decision to depreciate infrastructure capital assets results in recording a large non-cash depreciation expense each year that offsets additions to capital assets. The result of the new additions less depreciation expense during 2008-2009 yielded a $175.2. million decrease in governmental activities net capital assets offset by a $319.4 million increase in business-type activities net capital assets resulting in an overall increase of $144.2 million or 1.5 percent in net capital asset balances between June 30, 2008 and June 30, 2009.

Total construction-in-progress increased $364.1 million or 48.1 percent from $756.7 million at June 30, 2008 to $1.121 billion at June 30, 2009. The governmental activities' portion of construction-in-progress increased $112.2 million mainly related to continued work on Parks, Libraries, and Public Safety projects. Business-type activities contributed a net increase of $252.0 million to construction-in–progress due to the on-going Airport expansion ($324.2 million), offset by decreases to the Municipal Water System ($1.0 million) and the Wastewater Systems ($71.3 million) capital projects. Outstanding commitments related to construction-in-progress at June 30, 2009 totaled $67.6 million and $359.0 million for governmental and business-type activities, respectively.

The City of San José records infrastructure assets at historical cost in the government-wide financial statements and depreciates assets from acquisition date to the end of the current fiscal year as required by GASB Statement No. 34. For governmental fund financial statements recording purposes, capital asset purchases are recorded as expenditures, rather than capitalizing and recording related depreciation. Capital assets, net of depreciation, for governmental and business-type activities in the government-wide financial statements are presented below to illustrate changes between June 30, 2008 and June 30, 2009 (in thousands):

	Governmental activities		Business-type activities		Total		Increase/ (Decrease)
	2009	2008	2009	2008	2009	2008	Percent of Change
Land	$ 561,258	559,825	134,926	134,926	696,184	694,751	0.2%
Construction in progress	252,661	140,489	868,141	616,188	1,120,802	756,677	48.1%
Buildings	989,452	997,119	371,470	328,641	1,360,922	1,325,760	2.7%
Improvements, other than buildings	120,828	121,308	491,960	490,012	612,788	611,320	0.2%
Infrastructure	5,667,443	5,949,391	-	-	5,667,443	5,949,391	(4.7)%
Furniture and fixtures, vehicles, equipment	38,864	37,364	64,633	41,214	103,497	78,578	31.7%
Intangible assets	-	-	7,253	7,577	7,253	7,577	(4.3)%
Property under capital leases	1,074	1,267	2,799	3,253	3,873	4,520	(14.3)%
Total capital assets	$ 7,631,580	7,806,763	1,941,182	1,621,811	9,572,762	9,428,574	1.5%

Additional information about the City's capital assets can be found in Note III.D to the financial statements.

General Fund Bonded Debt Limit

The City of San José Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value on the City's 2008-2009 tax roll was $129.020 billion, which results in a net total debt capacity of $18.834 billion. As of June 30, 2009, the City had $519.3 million of General Obligation bonds outstanding.

General Obligation Bond Rating

During May 2009, the City received confirmation of its general obligation bond ratings from the three major rating agencies: Aa1 from Moody's Investors Service; AAA from Standard & Poor's; and AA+ from Fitch Ratings. San José remains the highest rated large city (with populations over 250,000) within the State of California.

Outstanding Debt

The City's debt service obligations include general obligation bonds, revenue bonds, lease revenue bonds, special assessment bonds, and Redevelopment Agency tax allocation bonds.

At June 30, 2009, the City had $3.728 billion of gross outstanding long-term debt related to governmental activities and $1.151 billion related to business-type activities, for a total of $4.879 billion. These amounts for the fiscal year ended June 30, 2008 were $3.603 billion for governmental activities and $1.176 billion for business-type activities, for a total of $4.779 billion.

The table below identifies the net changes in each category (in thousands):

		As of June 30, 2009	As of June 30, 2008	Net Change
Governmental Activities				
General obligation bonds	$	519,320	528,565	(9,245)
HUD Section 108 loan		23,923	24,876	(953)
Lease revenue and revenue bonds		655,137	629,324	25,813
Special assessments		64,886	68,151	(3,265)
Redevelopment Agency		2,464,690	2,352,465	112,225
Sub-total		3,727,956	3,603,381	124,575
Business-Type Activities				
Revenue bonds		1,112,320	1,133,690	(21,370)
State of CA-Revolving Fund Loan		38,254	41,952	(3,698)
Sub-total		1,150,574	1,175,642	(25,068)
Total:	$	4,878,530	4,779,023	99,507

Additional information about the City's long-term obligations appears in Note III.F. of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The severity of the current economic downturn is expected to continue to deeply impact some of the City's largest revenue sources. Property Tax, the largest source of General Fund revenue, is expected to decline approximately 7.0 percent in 2009-2010 driven by the drop in property assessments, and Sales Tax receipts are expected to decline by approximately 5.0 percent. Other General Fund categories that are expected to be significantly impacted include Transient Occupancy Tax, development fees, and interest earnings. The deep economic downturn is also expected to negatively impact performance of a number of special funds and capital funds, including the Airport Funds, the Convention and Cultural Affairs Fund, the Transit Occupancy Tax Fund, the Traffic Capital Funds, and the Construction and Conveyance Tax Funds.

- The 2008-2009 fiscal year was extremely challenging and required active budget management to ensure the financial stability of the various City funds. As the City experienced the worst recession in seven decades, many of the City's economically sensitive revenues sustained significant declines, including Sales Tax, Transient Occupancy Tax, development-related fees and taxes, interest earnings, and Construction and Conveyance Taxes. Passenger activity at the

Airport also fell 15% in 2008-2009. The fiscal challenges faced in 2008-2009 are expected to continue in 2009-2010 and until the local economy significantly recovers from this severe recession. A set of 2009-2010 budget balancing recommendations was developed through a comprehensive community outreach process, and a Council Priority Setting Study Session. In June 2009, the City Council approved a balanced General Fund budget for fiscal year 2009-2010, closing a funding gap of approximately $84.2 million through a combination of service reductions and eliminations, revenue increases, use of reserves, and funding shifts.

- The City has begun a five-year phase-in to fully pre-fund retiree healthcare benefits for the majority of its employee units, with the exception of the San José Firefighters union (International Association of Firefighters, Local 230). This will result in an incremental increase in retiree healthcare contributions for both the City and its employees over the next five years. It is important to note that phasing-in to fully pre-fund retiree healthcare benefits does not mean that the existing obligation is paid off immediately. It is projected that it will take approximately 30 years to pay off the existing unfunded retiree healthcare liability.

- As of June 30, 2007, the most recent actuarial date, the Police and Fire Department Retirement Plan (Plan) was 99.7% funded. The actuarial accrued liability for benefits was $2,372,386,000, and the actuarial value of assets was $2,365,790,000, resulting in an unfunded actuarial accrued liability (UAAL) of $6,596,000. However, as noted in the Trust and Agency Funds section of this document, the Plan's net assets experienced a decrease of $516.0 million in 2008-2009 following a $175.4 million decline in net assets in the prior year. Due to this significant decrease in fund assets, the Plan's next actuarial study is expected to substantially increase the annual required contribution amounts for 2009-2010.

- As of June 30, 2007, the most recent actuarial date, the Federated City Employee's Retirement System (System) was 82.8% funded. The actuarial accrued liability for benefits was $1,960,943,000 and the actuarial value of assets was $1,622,851,000, resulting in an unfunded actuarial accrued liability (UAAL) of $338,092,000. However, as noted in the Trust and Agency Funds section of this document, the System's net assets experienced a decrease of $334.1 million in 2008-2009 following an $86.7 million decline in net assets in the prior year. Due to this significant decrease in fund assets, the System's next actuarial study is expected to substantially increase the annual required contribution amounts for 2009-2010.

- The 2009-2010 budget reflects rate increases of 30.0 percent for the Storm Sewer rate, 2.0 percent for Recycle Plus single family dwellings, and 11.5 percent for the Municipal Water System in order to improve operational efficiencies and maintain a reliable utility infrastructure.

- San José's average unemployment rate for calendar year 2008 increased over the prior year average of 5.3 percent, but the City's rate was lower than the average unemployment rate for the State. The City's average unemployment rate for calendar year 2008 was 6.7 percent, which is lower than the statewide average of 7.2 percent.

All of these factors were considered in preparing the City's budget for 2009-2010.

REQUEST FOR INFORMATION

This financial report is designed to provide our residents, taxpayers, customers, investors, and creditors with a general overview of the City's finances. 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 José, CA 95113.

Basic Financial Statements

City of San José
Statement of Net Assets
June 30, 2009
($000's)

		Governmental Activities	Business-Type Activities	Total
ASSETS				
Equity in pooled cash and investments	$	751,473	356,710	1,108,183
Other cash and investments		6	-	6
Receivables (net of allowances for uncollectibles)		160,994	24,701	185,695
Due from outside agencies		3,700	337	4,037
Internal balances		(7,165)	7,165	-
Inventories		1,040	1,046	2,086
Loans receivable (net)		336,271	250	336,521
Advances and deposits		535	9,948	10,483
Other assets		21,970	3,289	25,259
Restricted assets:				
Equity in pooled cash and investments		76,036	99,084	175,120
Other cash and investments		447,180	469,123	916,303
Receivables (net of allowances for uncollectibles)		-	6,032	6,032
Deferred bond issuance costs (net of accumulated amortization)		52,340	13,201	65,541
Capital assets (net of accumulated depreciation):				
Nondepreciable		813,919	1,003,067	1,816,986
Depreciable		6,817,661	938,115	7,755,776
Total assets		9,475,960	2,932,068	12,408,028
LIABILITIES				
Accounts payable		64,174	70,778	134,952
Accrued liabilities		40,925	4,823	45,748
Interest payable		54,942	18,701	73,643
Due to outside agencies		24,727	-	24,727
Short term notes payable		47,581	323,561	371,142
Unearned revenue		31,219	3,897	35,116
Advances, deposits, and reimbursable credits		18,430	4,897	23,327
Other liabilities		11,021	-	11,021
Noncurrent obligations:				
Due within one year		170,938	28,426	199,364
Due in more than one year		3,924,413	1,148,293	5,072,706
Total liabilities		4,388,370	1,603,376	5,991,746
NET ASSETS				
Invested in capital assets, net of related debt		4,400,552	885,744	5,286,296
Restricted for:				
Debt service		123,160	13,648	136,808
Capital projects		251,485	90,046	341,531
Community services		276,040	-	276,040
Public safety		3,439	-	3,439
Unrestricted		32,914	339,254	372,168
Total net assets	$	5,087,590	1,328,692	6,416,282

The notes to the financial statements are an integral part of this statement.

City of San José
Statement of Activities
For the Year Ended June 30, 2009
($000's)

Functions/Programs	Expenses	Program Revenues: Fees, Fines, and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business -Type Activities	Total
Governmental activities:							
General government	$ 172,077	30,906	84	-	(141,087)	-	(141,087)
Public safety	463,196	39,254	15,908	-	(408,034)	-	(408,034)
Capital maintenance	595,547	36,340	58,737	26,306	(474,164)	-	(474,164)
Community services	276,396	66,090	41,236	-	(169,070)	-	(169,070)
Sanitation	122,705	125,198	-	-	2,493	-	2,493
Interest and fiscal charges	166,672	-	-	-	(166,672)	-	(166,672)
Total governmental activities	**1,796,593**	**297,788**	**115,965**	**26,306**	**(1,356,534)**	**-**	**(1,356,534)**
Business -Type activities:							
Norman Y. Mineta San José International Airport	140,641	138,999	4,625	12,869	-	15,852	15,852
Wastewater Treatment System	126,788	151,516	4,701	5,305	-	34,734	34,734
Municipal Water System	25,416	25,807	-	444	-	835	835
Parking System	11,800	11,052	-	-	-	(748)	(748)
Total business-type activities	**304,645**	**327,374**	**9,326**	**18,618**	**-**	**50,673**	**50,673**
Total	**$ 2,101,238**	**625,162**	**125,291**	**44,924**	**(1,356,534)**	**50,673**	**(1,305,861)**
General revenues:							
Taxes:							
Property and other taxes					507,273	-	507,273
Utility					93,619	-	93,619
Franchise					41,067	-	41,067
Transient occupancy					19,261	-	19,261
Sales taxes shared revenue (unrestricted)					127,802	-	127,802
State of California in-lieu (unrestricted)					8,839	-	8,839
Business license tax					38,597	-	38,597
Unrestricted interest and investment earnings					34,092	18,434	52,526
Other revenue					40,372	-	40,372
Transfers					5,285	(5,285)	-
Total general revenues and transfers					**916,207**	**13,149**	**929,356**
Change in net assets					**(440,327)**	**63,822**	**(376,505)**
Net assets - beginning					**5,527,917**	**1,264,870**	**6,792,787**
Net assets - ending					**$ 5,087,590**	**1,328,692**	**6,416,282**

The notes to the financial statements are an integral part of this statement.

City of San José
Balance Sheet
Governmental Funds
June 30, 2009
($000's)

		General Fund	Redevelopment Agency	Housing Activities
ASSETS				
Equity in pooled cash and investments held in City Treasury	$	218,536	119,942	59,086
Other cash and investments		-	-	-
Receivables (net of allowance for uncollectibles)		48,054	1,534	6,983
Due from outside agencies		3,336	-	51
Due from other funds		5,688	4,225	54
Inventories		-	-	-
Loans receivable (net)		2,391	36,858	290,925
Advances and deposits		13	65	-
Restricted assets:				
Equity in pooled cash and investments held in City Treasury		722	-	8,115
Other cash and investments		-	157,750	-
Advances to other funds		3,333	1,080	-
Other assets		-	-	21,118
Total assets	$	282,073	321,454	386,332
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$	12,139	8,723	1,309
Accrued salaries, wages, and payroll taxes		34,181	470	495
Due to other funds		278	6,447	-
Due to other agencies		697	31,530	-
Short term notes and bonds payable		-	5,300	-
Deferred revenue		12,096	40,642	22,692
Advances, deposits, and reimbursable credits		7	1,900	-
Advances from other funds		500	12,612	580
Other liabilities		10,982	-	-
Total liabilities		70,880	107,624	25,076
Fund balances:				
Reserved for:				
Encumbrances		25,824	44,975	37,962
Noncurrent advances, loans and other assets		6,576	4,795	296,059
Debt service		-	130,594	-
Restricted cash commitments		-	-	3
Unreserved reported in:				
General fund		178,793	-	-
Special revenue funds		-	-	27,232
Capital projects funds		-	33,466	-
Total fund balances		211,193	213,830	361,256
Total liabilities and fund balances	$	282,073	321,454	386,332

The notes to the financial statements are an integral part of this statement.

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
-	-	353,909	751,473
-	-	6	6
65,027	6	39,390	160,994
22	-	291	3,700
-	-	39,713	49,680
-	-	1,040	1,040
-	-	6,097	336,271
293	-	164	535
25,862	1,244	40,093	76,036
10,810	58,093	220,527	447,180
-	-	5,812	10,225
-	-	852	21,970
102,014	59,343	707,894	1,859,110
2,330	145	39,528	64,174
8	-	5,771	40,925
-	-	43,019	49,744
-	-	-	32,227
-	47,581	-	52,881
65,174	-	16,042	156,646
4,009	-	12,514	18,430
-	3,333	301	17,326
-	-	39	11,021
71,521	51,059	117,214	443,374
228	-	104,030	213,019
5	-	13,853	321,288
22,000	8,284	41,490	202,368
-	-	588	591
-	-	-	178,793
-	-	286,896	314,128
8,260	-	143,823	185,549
30,493	8,284	590,680	1,415,736
102,014	59,343	707,894	1,859,110

City of San José

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2009
($000's)

Total fund balances-governmental funds (Page 22)		$ 1,415,736
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	561,258	
Infrastructure assets	11,301,028	
Other capital assets	1,826,192	
Accumulated depreciation	(6,056,898)	
Total capital assets		7,631,580
Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis.		60,541
Bond issuance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets. Deferred charges, net of amortization		52,340
Special Assessments are reported as revenue when levied in government-wide financial statements. In governmental funds, these assessments are reported as deferred revenue (a liability) since they are not available.		64,886
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is generally not accrued as a liability in the balance sheet of governmental funds.		(54,942)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds and notes payable	(3,726,614)	
Accreted interest on capital appreciation bonds	(1,786)	
Compensated absences	(96,921)	
Claims and judgments	(123,442)	
Other postemployment obligation	(119,321)	
Other	(14,467)	
Total long-term liabilities		(4,082,551)
Net assets of governmental activities (Page 20)		$ 5,087,590

The notes to the financial statements are an integral part of this statement.

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City of San José
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009
($000's)

		General Fund	Redevelopment Agency	Housing Activities
REVENUES				
Taxes and special assessments	$	494,169	202,346	-
Licenses, permits, and fines		84,274	-	-
Intergovernmental		16,366	70	12,010
Charges for current services		28,140	-	-
Rent		-	1,317	-
Investment income		7,541	5,134	10,994
Other revenue		32,606	3,883	1,486
Total revenues		663,096	212,750	24,490
EXPENDITURES				
Current:				
General government		98,536	15,137	-
Public safety		419,043	-	-
Capital maintenance		53,440	90,337	65
Community services		138,992	-	57,530
Sanitation		2,621	-	-
Capital outlay		5,233	26,873	-
Debt service:				
Principal		953	53,640	-
Interest and fiscal charges		630	106,625	-
Bond issuance costs		-	1,453	-
Current refunding escrow		-	-	-
Total expenditures		719,448	294,065	57,595
Excess (deficiency) of revenues over (under) expenditures		(56,352)	(81,315)	(33,105)
OTHER FINANCING SOURCES (USES)				
Bonds issued		-	117,295	-
Refunding bonds issued		-	-	-
Premiums (discount) on bonds		-	(1,348)	-
Payment to refunded bond escrow agent		-	-	-
Reclassification of variable rate demand bonds		-	(5,300)	-
Proceeds from sale of capital assets		-	8,365	-
Loan proceeds		-	50,000	-
Transfers in		32,809	24,827	90,469
Transfers out		(42,397)	(105,854)	(19,001)
Total other financing sources (uses)		(9,588)	87,985	71,468
Net change in fund balances		(65,940)	6,670	38,363
Fund balances - beginning		277,133	207,160	322,893
Fund balances - ending	$	211,193	213,830	361,256

The notes to the financial statements are an integral part of this statement.

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
6,087	-	105,550	808,152
-	-	-	84,274
-	-	92,014	120,460
-	-	293,862	322,002
-	-	11,423	12,740
849	746	20,839	46,103
250	15	22,636	60,876
7,186	761	546,324	1,454,607
-	-	146,026	259,699
-	-	1,440	420,483
5,631	-	132,757	282,230
-	-	53,102	249,624
-	-	120,856	123,477
-	-	141,328	173,434
3,265	12,635	18,245	88,738
3,797	28,987	24,746	164,785
-	1,229	244	2,926
-	3,143	-	3,143
12,693	45,994	638,744	1,768,539
(5,507)	(45,233)	(92,420)	(313,932)
-	36,580	9,000	162,875
-	88,380	-	88,380
-	-	276	(1,072)
-	(84,982)	-	(84,982)
-	-	-	(5,300)
-	-	-	8,365
-	-	-	50,000
-	47,960	69,616	265,681
(6)	(3,448)	(87,332)	(258,038)
(6)	84,490	(8,440)	225,909
(5,513)	39,257	(100,860)	(88,023)
36,006	(30,973)	691,540	1,503,759
30,493	8,284	590,680	1,415,736

City of San José
Reconciliation of the Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2009
($000's)

Net change in fund balances–total governmental funds (Page 26)		$ (88,023)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	173,434	
Depreciation expense	(350,228)	
Excess of depreciation expense over capital outlay		(176,794)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)		
Donated assets	12,542	
Disposal of assets	(10,931)	
		1,611
Bond issuance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.		
Bond issuance costs	2,926	
Amortization and refunding of bond issuance costs	(4,227)	
Total bond issuance costs, net of amortization		(1,301)
Repayment of long-term obligation principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the government-wide statements, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The City's long-term obligations were reduced because principal payments were made to bondholders and HUD.		176,863
Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources. Amortization of bond premiums, discounts and deferred amounts on refunding should be expensed as a component of interest expense on the statement of activities. This amount represents the net accrued interest expense and the amortization of bond premiums, discounts and deferred amounts on refunding not reported in governmental funds.		
Accrued interest on capital appreciation bonds	(183)	
Net discount/premium on bonds issued	1,072	
Increase in accrued interest expense	(2,070)	
Amortization and refunding of deferred amounts, premiums and discounts	4,666	
Deferred amounts on bonds issued	(3,279)	
Total net interest expense and amortization of discount/premium		206
Bond and loan proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets.		(301,255)
Reclassifcation of long term liabilities to a governmental fund liability is reported as a financing use in a governmental fund and thus contributes to the change in fund balance. However, it does not affect the statement of activities.		5,300
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenue and are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		(8,045)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Net decrease in accrued landfill postclosure costs	465	
Net increase in pollution remediation obligation	(4,946)	
Net increase in OPEB obligation	(52,637)	
Net increase in vacation, sick leave, and compensatory time	(5,156)	
Net decrease in estimated liability for self-insurance	15,396	
Net decrease in arbitrage liability	347	
Total additional expenditures		(46,531)
The net expenses of the Public Works Program Support Internal Service fund reported with nonmajor governmental funds		(2,358)
Change in net assets of governmental activities (Page 21)		$ (440,327)

The notes to the financial statements are an integral part of this statement.

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City of San José
Statement of Fund Net Assets
Proprietary Funds
June 30, 2009
($000's)

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals	Public Works Program Support Internal Service Fund
ASSETS						
Current assets:						
Equity in pooled cash and investments held in City Treasury	$ 85,812	242,131	13,153	15,614	356,710	-
Receivables (net of allowance for uncollectibles)	14,649	7,069	2,778	205	24,701	-
Due from outside agencies	-	337	-	-	337	-
Due from other funds	14	750	-	-	764	-
Prepaid expenses, advances and deposits	137	-	-	-	137	-
Inventories	-	1,046	-	-	1,046	-
Total unrestricted current assets	100,612	251,333	15,931	15,819	383,695	-
Restricted assets:						
Equity in pooled cash and investments held in City Treasury	75,336	22,113	-	1,635	99,084	-
Other cash and investments	462,809	6,314	-	-	469,123	-
Receivables (net of allowances for uncollectibles)	6,032	-	-	-	6,032	-
Prepaid expenses, advances and deposits	3,152	-	-	-	3,152	-
Total restricted current assets	547,329	28,427	-	1,635	577,391	-
Total current assets	647,941	279,760	15,931	17,454	961,086	-
Noncurrent assets:						
Deferred bond issuance costs (net of accumulated amortization)	12,398	803	-	-	13,201	-
Loan receivable	250	-	-	-	250	-
Advances and deposits	9,948	-	-	-	9,948	-
Advances to other funds	-	2,418	-	6,800	9,218	-
Capital assets (net of accumulated depreciation):						
Nondepreciable	909,346	74,179	605	18,937	1,003,067	-
Depreciable	340,098	476,230	73,027	48,760	938,115	-
Total noncurrent assets	1,272,040	553,630	73,632	74,497	1,973,799	-
Total assets	1,919,981	833,390	89,563	91,951	2,934,885	-

The notes to the financial statements are an integral part of this statement.

City of San José
Statement of Fund Net Assets
Proprietary Funds
June 30, 2009
($000's)

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals	Public Works Program Support Internal Service Fund
LIABILITIES						
Current liabilities:						
Accounts payable	$ 8,873	7,756	1,910	975	19,514	-
Accrued liabilities	1,760	2,723	218	122	4,823	-
Interest payable	39	394	-	-	433	-
Due to other funds	-	-	700	-	700	-
Accrued vacation, sick leave and compensatory time	2,409	3,158	168	193	5,928	-
Estimated liability for self-insurance	560	1,296	165	1	2,022	-
Advances and deposits payable	941	-	-	-	941	-
Unearned revenue	3,897	-	-	-	3,897	-
Loans payable	-	3,767	-	-	3,767	-
Pollution remediation obligation	330	-	-	-	330	-
Total current liabilities unrestricted	18,809	19,094	3,161	1,291	42,355	-
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	51,264	-	-	-	51,264	-
Interest payable	17,966	302	-	-	18,268	-
Accrued vacation, sick leave and compensatory time	158	-	-	-	158	-
Short term notes payable	323,561	-	-	-	323,561	-
Current portion of bonds payable	11,341	4,496	-	-	15,837	-
Pollution remediation obligation	384	-	-	-	384	-
Total current liabilities payable from restricted assets	404,674	4,798	-	-	409,472	-
Total current liabilities	423,483	23,892	3,161	1,291	451,827	-
Noncurrent liabilities:						
Accrued vacation, sick leave and compensatory time	1,429	1,879	-	-	3,308	-
Estimated liability for self-insurance	2,736	4,253	-	-	6,989	-
Advances from other funds	-	-	2,117	-	2,117	-
Advance contributions from participating agencies	-	2,782	-	-	2,782	-
Advances, deposits and reimbursable credits	-	-	1,174	-	1,174	-
Loans payable	-	34,487	-	-	34,487	-
Bonds payable (net of discount and deferred loss on premium/refunding)	1,035,266	58,292	-	-	1,093,558	-
Net other postemployment benefit obligation	4,167	5,205	408	171	9,951	-
Total noncurrent liabilities	1,043,598	106,898	3,699	171	1,154,366	-
Total liabilities	1,467,081	130,790	6,860	1,462	1,606,193	-
NET ASSETS						
Invested in capital assets, net of related debt	287,028	457,387	73,632	67,697	885,744	-
Restricted for debt service	5,764	6,249	-	1,635	13,648	-
Restricted for capital projects and other agreements	39,496	50,550	-	-	90,046	-
Unrestricted	120,612	188,414	9,071	21,157	339,254	-
Total net assets	$ 452,900	702,600	82,703	90,489	1,328,692	-

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2009
($000's)

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals	Public Works Program Support Internal Service Fund
OPERATING REVENUES						
Charges for services	$ 45,917	116,196	25,770	11,052	198,935	-
Rentals and concessions	62,617	2,703	-	-	65,320	-
Customer transportation fees	6,713	-	-	-	6,713	-
Service connection, engineering and inspection	-	3,019	-	-	3,019	-
Contributions	-	17,894	-	-	17,894	-
Other	700	11,628	-	-	12,328	-
Total operating revenues	115,947	151,440	25,770	11,052	304,209	-
OPERATING EXPENSES						
Operations and maintenance	76,405	80,085	21,738	4,838	183,066	-
General and administrative	28,328	21,172	1,068	4,347	54,915	-
Depreciation and amortization	20,967	21,025	2,489	2,243	46,724	-
Materials and supplies	-	576	-	372	948	-
Total operating expenses	125,700	122,858	25,295	11,800	285,653	-
Operating income (loss)	(9,753)	28,582	475	(748)	18,556	-
NONOPERATING REVENUES (EXPENSES)						
Passenger facility charges	17,416	-	-	-	17,416	-
Operating grants	4,625	-	-	-	4,625	-
Investment income	8,138	9,267	461	568	18,434	-
Land and building rental		8	-	-	8	-
Interest expense	(11,404)	(3,534)	(121)	-	(15,059)	-
Contributions refunded to participating agencies	-	(384)	-	-	(384)	-
Loss on disposal of capital assets	(3,537)	(12)	-	-	(3,549)	-
Other revenues	5,636	4,769	37	-	10,442	-
Net nonoperating revenues (expenses)	20,874	10,114	377	568	31,933	-
Income (loss) before capital contributions and transfers	11,121	38,696	852	(180)	50,489	-
Capital contributions	12,869	5,305	444	-	18,618	-
Transfers in	325	670	35	135	1,165	-
Transfers out	(104)	(4,161)	(1,018)	(1,167)	(6,450)	(2,358)
Changes in net assets	24,211	40,510	313	(1,212)	63,822	(2,358)
Net assets - beginning	428,689	662,090	82,390	91,701	1,264,870	2,358
Net assets - ending	$ 452,900	702,600	82,703	90,489	1,328,692	-

The notes to the financial statements are an integral part of this statement.

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City of San José
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009
($000's)

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals	Public Works Program Support Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 115,474	134,576	26,090	11,045	287,185	-
Payments to suppliers	(65,722)	(41,219)	(18,406)	(7,078)	(132,425)	-
Payments to employees	(37,054)	(59,501)	(4,404)	(2,290)	(103,249)	-
Other receipts	7,119	17,961	-	-	25,080	-
Net cash provided by operating activities	19,817	51,817	3,280	1,677	76,591	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer from other funds	325	670	35	135	1,165	-
Transfer to other funds	(104)	(4,161)	(1,018)	(1,167)	(6,450)	(5,124)
Advances (to) from other funds	-	3,090	(1,000)	-	2,090	-
Subsidies from operating grants	4,557	-	-	-	4,557	-
Advances, deposits and credits received	19	-	70	-	89	-
Net cash provided by (used in) by noncapital and related financing activities	4,797	(401)	(1,913)	(1,032)	1,451	(5,124)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Passenger facility charges received	16,789	-	-	-	16,789	-
Proceeds from commercial paper	143,171	-	-	-	143,171	-
Principal payment on commercial paper	(5,800)	-	-	-	(5,800)	-
Subsidies from capital grants	6,319	1,480	-	-	7,799	-
Acquisition and construction of capital assets	(298,156)	(20,911)	(1,345)	(553)	(320,965)	-
Principal paid on debt	(11,180)	(8,179)	-	-	(19,359)	-
Cash paid for the refunding of Series 2005B	-	(4)	-	-	(4)	-
Bond issuance cost (payment) refund	(19)	27	-	-	8	-
Interest paid on debt	(60,210)	(3,276)	-	-	(63,486)	-
Advances, deposits and credits paid	(1,866)	-	-	-	(1,866)	-
Net cash used in capital and related financing activities	(210,952)	(30,863)	(1,345)	(553)	(243,713)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	288,269	-	-	-	288,269	-
Purchase of investments	(155,025)	(6,117)	-	-	(161,142)	-
Interest and dividends received	29,819	9,715	497	568	40,599	-
Land and building rentals	-	7	-	-	7	-
Net cash provided by investing activities	163,063	3,605	497	568	167,733	-
Net change in cash and cash equivalents	(23,275)	24,158	519	660	2,062	(5,124)
Cash and cash equivalents - beginning	194,931	240,329	12,634	16,589	464,483	5,124
Cash and cash equivalents - ending	$ 171,656	264,487	13,153	17,249	466,545	-

(Continued)

The notes to the financial statements are an integral part of this statement.

City of San José
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009
($000's)

		Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals	Public Works Program Support Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by operating activities:							
Operating income (loss)	$	(9,753)	28,582	475	(748)	18,556	-
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:							
Depreciation and amortization		20,967	21,025	2,489	2,243	46,724	-
Other nonoperating revenues		5,636	68	37	-	5,741	-
Decrease (increase) in:							
Accounts receivable		767	1,009	283	(8)	2,051	-
Due from outside agencies		-	20	-	-	20	-
Inventories		-	227	-	-	227	-
Prepaid expenses		1,541	-	-	38	1,579	-
Increase (decrease) in:							
Accounts payable and accrued liabilities		(282)	515	25	68	326	-
Accrued salaries, wages, and payroll		447	579	51	49	1,126	-
Accrued vacation, sick leave							-
and compensatory time		60	(7)	(70)	16	(1)	-
Estimated liability for self-insurance		(65)	365	(14)	-	286	-
Unearned revenues		546	-	-	-	546	-
Advances and deposits payable		69	-	-	-	69	-
Other liabilities		(116)	(566)	4	19	(659)	-
Total adjustments		29,570	23,235	2,805	2,425	58,035	-
Net cash provided by operating activities	$	19,817	51,817	3,280	1,677	76,591	-
Reconciliation of cash and cash equivalents to the statement of net assets:							
Equity in pooled cash and investments held in City Treasury							
Unrestricted	$	85,812	242,131	13,153	15,614	356,710	-
Restricted		75,336	22,113	-	1,635	99,084	-
Other investments		462,809	6,314	-	-	469,123	-
Less investments not meeting the definition of cash equivalents		(452,301)	(6,071)	-	-	(458,372)	-
Cash and cash equivalents	$	171,656	264,487	13,153	17,249	466,545	-
Noncash noncapital, capital and related financing activities:							
Loss on disposal of capital assets	$	3,537	12	-	-	3,549	-
Acquisition of capital assets on accounts payable and accrued liabilities		53,090	-	-	-	53,090	-
Capitalized interest		33,991	-	-	-	33,991	-
Contributions from developers		-	1,214	444	-	1,658	-
Amortization of deferred charges and other charges		571	235			806	-
Retirement of deferred charges and other charges		-	370	-	-	370	-
Participating agencies' payments to refunded escrow		-	4,701	-	-	4,701	-
Bond proceeds paid to refunded bond escrow		-	22,891	-	-	22,891	-
Change in fair value of investments		684	46	-	-	730	-
Transfer out assets and liabilities to other funds		-	-	-	-	-	2,766

The notes to the financial statements are an integral part of this statement.

City of San José
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009
($000's)

	Pension Trust Funds	James Lick Private Purpose Trust Fund	Agency Funds
ASSETS			
Equity in pooled cash and investments held in City Treasury	$ -	58	1,858
Investments of retirement plans:			
Investments, excluding securities lending collateral:			
Domestic fixed maturities	1,105,209	-	-
International fixed maturities	162,104	-	-
Domestic equities	1,085,430	-	-
International equities	768,395	-	-
Private equities	134,039	-	-
Derivatives	(175)	-	-
Real estate	270,760	-	-
Cash equivalents and short term investments	(10)	-	-
Securities lending cash collateral investment pool	230,267	-	-
Total investments	3,756,019	-	-
Other cash and investments	-	33	-
Receivables (net of allowances for uncollectibles):			
Accrued investment income	15,366	-	11
Employee contributions	2,692	-	-
Employer contributions	11,826	-	-
Other	72,906	-	-
Total assets	3,858,809	91	1,869
LIABILITIES			
Due to brokers	123,013	-	-
Securities lending collateral, due to borrowers	242,950	-	-
Other liabilities	6,401	-	1,869
Total liabilities	372,364	-	1,869
NET ASSETS			
Held in trust for:			
Employees' pension benefits	3,358,098	-	-
Employees' postemployment healthcare benefits	128,347	-	-
Other purpose	-	91	-
	$ 3,486,445	91	-

The notes to the financial statements are an integral part of this statement.

City of San José
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2009
($000's)

		Pension Trust Funds	James Lick Private Purpose Trust Fund
ADDITIONS			
Investment income:			
Interest	$	67,934	6
Dividends		34,141	-
Net rental income		11,077	-
Net change in fair value of plan investments		(881,668)	-
Investment expenses		(16,454)	-
Total investment income (loss)		(784,970)	6
Securities lending activities:			
Securities lending expenses		(8,380)	-
Total securities lending activities		(8,380)	-
Contributions:			
Employer		136,379	-
Employees		58,465	-
Total contributions		194,844	-
Total additions		(598,506)	6
DEDUCTIONS			
General and administrative		4,969	-
Health insurance		39,763	-
Refunds to terminated employees		1,758	-
Retirement and other benefits paid:			
Death benefits paid		12,903	-
Retirement benefits paid		192,132	-
Total deductions		251,525	-
Change in net assets		(850,031)	6
Net assets - beginning		4,336,476	85
Net assets - ending	$	3,486,445	91

The notes to the financial statements are an integral part of this statement.

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INDEX TO THE NOTES

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of San José, California (the "City"), was chartered on March 25, 1850, and has operated under a Council–Manager form of government since 1916. The City has defined its reporting entity in accordance with generally accepted accounting principles ("GAAP") in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary government is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary government regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. Based upon the application of these criteria, the following is a brief description of each component unit included within the City's reporting entity. All such component units have been "blended" as though they are part of the primary government because the component unit's governing body is substantively the same as the City's primary government, and/or the component units provide services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it.

- **Redevelopment Agency of the City of San José** – The Redevelopment Agency of the City of San José (the "Redevelopment Agency") was created by the City Council with the authority and responsibility for redeveloping and upgrading blighted areas of the City. The members of the City Council are also members of the Redevelopment Agency's Board of Directors and, as such, are authorized to transact business and exercise their power to plan, engineer, and carry out projects of the Redevelopment Agency.

- **Parking Authority of the City of San José** – The Parking Authority of the City of San José (the "Parking Authority") was created by the City Council to provide funding through debt issuance for parking facilities constructed on City-owned land. Such parking facilities are leased to the City. Members of the City Council are also members of the Parking Authority's Board of Directors.

- **San José – Santa Clara Clean Water Financing Authority** – The San José – Santa Clara Clean Water Financing Authority (the "Clean Water Financing Authority") was created pursuant to a Joint Exercise of Powers Agreement between the City of San José and the City of Santa Clara. The purpose was to finance the acquisition of, and additions and improvements to the existing San José – Santa Clara Water Pollution Control Plant (the Plant). The Clean Water Financing Authority is governed by a five-member Board of Directors, three are members of the City Council of the City of San José and two are members of the City Council of the City of Santa Clara. The Clean Water Financing Authority and the cities of San José and Santa Clara subsequently entered into an Improvement Agreement, which requires each city to make base payments that are at least equal to each city's allocable share of debt service requirements of the Clean Water Financing Authority's outstanding revenue bonds.

- **City of San José Financing Authority** – The City of San José Financing Authority (the "Authority") was created by a Joint Exercise of Powers Agreement between the City and the Redevelopment Agency. The Authority was created for the purpose of facilitating the financing of public improvements and facilities within the City and is authorized to issue bonds for this purpose. The Authority is governed by an 11 member Governing Board, which consists of the members of the City Council.

Separate financial reports for the fiscal year ended June 30, 2009, containing additional information and more detailed information regarding financial condition and change in financial position, are available from the City's Director of Finance, 200 East Santa Clara Street; 13th Floor, San José, CA 95113-1905, for the following:

- Federated City Employees' Retirement System (the "System")
- Police and Fire Department Retirement Plan (the "Plan")
- Redevelopment Agency of the City of San José
- Norman Y. Mineta San José International Airport
- San José – Santa Clara Clean Water Financing Authority

B. Financial Statement Presentation

Government-wide Financial Statements. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) display information about the primary government (the "City") and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. For example, the direct expenses charges based on actual use are not eliminated, whereas indirect expense allocations made in the funds are eliminated. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities, which is included in the government-wide financial statements, presents a comparison between direct expenses and program revenues for each business-type activity of the City and each function of the City's governmental activities. Direct expenses are those that are specifically associated with a business-type activity or governmental function and; therefore, are clearly identifiable to a particular activity or function. Program revenues include 1) fees, fines and charges paid by the recipients of goods or services offered by the programs, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are instead presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category, such as governmental, proprietary and fiduciary, are presented. The emphasis of fund financial statements are on the major governmental and enterprise funds of the City and are reported separately in the accompanying financial statements. All remaining governmental funds are aggregated and reported as non-major funds in the accompanying financial statements.

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The City reports the following major governmental funds:

The ***General Fund*** is the City's primary operating fund. It accounts for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds.

The ***Redevelopment Agency Fund*** is a capital projects fund that accounts for administrative, operating, low-to-moderate income housing program, debt and construction activities necessary to carry out responsibilities for redeveloping and upgrading blighted areas in the City.

The ***Housing Activities Fund*** is a special revenue fund that accounts for the City's affordable housing activities.

The ***Special Assessment Districts Fund*** is a capital projects fund that accounts for the capital project and debt activities related to debt issued to finance public improvements benefiting properties against which special assessments or special taxes are levied.

The **City of San José Financing Authority Fund** is a debt service fund that accounts for the debt activities related to capital projects funded with Authority debt.

The City reports the following major enterprise funds:

The ***Norman Y. Mineta San José International Airport Fund*** accounts for the activities of the City owned commercial service and general aviation airport.

The ***Wastewater Treatment System Fund*** accounts for the financing, construction and operations of the City's sewer system, the San José – Santa Clara Water Pollution Control Plant (the Plant) and the regional water reclamation program.

The ***Municipal Water System Fund*** accounts for the operations of the five water system operating districts: North San José, Evergreen, Coyote, Edenvale and Alviso.

The ***Parking System Fund*** accounts for the operations of the parking garage facilities, parking lots and parking meters located within the City.

The City reports the following fiduciary fund types:

The ***Pension Trust Funds*** account for the accumulated resources to be used for retirement annuity and postemployment healthcare payments to members of the Federated City Employees' Retirement System (the "System") and the Police and Fire Department Retirement Plan (the "Plan" and collectively, the "Retirement System").

The ***James Lick Private Purpose Trust Fund*** is used to account for resources legally held in trust for use towards the support of the Eastfield Home of Benevolence (orphanage). All resources of the fund, including any earnings on invested resources, are used to support the organization's activities.

The ***Agency Funds*** account for assets held by the City in a custodial capacity on behalf of the San José Arena and the Health Care Financing Administration.

C. Measurement Focus and Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide, proprietary and fiduciary funds (excluding agency funds) financial statements are reported using the economic resources measurement focus. The government-wide, proprietary funds and trust funds financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales and use, transient occupancy and utility user tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus. This focus is on the determination of, and changes in financial resources, and generally only current assets and current liabilities are included in the balance sheet. These funds use the modified accrual basis of accounting, whereby revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. For this purpose, the City considers revenues as available if they are collected within sixty days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred. However, principal and interest on long-term debt and certain estimated liabilities, such as compensated absences and self-insurance claims, are recorded only when payment is due.

In governmental funds, revenues from taxes, licenses, franchise taxes, interest, certain state and federal grants and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current period. All other revenue items are considered measurable and available only when cash is received by the City.

Proprietary funds distinguish between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Also included as operating revenues are the Wastewater Treatment System Fund's contributions from other participating agencies for their allocation of the plant's operating and maintenance expense. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply restricted cost-reimbursement grant resources to such programs, followed by restricted categorical block grants, and then by unrestricted general revenues.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

D. Use of Estimates

A number of estimates and assumptions relating to the reporting of revenues, expenditures/expenses, assets and liabilities, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

E. New Pronouncements

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care. Application of this statement is effective for the City's fiscal year ended June 30, 2009. The additional disclosure concerning the implementation of GASB 49 is available in Note III.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following Governmental Accounting Standards Board (GASB) Statements:

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the City's fiscal year ending June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The Statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The Statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this Statement is effective for the City's fiscal year ending June 30, 2010.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The objective to this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Application of this Statement is effective for the City's fiscal year ending June 30, 2011.

F. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

Restricted and unrestricted pooled cash and investments held in the City Treasury and other unrestricted investments, invested by the City Treasurer, are considered cash equivalents for purposes of the statement of cash flows because the City's cash management pool and funds invested by the City Treasurer possess the characteristics of demand deposit accounts. Other restricted and unrestricted investments with maturities less than three months at the time of purchase are also considered cash equivalents for purposes of the statement of cash flows.

2. Equity in Pooled Cash and Investments Held in City Treasury

Most cash balances of the City's funds and some of its component units are pooled and invested by the City Treasurer unless otherwise dictated by legal or contractual requirements. Income and losses arising from the investment activity of pooled cash are allocated to the participating funds and component units on a monthly basis, based on their proportionate shares of the average weekly cash balance.

3. Deposits and Investments

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.*

This Statement requires governmental entities to report investments at fair value in the statement of net assets or balance sheet and to recognize the corresponding change in fair value of investments in the year in which the change occurred.

Pooled Cash and Investments held in City Treasury. The City reports its investments held in City Treasury at fair value. The fair value is based on quoted market information obtained from fiscal agents or other sources. Income from some investments is transferred to the General Fund. The assignment of the income from these investments is supported by legal or contractual provisions approved by the City Council. For the fiscal year ended June 30, 2009, the total investment income from these funds transferred to the General Fund was approximately $3,717,000.

Retirement Systems. The Retirement Systems investment policies authorize various types of investments, including securities lending transactions. These investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value. The fair value of the private equities are based on actual cash flows to/from the Retirement Systems and the transactions and unrealized gain/loss as ascertained from the most recently available investor reports or financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the financial statements and other portfolio information received from their underlying portfolio partnerships. The fair value of real estate investments is based on independent appraisals. Purchases and sales of securities are reflected on the date of trade. Investment income is recognized as earned. Rental income from real estate activity is recognized as earned, net of expenses.

Other Investments. Non-pooled investments are generally carried at fair value. However, investments in investment agreements are carried at cost. Income from non-pooled investments is recorded based on the specific investments held by the fund. The interest income is recorded in the fund that earned the interest.

4. Inventories

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out) or market. In the governmental funds, inventory items are valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

5. Special Assessment Districts

Special assessments are recorded as receivables when they become a lien on property. Special assessments not considered available are recorded as receivables and offset by deferred revenues in the governmental fund financial statements. The special assessment bonds are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. There is no reserve for delinquent receivables since priority liens exist against the related properties and hence the City's management believes value will ultimately be received by the City. Surplus funds remaining at the completion of a special assessment district project are disposed of in accordance with the City Council's resolutions and with the applicable assessment bond laws of the State of California. A liability is recorded for the balance remaining until a final legal determination has been made.

6. Advances and Deposits

Amounts deposited in connection with eminent domain proceedings and special assessment surpluses are reported as advances and deposits. In the governmental fund statements, non-current portions of these are offset equally by either a deferred credit or a fund-balance reserve account indicate they do not constitute expendable financial resources available for appropriation.

7. Other Assets

Other assets primarily consist of real properties acquired outright and/or through foreclosure in connection with the housing rehabilitation program. These assets are recorded at the lower of cost or estimated net realizable value.

8. Bond Issuance Costs; Original Issue Discounts and Premiums and Deferred Amounts on Refundings

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are deferred and are amortized over the term of the related debt. Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities, they are deferred and amortized into expense if they occurred subsequent to June 30, 2001.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Restricted Assets

Assets that are restricted for specific uses by bonded debt requirements, grant provisions or other requirements are classified as restricted because they are maintained in separate bank accounts or by fiscal agents and their use is limited by applicable bond covenants or agreements.

10. Capital Assets

Capital assets include land, buildings, improvements, vehicles and equipment, infrastructure and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide financial statements and the proprietary funds' statement of net assets. Capital assets are defined as assets with an initial individual cost of more than $5,000 for general capital assets and $100,000 for major infrastructure assets, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time received. Capital outlay is recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Amortization of assets acquired under capital leases is based on the shorter of the lease term or the estimated useful life of the asset and is included in depreciation and amortization.

Buildings and improvements, infrastructure, and vehicles and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	5 – 40 years
Improvements, other than buildings	10 - 50 years
Infrastructure	25 - 50 years
Vehicles and equipment	2 - 40 years
Furniture and fixtures	10 years
Intangible assets	40 years

Capital assets which are used for general governmental purposes and are not available for expenditure are accounted for and reported on in the government-wide financial statements. Capital assets that meet the definition of the major infrastructure networks or extend the life of existing infrastructure networks are capitalized as infrastructure. Infrastructure networks include road, bridges, drainage systems, and lighting systems.

11. Compensated Absences – Accrued Vacation, Sick Leave, and Compensatory Time

Vacation, sick leave, compensatory time, and related benefits are accrued as determined by the agreement between the City and the employees' group. For governmental funds, compensated absence obligations are recorded in the appropriate governmental funds when due. The portion not currently due is recorded in the government-wide financial statements. For enterprise funds, compensated absences are expensed when earned by employees. At year-end, the accrued but unpaid compensated absence obligations are recorded as current and non-current liabilities in the appropriate enterprise funds.

Vacation pay may be accumulated up to two times the annual accrual rate, not to exceed a maximum of 400 hours for non-sworn employees.

Employees represented by the San Josė Police Officer's Association (SJPOA) may carry over to the next payroll calendar year not more than 200 hours of unused vacation leave. Employees represented by the International Association of Firefighters, Local 230 may carryover to the next payroll calendar year not more than 200 hours of unused vacation leave for employees on a 40 hour workweek and 240 hours for those employees on a 56 hour workweek. All employees under this bargaining unit shall not be allowed to accrue vacation in excess of two times their annual vacation accrual rate.

Employees in the Federated City Employees Retirement System who retire with at least 15 years of service (20 years for police officers and firefighters in the Police & Fire Department Retirement Plan) are eligible to receive, upon retirement, sick leave payouts based on percentages of accumulated sick hours as determined by the respective Agreements.

The following table outlines sick leave payout percentages for full-time and deferred vested employees.

Employee Type	Retirement Plan	800 to 1,200 Hours (1,120 - 1,680 for Firefighters)	Greater than 1,200 Hours (1,680 for Firefighters)
Management	Federated	75%	75% up to 1,392 hrs
Non-Management	Federated	75%	No payout beyond 1,200 hrs
All Employee Types	Police and Fire	80%	100%

12. Inter-fund Transactions

Inter-fund transactions are reflected as loans, services provided, reimbursements and/or transfers. Loans and balances related to unsettled service transactions are reported as receivables and payables as appropriate, are subject to elimination upon consolidation of similar fund types, and are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans and unsettled service transactions) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances to other funds, as reported in the fund financial statements, are offset by a fund-balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided are deemed to be at market or near market rates and are treated as revenues and expenditures/expenses. Reimbursements are defined as when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

13. Self-Insurance

The City is self-insured for workers' compensation, general liability, auto liability, and certain other risks. The City's workers' compensation activities are funded and accounted for separately in the fund financial statements based upon the activities of each fund. The current portion of claims liability is accounted for in the General Fund and the enterprise funds on the basis of settlements reached or judgments entered within the current fiscal year. In the government-wide financial statements and the enterprise fund financial statements, the estimated liability for all self-insurance liability claims is recorded as a liability.

14. Net Assets/Fund Equity

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* – This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2009, the government-wide statement of net assets reported restricted assets of $654.1 million in governmental activities and $103.7 million in business type activities. Of these amounts $320.8 million and $35.9 million, respectively are restricted by enabling legislation. Certain prior year net assets within the business type activities have been reclassified from restricted to unrestricted to conform with the provisions of the new Airline Lease Agreement and the Master Trust Agreement. Accordingly, restricted amounts pertained only to the targeted revenue sharing of the airlines, the rolling debt service coverage and the amount held by the fiscal agent.

- *Unrestricted Net Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and management and can be increased, reduced or eliminated by similar actions.

Reservations of fund balance are described as follows:

- *Encumbrances* - to reflect the outstanding contractual obligations for which goods and services have not been received.
- *Non-current advances, loans, other assets, and cash commitments* - to reflect the portion of assets that are not currently available as a spendable resource.
- *Debt service* - to reflect the funds held by trustees or other fiscal agents for future payment of principal and interest related to bond issue. These funds are not available for general operations.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures. Fund balance designations include:

- *Contingencies* - to reflect management's intent to expend certain funds for future unanticipated needs.
- *Future projects* - to reflect management's intent to expend certain funds approved for capital projects in prior years but not yet completed.

The unreserved governmental fund balance designations at June 30, 2009 are composed of the following (dollars in thousands):

	General Fund	Redevelopment Agency	Housing Activities	Special Assessment Districts	Nonmajor Funds	Total
Unreserved, designated for:						
Future projects	$ 50,454	-	460	8,260	430,719	$ 489,893
Contingencies	47,296	-	-	-	-	47,296
Undesignated	81,043	33,466	26,772	-	-	141,281
Total unreserved fund balances	$ 178,793	33,466	27,232	8,260	430,719	$ 678,470

15. Property Taxes

Property taxes are collected on behalf of and remitted to the City by Santa Clara County (the County). The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13).

The County assesses property values, levies, bills, and collects the related property taxes as follows:

	Secured	Unsecured
Valuation/lien dates	January 1	January 1
Levy dates	October 1	July 1
Due dates (delinquent after)	50% on November 1 (December 10) 50% on February 1 (April 10)	July 1 (August 31)

The City has elected to participate in the "Teeter Plan" offered by the County whereby cities receive 100% of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes. Accordingly, property taxes levied for the fiscal year are recorded as revenue when received from the County.

General property taxes are based either on a flat 1% rate applied to the fiscal 1976 full value of the property or on 1% of the sales price of the property on sales transactions and construction that occur after the fiscal 1976 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise at a maximum of 2% per year depending on increases in the consumer price index.

The City's net assessed valuation for the fiscal year ended June 30, 2009, was approximately \$125.3 billion, an increase of approximately 5% over the previous year. The tax rate was approximately \$0.189 per \$100 of assessed valuation, which included the 1% basic levy and additional levies for general obligation bonds Measures "O" and "P" (2000) and Measure "O" (2002).

16. Wastewater Treatment System

The Wastewater Treatment System is an enterprise of the City and is comprised of the San José – Santa Clara Water Pollution Control Plant (the Plant), including South Bay Water Recycling and the San José Sewage Collection System.

The Plant provides wastewater treatment services to the City of San José and to seven other sewage collection agencies. The Clean Water Financing Authority was established to provide financing for the capital programs of the Plant including the regional water reclamation program. The City's sewer service rates pay for the City's share of the Plant operations, maintenance, and administration and capital costs.

In 1959, the City and the City of Santa Clara entered into an agreement to jointly own and operate the Plant. Under the agreement, the City of San José serves as the administering agency and is responsible for operating and maintaining the Plant. The cities share in the capital and operating costs on a pro rata basis determined by the ratio of each city's assessed valuation to the sum of both cities' assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs on an accrual basis For the fiscal year ended June 30, 2009, the City's portion of the capital and operating costs was approximately 81.0% and, based on operations through the fiscal year ended June 30, 2009, the City's interest in the net assets of the Plant was approximately 83.2%.

II. Stewardship, Compliance, and Accountability

A. Deficit Fund Balances

Deficit fund balances of \$323,000, \$24,000 and \$438,000 were reported in non-major capital projects Fiber Optics Development Fund, the Interim City Facilities Improvement Fund and the Civic Center Improvement Fund, respectively. The deficit fund balance for the Fiber Optics Development Fund will be eliminated with future transfers from the General Fund. The Interim City Facilities Improvement Fund and the Civic Center Improvement Fund deficits will be eliminated with transfers made from future commercial paper proceeds.

III. Detailed Notes on All Funds

A. Cash, Deposits and Investments

As of June 30, 2009, total City cash, deposits and investments, at fair value, are as follows (dollars in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds: Pension Trust	Fiduciary Funds: Private-Purpose Trust	Fiduciary Funds: Agency	Carrying Value
Equity in pooled cash and investments	$ 751,473	356,710	-	58	1,858	$ 1,110,099
Other cash and investments	6	-	-	-	-	6
Restricted investments:						
Equity in pooled cash and investments	76,036	99,084	-	-	-	175,120
Other cash and investments	447,180	469,123	-	33	-	916,336
Investments of retirement plans	-	-	3,756,019	-	-	3,756,019
Total deposits and investments	$ 1,274,695	924,917	3,756,019	91	1,858	5,957,580
Deposits						52,121
Investments						5,905,459
Total deposits and investments						$ 5,957,580

Pooled Cash and Investments Held in City Treasury. The City maintains a cash and investment pool that is available for use by all funds and certain component units. Each fund's portion of this pool is displayed on the accompanying governmental fund balance sheets and proprietary fund statement of net assets as "Equity in pooled cash and investments held in City Treasury."

Other Cash and Investments. The City has other investments outside the City Treasury that are invested pursuant to various governing bond covenants, San José Municipal Code or California Government Code provisions.

Other investments consist primarily of deposits and investments with trustees related to the issuance of bonds and to certain loan programs operated by the City. These investments are made either in accordance with bond covenants, and are pledged for payment of principal, interest, and specified capital improvements or in accordance with trust and grant agreements.

Investments of Retirement Systems. The Retirement Systems' funds are invested pursuant to policy guidelines established by the respective Boards. The objective of each investment policy is to maximize the expected return of the funds at an agreed upon level of risk. The Retirement Boards have established percentage guidelines for types of investments to ensure the portfolio is diversified.

Investment Risk. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, concentration of credit risk, custodial credit risk and foreign currency risk. These risks are addressed separately for the investments related to governmental and business-type activities and those related to the Retirement Systems, as follows:

1. Governmental and Business-Type Activities

Interest Rate Risk. Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the time of maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing the cash flows from the maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

The City has the ability and generally has the intention to hold all investments until their respective maturity dates. The average maturity of the City's pooled cash and investments as of June 30, 2009, was approximately 259 days. The Investment Policy does not prohibit the sale of securities prior to maturity. However any portfolio restructuring requires prior conceptual approval in writing from the City Manager and the Director of Finance. Section 14.2 of the Investment Policy further defines the parameters with respect to restructuring the portfolio.

Credit Quality 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 a nationally recognized statistical rating organization. The City's investment policy has mitigated credit risk by limiting investments to the safest type of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures.

Investment in Local Agency Investment Fund. The City is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is governed by the California Government Code under the oversight of the Local Investment Advisory Board (Board). The Board consists of five members as designated by state statute. The fair value of the City's investment in the LAIF pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the City's position in the LAIF pool.

As of June 30, 2009, the City's investment in LAIF was approximately $465,000,000.The total amount recorded by all public agencies in LAIF at that date was approximately $25.2 billion. Of that amount, 85.29% was invested in non-derivative financial products and 14.71% in structured notes and asset backed securities.

Concentration of Credit Risk. The City Council adopted an investment policy (the "Policy") on April 2, 1985, as amended on June 9, 2009, related to the City's cash and investment pool, which is subject to annual review. The Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates. Per the Policy the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Policy.

The following table identifies the investment types that are authorized for the City by the California Government Code and Policy, if more restrictive:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Dollar of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Bankers' Acceptances	180 days	25%	5%
Insured Time Deposits	3 years	$10 million	5%
Uninsured Time Deposits	18 months	$10 million	5%
Commercial Paper	270 days	20%	5%
Negotiable Certificates of Deposit	180 days	25%	5%
Repurchase Agreements	10 days	None	None
Reverse Repurchase Agreements	30 days	$25 million or 20% (Which ever is less)	None
Corporate Notes	3 years	15%	5%
Local Agency California Investment Fund	None	None	None
Money Market Mutual Funds	None	15%	5%
California Municipal Bonds - Category 1	5 years	15%	5%
California Municipal Bonds - Category 2	5 years	5%	5%
California Municipal Bonds - Category 3	5 years	10%	5%
Investment Agreements	None	None	None

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Farm Credit Banks (FFCB), the Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and Student Loan Marketing Association (SLMA).

- The purchase of Banker Acceptances (BAs) are limited to issues by domestic U.S. or foreign banks and which must be rated by Fitch Ratings as follows: an issuer rating of "B" or better for domestic U.S., "C" or better for California banks or "A/B"" or better for foreign banks. Additionally, foreign BAs must be in U.S. dollar denominations.

- Insured and uninsured time deposits are limited to issuances from banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Additionally, concerning uninsured time deposits, depositories must have an issuer rating of "B" or better by Fitch Ratings and be collateralized in a manner prescribed by state law for depositories.

- Investments in commercial paper are limited to investments in domestic corporations with the highest ranking or with the highest letter and number rating as provided for by the three nationally recognized rating services. Issuing corporations must be organized and operating within the U.S. and have total assets in excess of $500,000,000.

- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer rating of "A/B" or better by Fitch Ratings and may not exceed the net worth of issuing institution.

- Repurchase agreements are to be executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions, which have entered into the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement. Securities accepted as collateral for the repurchase agreement are limited to U.S. Treasury or U.S. Federal Government Agencies permitted under the Policy. The market value of the securities that have been accepted as collateral shall, at the time of transfer, equal at least 102 percent face value of the repurchase agreement. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value to at least 102 percent of repurchase agreement's face value.

- Corporate notes eligible for investment must be rated "A" or better by two of the three nationally recognized rating services.

- Funds invested in Local Agency Investment Fund, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer.

- Investments in money market mutual funds are limited to those funds registered with the Securities and Exchange Commission and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC or exempt from the SEC registration requirements with no less than five years experience investing in securities and obligations authorized by California Government Code Section 53601 and managing money market mutual funds with assets under management in excess of $500,000,000. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and be maintained at no less than $1.00 per share.

- Reverse repurchase agreements under the Policy are limited to the lesser of $25,000,000 or 20% of the portfolio value and to those occasions where unanticipated short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to maturity.

- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a Provider's inability to meet its contractual obligations.

- California municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes three California municipal bond categories (1 through 3): bonds issued by the City or its agencies (as defined in the Policy), by the State of California, and by other California local agencies, respectively. Eligible securities must be rated AA or better by two nationally recognized rating services. For category 3, a rating of AAA through credit enhancements is also permitted.

The Policy permits the Director of Finance to authorize investments that depart from the Policy's numerical limits if such an action is in the best interest of the City and is otherwise consistent with the Policy and applicable City, State and federal laws. Whenever a deviation or exception to the Policy occurs, it must be reported to the City Manager and the City Council within one business day.

The following schedule indicates the interest rate risk, credit quality risk and concentration credit risk of the City's investments, as of June 30, 2009. The credit ratings listed are for Moody's Investors Services and Standard and Poor's, respectively. Certain investments, such as obligations, which are backed by the full faith and credit of the United States Government, are exempt from credit rating disclosures (dollars in thousands):

Type of Investment	Credit Rating	Maturity: Under 30 Days	31 - 180 Days	181 - 365 Days	1 - 5 Years	Carrying Value
Pooled investments in the City Treasury:						
U.S. Treasury notes	Exempt	-	8,989	-	-	8,989
Federal Farm Credit Banks *	Aaa / AAA	-	44,435	19,722	63,935	128,092
Federal Farm Credit Banks - Callable	Aaa / AAA	-	-	-	30,494	30,494
Federal Home Loan Banks *	Aaa / AAA	-	106,086	20,624	119,036	245,746
Federal Home Loan Banks - Callable *	Aaa / AAA	-	-	-	78,134	78,134
Federal Home Loan Banks - Discount *	P-1 / A-1+	75,000	39,981	-	-	114,981
Federal Home Loan Mortgage Corporation *	Aaa / AAA	-	4,748	-	66,593	71,341
Federal Home Loan Mortgage Corporation - Callable	Aaa / AAA	-	-	-	5,152	5,152
Federal Home Loan Mortgage Corporation - Discount	P-1 / A-1+	15,000	29,967	-	-	44,967
Federal National Mortgage Association - Discount *	P-1 / A-1+	-	141,419	-	-	141,419
Commercial paper - Discounted *	P-1 / A-1+	128,272	19,985	-	-	148,257
Medium-term notes	AAA	-	-	-	5,036	5,036
Medium-term notes	AA	-	-	-	25,791	25,791
Negotiable certificate of deposit	P-1 / A-1	10,006	-	-	-	10,006
Local agency investment fund *	Not Rated	-	-	180,008	-	180,008
Total pooled investments in the City Treasury		228,278	395,610	220,354	394,171	1,238,413
Other funds:						
Federal Farm Credit Banks	Aaa / AAA	-	-	-	5,373	5,373
Federal Home Loan Banks**	Aaa / AAA	9,930	4,563	50,326	38,350	103,169
Federal Home Loan Banks - Discount	P-1 / A-1+	-	-	4,586	-	4,586
Federal Home Loan Mortgage Corporation	Aaa / AAA	-	-	3,542	-	3,542
Federal Home Loan Mortgage Corporation - Discount	P-1 / A-1+	3	182	-	-	185
Federal National Mortgage Association	Aaa / AAA	-	-	315	-	315
Federal National Mortgage Association - Discount	P-1 / A-1+	-	905	-	-	905
Citigroup investment agreements**	Not rated	-	-	-	379,143	379,143
Commercial paper***	P-1 / A-1+	32,251	45,166	-	-	77,417
Money market mutual funds	AAAm	14,032	37,840	-	-	51,872
Local agency investment fund	Not Rated	-	-	284,520	-	284,520
Total other funds		56,216	88,656	343,289	422,866	911,027
Total citywide investments (excluding Retirement Systems)		$ 284,494	484,266	563,643	817,037	2,149,440
Retirement Systems:						
Total investments in Retirement Systems (See page 61 and 62)						3,756,019
Total investments						$ 5,905,459

* Investments with these issuers represent more than 5% of the City's pooled investments held in the City's Treasury.

** Investments represent more than 5% of the City's investments held by Fiscal Agents.

*** As of June 30, 2009, the Agency's commercial paper investments with Union Bank in the amount of $77,417,000 represents more than 5% of the City's investments held outside the City's Treasury pool.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker - dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of the City's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the City's name.

As of June 30, 2009, the carrying amount of the City's deposits with financial institutions was approximately $52,121,000 and the bank balance was $69,498,000. The difference between the carrying amount and bank balance relates to outstanding checks and wire transfers issued against the general operating account. Of the bank balance, $65,354,000 was covered by Federal depository insurance and $4,144,000 was collateralized.

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2009, the investments in the City's investment pool were not subject to foreign currency risk.

2. Retirement Systems

Interest Rate Risk. The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. The Retirement Systems do not have policies for managing interest rate risk although the Retirement Systems do hold certain investments that could be affected by changes in interest rates. The Retirement Systems have investments in U.S. Government National Mortgage Association (GNMA) in the amount of $22,711,000 and U.S. government agency securities in the amount of $251,466,000 backed by mortgage pass-throughs which are sensitive to interest rate changes of which $3,284,000 are floating rate securities tied to the six and twelve-month LIBOR and $899,000 are tied to the twelve-month MTA. Therefore, if interest rates decline, the mortgages are subject to prepayments by borrowers. However the Retirement Systems' intent is to hold all fixed maturity investments until maturity, and accordingly, fixed maturity investments are classified in the following tables as if they were held to maturity. International government bonds include $2,376,000 of a floating rate bond linked to the 10 year Japanese Government Bond that is reset semi-annually. In addition, as of June 30, 2009, $2,671,000 of the collateralized mortgage obligation (CMO) are floating rate securities tied to the one to twelve-month LIBOR and $3,070,000 are tied to a combination of LIBOR and CMT. Also, $19,411,000 of the other asset backed securities are floating rate bonds tied to one to twelve-month LIBOR; $9,433,000 of the corporate bonds are floating rate bonds tied to the one to twelve-month LIBOR; and $146,000 of the corporate bonds are floating rate but not tied to an index.

Custodial Credit Risk. Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The Retirement Systems do not have a policy regarding custodial credit risk. The Retirement Systems' custodians hold all investments of the Retirement Systems in either the System's or the Plan's nominee name, which ever is applicable, except for the assets held in pooled funds, which are under custody of the investment managers' custodian bank. The Retirement Systems' investments in pooled holdings have the underlying securities valued by the fund managers in accordance with the Retirement Systems' fair value standards. At June 30, 2009, the Retirement Systems had the following pooled holdings: $66,406,000 in fixed income, $293,184,000 in international equities, $261,446,000 in domestic equities, $122,849,000 in real estate, and $134,039,000 in private equities.

Credit Quality Risk. The Systems' assets shall generally be invested in investment grade, marketable, fixed-income securities. Domestic fixed maturity investment grade shall be defined as being rated Baa/BBB or better by two of the following three rating service: Moody's Investors Service (Moody's), Standard & Poor's (S&P) or Fitch Rating Services (Fitch's). If the ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be assigned. Up to 15% investment in BB or B securities will be permitted with written authorization of the System's Board. The investment managers employed to manage domestic fixed-income securities will have discretion in the day-to-day management of the funds under their control. International fixed maturity investments must be at least Aa3/AA-. If the corresponding ratings assigned by S&P and Moody's are not equivalent the higher rating will be used for purposes of measuring portfolio and security quality. If a security is not rated by S&P or Moody's, the equivalent rating determined by the investment manager's research department will be assigned. If bonds are downgraded below the minimum credit quality allowable in the guidelines at the time of purchase, the Investment Manager is permitted to hold up to 2% of the Systems' portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security.

All domestic and international bonds and notes in which the Plan's assets are invested, and which mature one year or more from the date of original issues, are required to carry a rating of "BBB" or better by two of the following three services: S&P, Moody's or Fitch's. In the event that ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, shall be of equivalent quality in the judgment of the Investment Manager to a similar domestic issue. Investment managers may, with prior written authorization of the Board, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB. If bonds are downgraded below the minimum credit quality allowable in the guidelines at the time of purchase, the Investment Manager is permitted to hold up to 2% of the Plan's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security.

The Retirement Systems may hedge against the possible adverse effects of currency fluctuations on the Retirement Systems' portfolio of international fixed income obligations when it is considered appropriate. Short-term investments may consist of commercial paper rated at least A-1 or P-1, repurchase agreements, short-term U.S. securities, and other money market investments.

The credit ratings listed below are for Moody's Investors Services and/or Standard and Poor's. Certain investments, such as obligations backed by the full faith and credit of the United States Government, are exempt from credit rating disclosure.

The following schedule indicates the credit quality rate risk of the Retirement Systems' investments, by category, as of June 30, 2009. (dollars in thousands):

Ratings	Total	Percentage
AAA	$ 261,567	20.64%
AA	68,749	5.43%
A	161,752	12.77%
BBB	134,903	10.65%
BB	90,605	7.15%
B	60,756	4.79%
CCC & below	16,778	1.32%
Not rated*	472,028	37.25%
	$ 1,267,138	100.00%

* Includes Collective Short-term Investment Funds and derivatives, GNMA, FHMLC and FNMA TBA mortgages and other cash equivalents.

Concentration of Credit Risk. The Retirement Systems' investment policies limit the aggregate amount that can be invested in each class of investments. The limits of each policy are as follows:

	Type of Investment	Policy Limits and Descriptions
The Plan	Equity	Minimum of 41% and maximum of 57% of the fair value of the aggregate portfolio.
	Fixed Income	Minimum of 15% and maximum of 31% of the fair value of the aggregate portfolio.
	Long Duration Fixed Income	Limited to 7% of the fair value of the aggregate portfolio.
	Alternatives	Limited to 28% of the fair value of the aggregate portfolio. (Funds allotted to the alternatives asset class are temporarily invested in other assets)
	Real Estate	Limited to 15% of the market value of the aggregate portfolio. Real estate investments include: - Apartment complexes located in Houston, TX and Colorado Springs, CO. - Office buildings located in Denver, CO; San Jose, CA; Anchorage, AK, near Chicago, IL, Anchorage, AK and an office building under construction in O'Fallon, MO. - Warehouse located near Minneapolis, MN. (The properties have leases with various terms)
The System	Domestic Equity	Minimum of 28% and maximum of 38% of the fair value of the aggregate portfolio.
	International Equity	Minimum of 15% and maximum of 25% of the fair value of the aggregate portfolio.
	Fixed Income	Minimum of 31% and maximum of 41% of the fair value of the aggregate portfolio.
	Private Equiy	Minimum of 2% and maximum of 8% of the fair value of the aggregate portfolio.
	Real Estate	Minimum of 3% and maximum 9% of the fair value of the aggregate portfolio. Real estate investments include: - Warehouse located in Northern California. - Interest in eight separate real estate funds managed by third parties.

The collective short-term investment fund is used for overnight investment of all excess cash in the Retirement Systems' funds. It is invested by the Retirement Systems' custodians, and held in the Retirement Systems' custodians' names. This fund consists of:

- Short-term fixed corporate and U.S. government obligations or those of any federal agency, or of other issuers that are fully guaranteed by the U.S. government or a federal agency as to repayment of principal and the payment of interest;

- Commercial paper;
- Certificates of deposit;
- Repurchase agreements with major banks and U.S. government securities dealers that are collateralized by obligations of the U.S. government or a federal agency, or obligations fully guaranteed by the U.S. government or a federal agency; and
- Fully insured bank deposits.

As of June 30, 2009, the System held $79,559,000 of investments issued by the Federal National Mortgage Association (including non-USD) which represents 5.4% of the System's total investments.

Foreign Currency Risk. The risk that changes in foreign exchange rates will adversely affect the fair value of an investment. As of June 30, 2009, the Retirement Systems were subject to foreign currency risk. To mitigate this risk, the Retirement System's investment policy permits individual investment managers to defensively hedge currency to mitigate the impact on currency fluctuation on the underlying asset value.

Forward International Currency Contracts. The Retirement Systems made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Retirement Systems utilize these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2009, the Retirement Systems' net position in these contracts is recorded at fair value as forward international currency contracts. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. The Retirement Systems' investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2009, total commitments in forward currency contracts to purchase and sell foreign currencies for the System were $10,632,000 and $10,632,000, respectively, with market values of $10,622,000 and $10,628,000, respectively. As of June 30, 2009, total commitments in forward currency contracts to purchase and sell foreign currencies for the Plan were $2,012,000 and $2,012,000 respectively, with fair values of $2,007,000 and $2,011,000, respectively. The Retirement Systems' commitments relating to forward currency contracts are settled on a net basis.

Derivatives. The Retirement Systems' investment policies generally allow for investments in futures and options that comply with the Retirement System's basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. At June 30, 2009 the Plan and the System held futures and options with fair market values of approximately negative $166,000 and $108,000, respectively. Gains and losses on futures and options are determined based on quoted market values and recorded in the Statement of Changes in Plan Net Assets.

Due to the level of volatility associated with certain derivative investments it is reasonable to expect significant fluctuations in the fair market value of these securities from the amounts presented in the financial statements as of June 30, 2009. The Plan specifically prohibits investment managers from using derivative or synthetic securities that expose the Plan to potentially high price volatility or are either speculative or leveraged, or whose market-ability may become severely limited.

The following tables provide information related to the various investment risks that may affect the investments of the Retirement Systems:

Investment Maturities at Fair Value
As of June 30, 2009
(Dollars in Thousands)

Type of Investment	Maturity: 3 Months or Less	3 - 6 Months	6 Months - 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years	Total Fair Value
Fixed Maturity:							
Domestic:							
U.S. Treasury Securities	$ 6,768	10,859	724	10,172	10,590	15,535	$ 54,648
U.S. Treasury Strips	-	-	-	-	-	29	29
GNMA	-	-	-	-	-	22,657	22,657
FHLMC	-	-	-	1,396	7,232	66,098	74,726
FNMA	-	-	-	7,742	16,297	152,065	176,104
Other U.S. Gov't Agency Securities	-	-	-	586	974	7,334	8,894
Asset Backed Securities	-	-	234	6,105	6,371	17,983	30,693
Bank Loans	-	-	-	51,405	23,233	-	74,638
Collateralized Mortgage Obligations	-	-	144	-	2,464	60,258	62,866
Corporate Bonds	200	-	4,373	109,692	145,655	151,723	411,643
State and Local Obligations	-	-	-	-	361	4,092	4,453
Collective Short Term Investments	118,969	-	-	-	-	-	118,969
Pooled Domestic Bonds	-	-	-	-	64,889	-	64,889
Total domestic maturities	125,937	10,859	5,475	187,098	278,066	497,774	1,105,209
International:							
Government bonds:							
Australian Dollar	-	-	-	376	-	-	376
Brazilian Real	-	-	-	-	601	-	601
British Pound	-	-	-	-	-	4,395	4,395
Canadian Dollar	143	-	-	-	2,135	-	2,278
Euro Currency	-	4,214	-	6,051	6,255	7,167	23,687
Indonesian Rupiah	-	-	-	507	-	-	507
Japanese Yen	-	-	693	12,605	6,619	6,697	26,614
Norwegian Krone	-	-	-	3,045	1,054	-	4,099
USD Denominated	-	-	-	3,016	665	2,352	6,033
Total international government bonds	143	4,214	693	25,600	17,329	20,611	68,590
Corporate Bonds:							
British Pound	-	-	-	1,326	1,066	657	3,049
Canadian Dollar	-	-	-	-	427	369	796
Euro Currency	823	-	-	3,774	7,845	2,758	15,200
Japanese Yen	-	-	-	962	2,099	-	3,061
USD Denominated	-	-	47	19,501	29,668	20,675	69,891
Total international corporate bonds	823	-	47	25,563	41,105	24,459	91,997
Pooled International Fixed Maturity	-	-	-	-	-	1,517	1,517
Total international fixed maturities	966	4,214	740	51,163	58,434	46,587	162,104
Derivatives	(110)	(65)	-	-	-	-	(175)
Total fixed maturity	$ 126,793	15,008	6,215	238,261	336,500	544,361	$ 1,267,138

Investment Maturities at Fair Value
As of June 30, 2009
(Dollars in Thousands)
(Continued)

Type of Investment	3 Months or Less	3 - 6 Months	6 Months - 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years	Total Fair Value
Equities*:							
Domestic							$ 823,984
Pooled domestic equity							261,446
Total domestic equities							1,085,430
International:							
International currency*:							
Australian Dollar							9,041
Brazilian Real							12,650
British Pound							80,750
Canadian Dollar							6,416
Danish Krone							6,523
Euro Currency							109,400
Hong Kong Dollar							29,695
Indian Rupee							9,908
Indonesian Rupiah							3,773
Japanese Yen							75,887
Malaysian Ringgit							1,569
Mexican Peso							1,402
New Taiwan Dollar							2,487
New Zealand Dollar							1,153
Norwegian Krone							930
Polish Zloty							317
Singapore Dollar							6,441
South African Rand							5,660
South Korean Won							6,488
Swedish Krona							7,355
Swiss Franc							27,312
Turkish Lira							480
USD Denominated							69,574
Total international currency							475,211
Pooled International Equities*							293,184
Total international equities							768,395
Total equities							1,853,825
Private equity*							134,039
Real Estate*							270,760
Forward international currency contracts*							(10)
Securities Lending Collateral*							230,267
Total investments of retirement plans							$ 3,756,019

* Investment(s) not subject to fixed maturity date

Securities Lending. The municipal code and the investment policies, adopted by the Boards of the Retirement Systems, permit the use of a securities lending program with its principal custodian banks (Custodians). The Retirement Systems do not have a threshold for securities lending. The investment policy of the System requires that loan maturities cannot stretch beyond one year, and no more than 15% of the portfolio can be lent longer than six months. The custodial agreements with the Retirement Systems' custodians authorize such custodian to loan securities in the Retirement Systems' investment portfolio under such terms and conditions, as the custodians deem advisable and to permit the loaned securities to be transferred into the name of the borrowers. The Retirement Systems receive a fee from the borrower for the use of the loaned securities. As of June 30, 2009, the Retirement System's had no exposure to borrower credit risk related to the securities lending transactions as the custodians are responsible for the replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the custodian is required to credit the Retirement Systems' account with the market value of such unreturned loaned securities it the loaned securities are not returned by the borrower. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the Retirement Systems or borrowers.

Securities lending collateral represents investments in an investment pool purchased with cash collateral, as well as securities collateral that may be pledged or sold without a default by the borrower. Securities lending transactions collateralized with securities that cannot be pledged or sold without borrower default are not reported as assets and liabilities in the fiduciary statement of net assets. The Retirement Systems do not match the maturities of investments made with cash collateral with the securities on loan.

The Plan authorized State Street Bank and Trust to invest and reinvest cash collateral in State Street's pooled investment vehicle which must have an effective duration of 90 days or less. Securities with maturities of 13 months or more must have a rating of A or better by at least two nationally recognized statistical rating organizations, or if unrated, be of comparable quality Securities with maturities of less than 13 months are rated at least A-1/P-1. As of June 30, 2009, the size of the cash collateral pooled vehicle was $44.6 billion and the weighted average maturity of 42.64 days. The cash collateral investments included asset backed securities (47% of the pool), certificates of deposit (20%), corporate securities (6%), bank notes (13%), and other securities (14%). All of the underlying investments of the Plan's securities lending cash collateral are held by the counterparty, not in the name of the Plan.

The System authorized The Northern Trust Company to invest and reinvest cash collateral in Northern Trust's pooled investment vehicle which must have weighted average life of 60 days or less. Securities with maturities of 13 months or more must have a rating of A or better. Securities with maturities of less than 13 months are rated at least P-3. As of June 30, 2009, the size of the cash collateral pooled vehicle was $28.6 billion and the weighted average life of 47 days. The cash collateral investments included time deposits (28% of the pool), repurchase agreements (18%), asset backed securities (25%), certificates of deposit (16%), variable rate securities (11%) and commercial paper and other bank notes (2%). All of the underlying investments of the System's securities lending cash collateral are held by the counterparty, not in the name of the System.

The loaned securities as of June 30, 2009 consisted of U.S. Treasury securities, U.S. government agency securities, domestic corporate bonds, international corporate bonds, international government bonds, domestic equity securities, and international equity securities. In return, the Retirement Systems receive collateral in the form of cash or securities equal to at least 102% for domestic and 105% for international of the transferred securities plus accrued interest for reinvestment.

As of June 30, 2009, the underlying securities loaned by the Retirement Systems as a whole amounted to approximately $235,848,000.The net asset value (NAV) of the cash collateral pools as of June 30, 2009 for the Plan and the System were $209,103,000 and $21,164,000, respectively, on a mark to market basis. The NAV was less than 100% is due to the decline in fair value of the assets held by the cash collateral pool. The Retirement Systems is exposed to investment risk including the possible loss of principal values in the cash collateral pool due to the fluctuation in the market value of the assets held by the cash collateral pool.

The following table provides information concerning securities lent and collateral received as of June 30, 2009 (dollars in thousands):

	The Plan	The System	Total Fair Value
Type of Investment Lent			
For Cash Collateral:			
U.S. treasury notes and bonds	$ 18,511	799	$ 19,310
U.S. government agency securities	12,340	144	12,484
Domestic corporate bonds	20,762	3,157	23,919
Domestic equity securities	126,965	16,696	143,661
International equity securities	33,769	1,662	35,431
Total Lent for Cash Collateral	212,347	22,458	234,805
For Non-Cash Collateral:			
U.S. treasury notes and bonds	882	-	882
Domestic equity securities	111	50	161
Total Lent for Non-Cash Collateral	993	50	1,043
Total Securities Lent	$ 213,340	22,508	$ 235,848
Type of Collateral Received			
Cash Collateral	$ 209,103	21,164	$ 230,267
Non-Cash Collateral:			
For lent U.S. treasury notes and bonds	902	-	902
For lent domestic equity securites	114	50	164
Total Non-Cash Collateral	1,016	50	1,066
Total Collateral Received	$ 210,119	21,214	$ 231,333

B. Receivables, Net of Allowances

Receivables at year-end of the City's major individual funds and non-major funds taken in aggregate, including the applicable allowances for uncollectible accounts are as follows (dollars in thousands):

Receivables – Governmental Activities:	General Fund	Redevelopment Agency	Housing Activities	Special Assessment Districts	Financing Authority	Total Nonmajor Funds	Governmental Activities
Taxes	$ 27,596	272	-	-	-	4,331	$ 32,199
Accrued interest	1,295	674	1,646	141	6	3,648	7,410
Grants	3,667	-	5,278	-	-	11,597	20,542
Special assessments	-	-	-	64,886	-	-	64,886
Other	22,237	588	62	-	-	23,081	45,968
Less: allowance for uncollectibles	(6,741)	-	(3)	-	-	(3,267)	(10,011)
Total receivables, net	$ 48,054	1,534	6,983	65,027	6	39,390	$ 160,994

Business-Type Activities:	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total Business-Type Activities
Accounts	$ 9,150	2,703	3,061	117	$ 15,031
Accrued interest	2,833	1,391	78	98	4,400
Grants	9,082	3,580	-	-	12,662
Less: allowance for uncollectibles	(384)	(605)	(361)	(10)	(1,360)
Total receivables, net	$ 20,681	7,069	2,778	205	$ 30,733

Special assessment receivables in the amount of $64,886,000 are not expected to be collected within the subsequent year.

C. Loans Receivable

The composition of the City's loans receivable as of June 30, 2009 is as follows (dollars in thousands:

Type of Loan	General Fund	Redevelopment Agency	Housing Activities	Nonmajor Funds	Total Governmental Activities
20% Housing Program Developer, rehabilitation, second mortgage and relocation loans	$ -	-	545,319	-	$ 545,319
Loans funded by federal grants	-	-	44,219	7,643	51,862
Economic development, real estate developer and other loans	2,391	49,996	42,629	776	95,792
Less: allowance for uncollectables	-	(13,138)	(341,242)	(2,322)	(356,702)
Total loans, net	$ 2,391	36,858	290,925	6,097	$ 336,271

California Community Redevelopment Law requires that at least 20% of the incremental tax revenues generated from certain redevelopment project areas be used to increase, improve, and preserve the affordable housing stock for families and individuals with very low, low, and moderate incomes. In response to this requirement, the City established its 20% Housing Program to offer financial assistance to qualified developers, families, and individuals by providing loans at "below market" rates.

Typical loans and related terms are summarized as follows:

Loan Type	Interest Rate	Due
New construction and permanent	0 - 4%	up to 55 years
Multi-unit rental rehabilitation	3%	5 or more years
Take-out (first time homeowners)	4%	7 to 40 years
Home improvement	3 - 6%	1 to 30 years

Loans are secured by first, second, third or lower in lien-property deeds of trust except for take-out loans, which are all secured by second deeds of trust. Interest and principal are typically due in installments, except for take-out loans, which do not require payments until their maturity dates.

The City has also invested in multi-family rental housing projects serving low to moderate income individuals through subordinate loans with terms of up to 55 years. Generally, these loans are to be repaid through fixed payments or net cash flow payments from project operations and the term and potential risk of each loan varies. Because of the net cash flow feature of these subordinate loans, earnings and repayments are not as definite as with other loans receivable. There is greater risk of variability in the timing of payments and, potentially, a lower probability of eventual repayment on these subordinate loans than on other loan types.

The City maintains a valuation allowance against loans receivable comprised of an allowance for risk and an allowance for present value discount. The allowance for risk is maintained to provide for losses that can be reasonably anticipated. The allowance is based upon continuing consideration of changes in the character of the portfolio, evaluation of current economic conditions, and such other factors that, in the City's judgment, deserve recognition in estimating potential loan losses. The allowance for risk takes into consideration maturity dates, interest rates, and other relevant factors.

In accordance with City policy, loans are funded at below market rates of interest and include amortized net cash flow deferred repayment terms. This policy exists to enhance the well-being of the recipients or beneficiaries of the financial assistance, who, as described above, are very low, low, or moderate-income individuals or families, or developers of housing for such individuals or families.

Accordingly, for financial statement purposes, the City has established an allowance account against the loans receivable balance containing a present value discount. The present value discount gives recognition to the economic cost of providing loans at interest rates below market, and represents an estimate of the present value of projected net cash flows to the City from the loan portfolio. The present value discount attributable to the loans will be recognized as interest income only as such loans are repaid in full because of the deferred nature of the loan portfolio and the high level of uncertainty relating to the likelihood that cash flows will occur as projected. The difference between the individual outstanding loan balances and the calculated net present value of the loans results in the allowance for present value discount. Losses are recognized through charges to the allowance and any subsequent recoveries are added to the allowance.

The City's management believes the combined amount of the aforementioned risk and present value discount allowances is adequate to reflect the net realizable value of the Community Development Block Grant ("CDBG") loans, Home Investment Partnership Program ("HOME") loans, and 20% Housing Program loans receivable as of June 30, 2009.

In the normal course of operations for housing programs, the City has outstanding commitments to extend credit, which have been encumbered as of June 30, 2009. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2009, amounts committed to extend credit under normal lending agreements totaled approximately $40,000,000.

D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the fiscal year ended June 30, 2009 (dollars in thousands):

		Balance June 30, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Governmental activities:						
Capital assets, not being depreciated:						
Land	$	559,825	11,757	10,324	-	561,258
Construction in progress		140,489	128,381	37	(16,172)	252,661
Total capital assets, not being depreciated		700,314	140,138	10,361	(16,172)	813,919
Capital assets, being depreciated:						
Buildings		1,261,805	13,595	-	12,736	1,288,136
Improvements, other than buildings		126,671	1,709	-	-	128,380
Infrastructure		11,278,414	19,242	64	3,436	11,301,028
Vehicles and equipment		108,513	11,292	2,676	-	117,129
Furnitures & fixtures		26,507	-	-	-	26,507
Property under capital leases		13,379	-	-	-	13,379
Total capital assets, being depreciated		12,815,289	45,838	2,740	16,172	12,874,559
Less accumulated depreciation for:						
Buildings		264,686	33,998	-	-	298,684
Improvements, other than buildings		5,363	2,189	-	-	7,552
Infrastructure		5,329,023	304,600	38	-	5,633,585
Vehicles and equipment		89,734	6,593	2,132	-	94,195
Furnitures & fixtures		7,922	2,655	-	-	10,577
Property under capital leases		12,112	193	-	-	12,305
Total accumulated depreciation		5,708,840	350,228	2,170	-	6,056,898
Total capital assets, being depreciated, net		7,106,449	(304,390)	570	16,172	6,817,661
Governmental activities capital assets, net	$	7,806,763	(164,252)	10,931	-	7,631,580
Business-type Activities:						
Capital assets, not being depreciated:						
Land	$	134,926	-	-	-	134,926
Construction in progress		616,188	360,623	3,536	(105,134)	868,141
Total capital assets, not being depreciated		751,114	360,623	3,536	(105,134)	1,003,067
Capital assets, being depreciated:						
Buildings		573,168	61	-	59,709	632,938
Improvements, other than buildings		852,896	4,470	-	20,399	877,765
Vehicles and equipment		150,088	3,918	234	25,026	178,798
Intangible assets		15,188	-	-	-	15,188
Property under capital leases		13,406	-	-	-	13,406
Total capital assets, being depreciated		1,604,746	8,449	234	105,134	1,718,095
Less accumulated depreciation for:						
Buildings		244,527	16,941	-	-	261,468
Improvements, other than buildings		362,884	22,921	-	-	385,805
Vehicles and equipment		108,874	5,513	222	-	114,165
Intangible assets		7,611	324	-	-	7,935
Property under capital leases		10,153	454	-	-	10,607
Total accumulated depreciation		734,049	46,153	222	-	779,980
Total capital assets, being depreciated, net		870,697	(37,704)	12	105,134	938,115
Business-type activities capital assets, net	$	1,621,811	322,919	3,548	-	1,941,182

2. Depreciation

Depreciation expense charged to various governmental and business type activities of the City for the fiscal year ended June 30, 2009 is as follows (dollars in thousands):

Governmental activities:		
General government	$	13,182
Public safety		5,512
Capital maintenance		305,260
Community services		26,274
Total depreciation expense governmental activities	$	350,228
Business-type activities:		
Norman Y. Mineta San José International Airport	$	20,396
Wastewater Treatment System		21,025
Municipal Water System		2,489
Parking System		2,243
Total depreciation expense business-type activities	$	46,153

3. Intangible Assets

Intangible assets consist primarily of the Airport's acquisition of certain habitational rights and navigation/relocation easements made in accordance with its land acquisition program under the California Noise Reduction Act. All costs associated with such acquisitions have been capitalized as intangible assets. Amortization of such intangible assets is calculated using the straight-line method over a 40 year estimated useful life. Amortization expense that was reported for the year ended June 30, 2009 related to these acquisitions was approximately $320,000.

4. Capitalized Interest

Interest costs that related to the acquisition of buildings and improvements and equipment acquired with tax-exempt and taxable debt are capitalized for business-type activities. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. For the year ended June 30, 2009, the total amount of interest capitalized in the Airport Enterprise Fund, net of allowable interest earned of temporary investment proceeds, was approximately $33,991,000.

5. Construction Commitments

Commitments outstanding as of June 30, 2009, related to governmental and business-type activities construction in progress totaled approximately $67,644,000 and $358,999,000, respectively.

E. Leases

The City has commitments under various operating lease agreements requiring annual rental payments, which are described as follows:

Governmental Activities

The City has ongoing commitments under operating lease agreements for business equipment, office facilities and land necessary for City operations, which expire at various dates through 2021. Each governmental fund includes the expenditures related to such lease agreements. There are both cancelable and non-cancelable lease agreements. Rental expenditures reported by the General Fund, Non-major Governmental Funds and the Redevelopment Agency Fund under these operating lease agreements for the fiscal year ended June 30, 2009 amounted to approximately $2,040,000, $1,074,000 and $4,065,000, respectively. The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2009, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Redevelopment Agency	Total Govermental Activities
2010	$ 1,883	$ 1,112	$ 3,188	$ 6,183
2011	1,725	1,185	2,783	5,693
2012	1,521	1,228	2,671	5,420
2013	1,302	977	2,316	4,595
2014	656	97	2,238	2,991
2015-2019	-	-	3,215	3,215
2020-2021	-	-	183	183
Totals	$ 7,087	$ 4,599	$ 16,594	$ 28,280

Business-Type Activities

The Airport leases its office space under a lease agreement which, as amended, expires in December 2014. Rental expense for the Airport's office space was approximately $3,062,000 for the year ended June 30, 2009. In June 2001, the Airport entered into an operating lease and maintenance agreement of 20 compressed natural gas powered buses. The term of the agreement is from March 1, 2003 to February 28, 2010. In December 2007, the Airport entered into an additional operating lease and maintenance agreement of 14 compressed natural gas powered buses. The term of the agreement is from August 1, 2008 to July 31, 2015. Rental expenses for the Airport buses for the year ended June 30, 2009 was approximately $3,502,000.

The future minimum payments anticipated under these commitments, as of June 30, 2009, are as follows (dollars in thousands):

Fiscal Year Ending June 30,		Operating Leases
2010	$	5,349
2011		4,197
2012		3,176
2013		3,293
2014		2,305
Thereafter		1,289
Total	$	19,609

The City also leases building space, facilities, and/or the privilege of operating a concession to tenants and concessionaries resulting in receipt of annual rents, which are described as follows:

Governmental Activities

In October 1991, the City entered into a 15-year agreement (the initial term) with the San José Arena Management Corporation (the Manager), an unrelated entity, regarding the management, operations, and maintenance of the San José Arena, and use of the San José Arena by the San José Sharks, a franchise of the National Hockey League. The agreement was subsequently amended on December 9, 2000 extending the agreement for an additional 10 years (the extended term). The initial term commenced on October 24, 1991 and terminated on July 31, 2008. The extended term commenced on August 1, 2008 and terminates on July 31, 2018. Under the initial term of the agreement, the Manager is required to pay the City an annual payment amounting to the greater of $1,000,000 or 5% of the Average Annual Hockey Revenue, as defined by the agreement. Additionally, the City received a portion of the luxury-box suite revenue. During the extended term of the agreement, the Manager is required to pay the City annual, minimum rental and hockey rental payments of $1,642,000 and $1,460,000, respectively, as defined by the agreement. The fiscal year ended June 30, 2009 was year 16 of the lease for which the City received approximately $4,875,000. As of June 30, 2009, leased assets had total historic cost of approximately $118,114,000 and accumulated depreciation of approximately $41,633,000.

Business-Type Activities

The City entered into an Airline-Airport lease and operating agreement with various passenger and cargo airlines serving the Airport. The airline lease agreement, which took effect on December 1, 2007, is scheduled to expire on June 30, 2012 and may be extended for one additional five-year term by mutual agreement of the City and the Signatory Airlines. The key provisions in the new airline lease agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The new airline lease agreement also includes a revenue sharing provision to evenly divide net unobligated Airport revenues between the Airport and the airlines currently operating at the Airport after each fiscal year. In any fiscal year in which there are net unobligated Airport revenues and all requirements of the City's Airport financing documents have been satisfied, the remaining net unobligated Airport revenues are to be evenly divided between the City and the airlines. If net revenues exceed the projected levels outlined in the Airport Forecast identified in the new airline lease agreement, then the airlines share of the difference will be deposited into the Rate Stabilization Fund up to a cap of $9,000,000. Once the Rate Stabilization Fund has been fully funded or in the event that the actual net revenues do not exceed the projected net revenues, the airlines share of net revenues shall be applied as a credit to the airline terminal revenue requirement for the following fiscal year, thus reducing terminal rental rates for the following fiscal year. The first $1,000,000 of City's share of any net revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose. The remaining balance of City's share shall be applied to the capital costs of the Airport's Master Plan Program. For the fiscal year ended June 30, 2009, the Airport's actual revenues exceeded its expenses and reserve requirements by approximately $29,336,000. The surplus received during the fiscal year ended June 30, 2009 will be distributed in accordance of the revenue sharing provisions of the new airline lease agreement.

The Airport also enters into leases with concessionaires, airline carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. The terms of these operating leases range from 1 month to 29 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount.

The future minimum rentals to be received from the aforementioned operating leases, as of June 30, 2009, are as follows (dollars in thousands):

Fiscal Year Ending June 30,		Amount
2010	$	57,568
2011		74,424
2012		79,436
2013		16,880
2014		16,620
2015-2019		57,910
2020-2024		22,754
2025-2029		13,237
2030-2034		10,760
2035-2039		7,614
Total	$	357,203

These future minimum rentals are based upon annual rates and charges agreed to by the airlines and other tenants. In addition to the future minimum rentals disclosed above, the Airport expects to receive approximately $1,072,000 from month-to-month rentals in fiscal year ending June 30, 2010. As of June 30, 2009, leased assets had historic costs of approximately $94,235,000 and accumulated depreciation of approximately $45,455,000.

F. Long-Term Debt and Other Obligations

1. Summary Schedule of Long-Term Debt

The following is a summary of long-term debt of the City as of June 30, 2009 (dollars in thousands):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments (millions)	Balance June 30, 2009
Governmental Activities:							
City of San Jose:							
General Obligation Bonds:							
Series 2001 (Libraries and Parks)	Community Facilities	$ 71,000	06/06/2001	09/01/2031	4.75-5.125%	2.37	$ 54,410
Series 2002 (Libraries, Parks, Public Safety)	Community Facilities	116,090	07/18/2002	09/01/2032	4.00-5.00%	3.87	92,870
Series 2004 (Libraries, Parks, Public Safety)	Community Facilities	118,700	07/14/2004	09/01/2034	4.00-5.00%	3.96	102,880
Series 2005 (Libraries and Public Safety)	Community Facilities	46,300	06/23/2005	09/01/2035	3.00-7.50%	1.54-1.55	41,680
Series 2006 (Libraries and Parks)	Community Facilities	105,400	06/29/2006	09/01/2036	4.00-5.00%	3.51-3.52	98,380
Series 2007 (Parks and Public Safety)	Community Facilities	90,000	06/20/2007	09/01/2037	4.00-8.00%	3.00	87,000
Series 2008 (Libraries and Parks)	Community Facilities	33,100	06/25/2008	09/01/2038	4.00-5.00%	1.10-1.11	33,100
Series 2009 (Public Safety)	Community Facilities	9,000	06/25/2009	09/01/2039	4.00-6.00%	0.00-0.30	9,000
							519,320
HUD Section 108 Note	Economic Development	25,810	02/10/2005	08/01/2024	Variable	1.01-2.22	23,923
City of San Jose Financing Authority:							
Lease Revenue Bonds:							
Series 1993B (Community Facilities)	Community Facilities	18,045	04/13/1993	11/15/2012	5.90-6.00%	0.25-0.31	2,907
Series 1997B (Fire, Childcare, Library Land)	Community Facilities	9,805	07/29/1997	08/01/2012	4.75-4.875%	0.37-0.41	1,560
Series 2001E (Communication Center)	Refunding	18,610	03/29/2001	05/01/2010	5.00%	4.04	4,040
Series 2002B (Civic Center Project)	Civic Center	292,425	11/14/2002	06/01/2037	3.75-5.25%	0.16-33.45	291,980
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	3.10-4.70%	0.94-1.61	18,400
Series 2006A (Civic Center Project)	Refunding	57,440	06/01/2006	06/01/2039	4.00-5.00%	0.00-17.44	57,440
Series 2007A (Recreational Facilities)	Refunding	36,555	06/28/2007	08/15/2030	4.125-4.75%	0.91-2.22	34,340
Series 2008A (Civic Center)	Refunding	60,310	08/14/2008	06/01/2039	Variable	0.00-21.89	56,920
Series 2008B (Civic Center Garage)	Refinancing	36,580	07/10/2008	06/01/2039	Variable	0.70-1.89	35,975
Series 2008C (Hayes Mansion)	Refunding	10,915	06/26/2008	06/01/2027	Variable	0.00-4.57	10,915
Series 2008D (Taxable) (Hayes Mansion)	Refunding	47,390	06/26/2008	06/01/2025	Variable	1.30-4.20	46,380
Series 2008E (Taxable) (Ice Centre)	Refunding	28,070	07/03/2008	06/01/2025	Variable	1.06-2.52	27,085
Series 2008F (Taxable) (Land Acquisition)	Refunding	67,195	06/11/2008	06/01/2034	Variable	0.00-4.81	67,195
							655,137
Special Assessment Bonds with Limited Governmental Commitment:							
Special Assessment Bonds:							
Series 24K (Seismic Retrofit)	Seismic Retrofit	823	06/29/1993	09/02/2013	8.50%	0.01	36
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/26/2001	09/02/2023	4.90-5.875%	0.98-2.05	21,525
Series 24R (2002 Consolidated Refunding)	Consolidated Refunding	13,940	07/03/2002	09/02/2015	3.50-4.375%	1.01-1.21	7,790
Special Tax Bonds:							
CFD No. 1 (Capitol Expressway Auto Mall)	Public Infrastructure	4,100	11/18/1997	11/01/2022	5.30-5.70%	0.15-0.30	2,965
CFD No. 6 (Great Oaks-Route 85)	Public Infrastructure	12,200	12/18/2001	09/01/2023	4.50-6.00%	0.47-0.97	10,160
CFD No. 9 (Bailey/Highway 101)	Public Infrastructure	13,560	02/13/2003	09/01/2032	4.70-6.65%	0.25-0.95	12,105
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	3.80-5.25%	0.50-0.94	10,305
							64,886
Redevelopment Agency:							
Tax Allocation Bonds:							
Series 1993 (Merged Area Refunding)	Advance Refundings	692,075	12/15/1993	08/01/2015	6.00%	0.00-18.20	59,680
Series 1997 (Merged Area)	Redevelopment Projects	106,000	03/27/1997	08/01/2028	5.375-5.625%	0.01-0.72	6,680
Series 1998 (Merged Area)	Redevelopment Projects	175,000	03/19/1998	08/01/2009	5.00%	1.51	1,505
Series 1999 (Merged Area)	Redevelopment Projects	240,000	01/06/1999	08/01/2019	4.75%	0.00-7.17	12,920
Series 2002 (Merged Area)	Redevelopment Projects	350,000	01/24/2002	08/01/2015	4.00-4.50%	0.00-11.29	22,565
Series 2003 (Merged Area)	Redevelopment Projects	135,000	12/22/2003	08/01/2033	4.00-5.00%	0.00-34.10	127,545
Series 2004A (Merged Area)	Refunding	281,985	05/27/2004	08/01/2019	2.80-5.25%	8.78-31.90	242,105
Series 2005A (Merged Area)	Refunding	152,950	07/25/2005	08/01/2028	4.30-5.00%	0.30-26.21	152,725
Series 2005B (Merged Area)	Refunding	67,130	07/25/2005	08/01/2015	4.40-5.00%	4.23-21.56	67,130
Series 2006A (Taxable) (Merged Area)	Redevelopment Projects	14,300	11/14/2006	08/01/2022	5.65%	1.80-6.00	13,300
Series 2006B (Merged Area)	Redevelopment Projects	67,000	11/14/2006	08/01/2035	4.50-5.00%	1.00-21.00	67,000
Series 2006C (Merged Area)	Refunding	423,430	12/15/2006	08/01/2032	3.75-5.00%	12.00-74.28	423,430
Series 2006D (Merged Area)	Refunding	277,755	12/15/2006	08/01/2023	4.00-5.00%	0.56-67.33	277,305
Series 2007A (Taxable) (Merged Area)	Redevelopment Projects	21,330	11/07/2007	08/01/2017	5.10%	1.66-2.67	19,450
Series 2007B (Merged Area)	Redevelopment Projects	191,600	11/07/2007	08/01/2036	4.25-5.00%	1.53-23.97	191,600
Series 2008A (Merged Area)	Redevelopment Projects	37,150	12/17/2008	08/01/2018	5.25-6.50%	3.03-4.60	37,150
Series 2008B (Merged Area)	Redevelopment Projects	80,145	11/13/2008	08/01/2035	6.25-7.00%	2.60-6.70	80,145
							1,802,235
Revenue Bonds (Subordinate):							
Series 1996A (Merged Area)	Redevelopment Projects	29,500	06/27/1996	07/01/2026	Variable	0.80-2.00	25,800
Series 1996B (Merged Area)	Redevelopment Projects	29,500	06/27/1996	07/01/2026	Variable	0.80-2.00	25,800
Series 2003A (Taxable) (Merged Area)	Redevelopment Projects	45,000	08/27/2003	08/01/2028	Variable	1.30-3.10	41,600
Series 2003B (Merged Area)	Redevelopment Projects	15,000	08/27/2003	08/01/2032	Variable	0.00-3.90	15,000
							108,200

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments (millions)	Balance June 30, 2009
Governmental Activities (continued):							
Redevelopment Agency (continued):							
City of San Jose Financing Authority Revenue Bonds (Subordinate):							
Series 2001A (4th & San Fernando)	Parking Facility	$ 48,675	04/10/2001	09/01/2026	3.90-5.25%	1.49-3.21	$ 39,740
Series 2001F (Convention Center)	Refunding	186,150	07/26/2001	09/01/2022	4.00-5.00%	7.42-14.73	153,310
							193,050
HUD Section 108 Note (Masson/Dr. Eu/Security)	Redevelopment Projects	5,200	02/11/1997	08/01/2016	Variable	0.29-0.47	2,955
HUD Section 108 Note (CIM Block 3/Central Place)	Redevelopment Projects	13,000	02/08/2006	08/01/2025	Variable	0.00-1.14	13,000
HUD Section 108 Note (Story/King Retail)	Redevelopment Projects	18,000	06/30/2006	08/01/2025	Variable	0.67-1.57	18,000
							33,955
CSCDA - 2005 ERAF Loan	Redevelopment Projects	19,085	04/27/2005	08/01/2015	4.59-5.01%	1.87-2.36	12,590
CSCDA - 2006 ERAF Loan	Redevelopment Projects	14,920	05/03/2006	08/01/2016	5.44-5.67%	1.38-1.91	11,390
							23,980
Housing Set-Aside Tax Allocation Bonds:							
Series 1997E (AMT) (Merged Area)	Affordable Housing	17,045	06/23/1997	08/01/2027	5.75-5.85%	0.34-3.67	17,045
Series 2003J (Taxable) (Merged Area)	Afford. Housing/Refunding	55,265	07/10/2003	08/01/2024	4.125-5.25%	2.02-3.51	43,095
Series 2003K (Merged Area)	Afford. Housing/Refunding	13,735	07/10/2003	08/01/2029	3.00-4.40%	0.23-1.07	9,025
Series 2005A (Merged Area)	Refunding	10,445	06/30/2005	08/01/2024	3.75-5.00%	0.97-2.27	10,445
Series 2005B (Taxable) (Merged Area)	Refunding	119,275	06/30/2005	08/01/2035	4.37-5.46%	0.70-8.30	115,145
							194,755
Housing Set-Aside Tax Allocation Bonds (Subordinate):							
Series 2005C (AMT) (Merged Area)	Afford. Housing/Refunding	33,075	06/30/2005	08/01/2035	Variable	0.10-1.57	29,255
Series 2005D (AMT) (Merged Area)	Afford. Housing/Refunding	33,075	06/30/2005	08/01/2035	Variable	0.10-1.57	29,260
							58,515
Bank of New York - Housing Set-Aside Term Loan	Affordable Housing	50,000	04/01/2009	04/01/2014	Variable	10.00	50,000
Total Governmental Activities - Bonds, Certificates of Participation and Notes Payable							$ 3,727,956
Business-type Activities:							
Norman Y. Mineta San Jose International Airport:							
Revenue Bonds:							
Series 1998A (AMT)	Refunding	14,015	01/27/1998	03/01/2018	4.50-4.75%	0.73-1.09	8,015
Series 2001A	Runway Construction	158,455	08/14/2001	03/01/2031	4.00-5.25%	3.68-10.06	138,840
Series 2002A	Refunding	53,600	01/09/2003	03/01/2018	4.00-5.375%	0.00-9.29	53,600
Series 2002B (AMT)	Refunding	37,945	01/09/2003	03/01/2012	4.00-5.00%	2.38-6.55	15,165
Series 2004C (AMT)	Airport Facilities	75,730	06/24/2004	03/01/2026	4.625-5.25%	1.00-10.59	74,730
Series 2004D	Airport Facilities	34,270	06/24/2004	03/01/2028	5.00%	0.00-12.56	34,270
Series 2007A (AMT)	Airport Facilities	545,755	09/13/2007	03/01/2047	5.00-6.00%	0.00-73.50	545,755
Series 2007B	Airport Facilities	179,260	09/13/2007	03/01/2037	4.25-5.00%	0.00-28.80	179,260
							1,049,635
Clean Water Financing Authority:							
Revenue Bonds:							
Series 2005A	Refunding	54,020	10/05/2005	11/15/2016	3.25-5.00%	4.64-5.80	41,265
Series 2009A	Refunding	21,420	01/29/2009	11/15/2020	3.00-5.00%	0.00-5.41	21,420
							62,685
State of California - Revolving Fund Loan	Wastewater Facilities	73,566	Various	05/01/2019	Various	1.77-3.77	38,254
Total Business-type Activities - Bonds and Loan Payable							$ 1,150,574
Grand Total							$ 4,878,530

2. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

3. Legal Debt Limit and Margin

The City's legal debt limit (as defined by Section 1216 of the City Charter) and debt margin as of June 30, 2009, are approximately $19,352,982,000 and $18,833,662,000, respectively. In accordance with the California Community Redevelopment Law, the Redevelopment Agency establishes its own legal debt limit, based primarily on the aggregate of all future projected tax increment revenues from existing redevelopment areas.

On April 7, 2009, the City Council/Agency Board approved the amendment to the Agency's Redevelopment Plans for the Merged Project Area by increasing the tax increment limit from $7.6 billion to $15.0 billion and to establish a single limit of $7.6 billion for the bonded indebtedness that may be outstanding at any one time. The additional tax increment revenues will provide additional capital to the Agency to continue to implement blight-eliminating projects in the City's redevelopment project areas.

On May 5, 2009, the City Council/Agency Board approved the amendment to the Agency's Redevelopment Plan for the Strong Neighborhoods Initiative (SNI) Redevelopment Project by authorizing the collection of tax increment from portion of the SNI project called Diridon Area.

4. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebate liabilities are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the City performed calculations to determine the rebate liabilities for the tax-exempt bond issues listed above. However, as no bond issue with a positive rebate liability was due for a fifth-year payment, the amount calculated has been recorded as a liability to the IRS. The rebate liability amount is recorded as a liability in the Governmental Activities column of the government-wide statements in the amount of $686,000.

5. Special Assessment Bonds with Limited City Commitment

All obligations of the City under the Special Assessment Bonds are not considered general obligations of the City, but are considered limited obligations, payable solely from the assessments and from the funds pledged therefore under the Paying Agent Agreement or Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City, or any political subdivision thereof, is pledged to the payment of the bonds. Notwithstanding any other provision of the Paying Agent Agreement, the City is not obligated to advance available surplus funds from the City Treasury to cure any deficiency in the Redemption Fund; provided, however, the City is not prevented, in its sole discretion, from so advancing funds. As of June 30, 2009, the City has recorded approximately $64,886,000 of deferred revenue and related special assessments receivables in the Special Assessment Districts Fund. These balances consist primarily of property tax assessments to be collected in the future by the County for the City for debt service.

As of June 30, 2009, there are assessment surpluses of approximately $2,341,000 (excluding interest) that have been declared by the City Council. These are included in advances and deposits on the accompanying statement of net assets and governmental funds balance sheet. Such surpluses are being reviewed in order to make recommendations regarding their use.

6. Conduit Debt

The City has issued multifamily housing revenue bonds to provide funds for secured loans to builders of multifamily housing projects. The purpose of the program is to provide needed rental housing for low to moderate-income households. To comply with Internal Revenue Service requirements in order to meet the tax-exempt status, the owner is required to set aside certain percentage of all units built for very low and low income households. The bonds are payable solely from payments made on the related secured loans. These tax-exempt housing bonds have maturity dates that are due at various dates through January 1, 2047. As of June 30, 2009, the outstanding conduit multifamily housing revenue bonds issued by the City aggregated to approximately $517,717,000. The outstanding conduit multi family housing revenue bonds issued by the Agency is $47,688,000.

In the opinion of the City's officials, these bonds are not payable from any revenues or assets of the City. Neither the faith and credit nor the taxing power of the City, the Redevelopment Agency, the State, or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds.

7. Variable-Rate Demand Bonds

Included in long-term debt is $411,185,000 of variable-rate demand bonds. The scheduled redemption of these bonds is incorporated in the Annual Requirements to Maturity schedules. The City issued these bonds to provide variable-rate exposure to the debt portfolio and to provide additional flexibility with respect to restructuring or redeeming the debt issued for certain projects. Under the reimbursement agreements related to these credit facilities, the trustee is authorized to draw an amount sufficient to pay the purchase price of bonds that have been tendered and have not otherwise been remarketed.

The credit facilities that support the City's variable-rate demand bonds are as follows (dollars in thousands):

	Balance June 30, 2009	Credit Facility Description	
		Provider	Expiration Date
City of San José Financing Authority:			
Lease Revenue Bonds:			
Series 2008A (Civic Center)	$ 56,920	Scotiabank/CalSTRS	08/14/2010
Series 2008B (Civic Center Garage)	35,975	Bank of America, N.A./CalSTRS	07/09/2010
Series 2008C (Hayes Mansion)	10,915	Scotiabank/CalSTRS	06/25/2010
Series 2008D (Taxable) (Hayes Mansion)	46,380	Scotiabank/CalSTRS	06/25/2010
Series 2008E (Taxable) (Ice Centre)	27,085	Bank of America, N.A./CalSTRS	07/02/2010
Series 2008F (Taxable) (Land Acquisition)	67,195	Bank of America, N.A.	06/11/2011
Total variable rate lease revenue bonds	244,470		
Redevelopment Agency:			
Revenue Bonds:			
Series 1996A (Merged Area)	25,800	JPMorgan Chase Bank, N.A.	10/27/2010*
Series 1996B (Merged Area)	25,800	JPMorgan Chase Bank, N.A.	10/27/2010*
Series 2003A (Taxable) (Merged Area)	41,600	JPMorgan Chase Bank, N.A.	8/27/2009*
Series 2003B (Merged Area)	15,000	JPMorgan Chase Bank, N.A.	8/27/2009*
Total variable rate revenue bonds	108,200		
Housing Set-Aside Tax Allocation Bonds:			
Series 2005C (AMT) (Merged Area)	29,255	Bank of New York Mellon	6/29/2010
Series 2005D (AMT) (Merged Area)	29,260	Bank of New York Mellon	6/29/2010
Total variable rate tax allocation bonds	58,515		
Total variable rate bonds	$ 411,185		

* The Agency extended the expiration date of these bonds subsequent to year end. (See Note IV D; Subsequent Events.

City of San José Financing Authority Variable-Rate Lease Revenue Bonds

The Authority's $244,470,000 variable-rate lease revenue bonds are payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. The Authority's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the Authority's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

The Authority's repayment of unreimbursed draws made on the credit facilities bear interest at varying rates with the principal amortization amounts and periods ranging from 3 of 5 years. The interest rate on and principal amortization schedule of an unreimbursed draw are determined by the take-out provisions of the applicable reimbursement agreement, which will remain in effect until all principal of an unreimbursed draw is amortized. For example, if a draw occurs on June 30, 2010, then the take-out provision will remain in effect until June 30, 2013 or June 30, 2015, depending on the agreement. If the unreimbursed draws represent a significant portion of the outstanding debt, the principal will generally be amortized over multiple years because, under State law, lease payments may not exceed the fair rental value for the leased property. Per the terms of the reimbursement agreements, the providers of the credit facilities have the right to require an appraisal of the applicable leased property to increase the amount of the rent payable.

The Authority is required to pay the credit facility providers an annual commitment fee for each credit facility ranging from 0.60% to 0.65%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility.

Redevelopment Agency Variable-Rate Revenue Bonds

The Agency's $108,200,000 variable-rate revenue bonds (1996 and 2003 Bonds) are payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. The Agency's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the Agency's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

In connection with the issuance of the 1996 and 2003 Bonds, the Agency obtained four letters of credit as credit facilities for the bonds. At June 30, 2009, the letters of credit were set to expire on October 27, 2010 and August 27, 2009, respectively. The Agency's repayment of unreimbursed draws made on the credit facilities bear interest at varying rates with the principal amortized from the date of the draw to the expiration of the credit facility.

The Agency is required to pay the credit facility providers an annual commitment fee for each credit facility ranging from 0.45% to 0.60%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility.

As of June 30, 2009, the City reclassified $5,300,000 of the Agency's 1996 and 2003 Bonds to demand bonds payable in the Redevelopment Agency Major Fund based on an extension of the Letter of Credit (LOC) with JP Morgan Chase Bank, N.A. at a reduced maximum aggregate amount. As a condition of the LOC extension, the Agency is required to redeem $5,300,000 of outstanding demand bonds within less than one year from June 30, 2009 at a price equal to principal plus accrued interest. As an additional condition of the extension, the Agency is required to pay the credit facility providers higher annual commitment fees for each credit facility ranging from 2.10% to 2.30%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility, as discussed in Note IV D; Subsequent Events.

Redevelopment Agency Variable-Rate Housing Set-Aside Tax Allocation Bonds

The Agency's $58,515,000 variable-rate housing set-aside tax allocation bonds (2005 Bonds) are payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. The Agency's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the Agency's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

In connection with the issuance of the 2005 Bonds, the Agency obtained two letters of credit as credit facilities for the bonds. The letters of credit are set to expire on June 29, 2010. The Agency's repayment of unreimbursed draws made on the credit facilities bear interest at varying rates with the principal amortized over a period of five years from the date of the drawing. The interest rate on and principal amortization schedule of an unreimbursed draw are determined by the take-out provisions of the applicable reimbursement agreement, which will remain in effect until all principal of an unreimbursed draw is amortized.

The Agency is required to pay the credit facility providers an annual commitment fee for each credit facility of 0.45%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility.

8. Summary of Changes in Long-term Obligations

The changes in long-term obligations for the year ended June 30, 2009, are as follows (dollars in thousands):

	June 30, 2008	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2009	Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	$ 528,565	9,000	(18,245)	519,320	$ 19,350
HUD Section 108 loan	24,876	-	(953)	23,923	1,008
San Jose Financing Authority					
Lease revenue bonds	627,241	124,960	(98,850)	653,351	9,799
Accreted interest on capital appreciation bonds	2,083	183	(480)	1,786	501
Special Assessment bonds with limited governmental commitment	68,151	-	(3,265)	64,886	3,396
Redevelopment Agency					
Revenue bonds	312,240	-	(10,990)	301,250	17,100
HUD Section 108 notes payable	34,220	-	(265)	33,955	955
Tax allocation bonds	1,978,935	117,295	(40,725)	2,055,505	51,600
California Statewide Communities Development Authority - ERAF loan	27,070	-	(3,090)	23,980	3,245
Housing Set-Aside Term Loan	-	50,000	-	50,000	10,000
Total long-term debt payable	3,603,381	301,438	(176,863)	3,727,956	116,954
Less deferred amounts:					
For refunding gain (loss)	(57,585)	3,279	4,150	(50,156)	(4,150)
For issuance premiums	67,765	276	(8,952)	59,089	4,305
For issuance discounts	(3,177)	(1,348)	136	(4,389)	(136)
Total deferred amounts	7,003	2,207	(4,666)	4,544	19
Total long-term debt payable and deferred amounts	3,610,384	303,645	(181,529)	3,732,500	116,973
Other Long-term obligations:					
Hayes Mansion construction loan	1,200	-	-	1,200	-
Arbitrage liability	1,033	-	(347)	686	-
Accrued vacation, sick leave and compensatory time	94,124	48,931	(46,134)	96,921	46,000
Accrued landfill postclosure costs	9,300	-	(465)	8,835	465
Estimated liability for self-insurance	146,338	15,736	(31,132)	130,942	7,500
Net other postemployment benefits (OPEB) obligation	66,684	52,637	-	119,321	-
Pollution remediation obligation	-	4,946	-	4,946	-
Total other long-term obligations	318,679	122,250	(78,078)	362,851	53,965
Governmental activities long-term obligations	$ 3,929,063	425,895	(259,607)	4,095,351	$ 170,938

General Obligation Bonds are issued primarily to finance the construction of and improvements to libraries, parks and public safety facilities throughout the City and are secured by a pledge of the City to levy ad valorem property taxes without limitation of rate or amount. The ad valorem property tax levy is calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. Total principal and interest remaining on the bonds is $851,565,000, with the final payment due on September 1, 2039.

Lease Revenue Bonds are issued primarily to finance various capital improvements to be leased to the City and are secured by lease rental revenue from "lessee" departments in the General Fund and Nonmajor Funds. The lease rental revenue for each fiscal year is generally equal to 100% of annual debt service net of other available funding sources. Total principal, interest, and accreted value remaining on the bonds are estimated to be $1,060,928,000, with the final payment due on June 1, 2039.

Assessment Bonds are issued by the City to finance public improvements in special assessment or tax districts established by the City and are secured by assessments or special taxes levied on properties located within the special districts. The assessments are calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. Total principal and interest remaining on the bonds is $98,670,000, with the final payment due on September 1, 2032.

The Redevelopment Agency's Merged Area Tax Allocation Bonds are issued primarily to finance redevelopment projects and are secured primarily by a pledge of tax increment revenues consisting of a portion of all taxes levied upon all taxable properties within each of the redevelopment project areas constituting the Merged Area Redevelopment Project. The total projected tax increment revenue through the period of the bonds is approximately $3,572,452,000. These revenues have been pledged until the year 2036, the final maturity date of the bonds. The total principal and interest remaining on these Tax Allocation Bonds is $3,026,600,000 which is 85 percent of the total projected tax increment revenues. The pledged tax increment revenue recognized during the fiscal year ended June 30, 2009 was $161,877,000 as compared to total debt service of $114,579,000.

The Redevelopment Agency's Revenue Bonds are issued primarily to finance redevelopment projects within the Merged Area Redevelopment Project. The bonds are ratably and equally secured by a pledge of the subordinated revenues and are subordinate to the Senior Obligations of the Agency.

Redevelopment Agency Housing Set-Aside Tax Allocation Bonds are issued primarily to finance affordable housing projects and are secured by a pledge of and lien upon the 20% tax increment revenue set-aside for the low and moderate income housing fund. The total projected 20% tax increment revenue through the period of the bonds is approximately $712,988,000. These revenues have been pledged until the year 2035, the final maturity date of the bonds. The total principal and interest remaining on these Housing Set-Aside Tax Allocation Bonds is $393,103,000, which is 55 percent of the total projected 20% tax increment revenues. The pledged tax increment revenue recognized during the fiscal year ended June 30, 2009 was $40,469,000 as compared to total debt service of $20,501,000.

Other Long-Term Obligations payments are primarily made from general revenue recorded in the General Fund.

	June 30, 2008	Additional Obligations and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2009	Amounts Due Within One Year
Business-Type Activities:					
Norman Y. Mineta San Jose International Airport:					
Revenue bonds	$ 1,060,815	-	(11,180)	1,049,635	$ 11,645
Deferred amounts:					
For refunding	(3,272)	-	645	(2,627)	(563)
For issuance premiums	5,676	-	(284)	5,392	300
For issuance discounts	(5,833)	-	40	(5,793)	(41)
Clean Water Financing Authority:					
Revenue bonds	72,875	21,420	(31,610)	62,685	4,640
Deferred amounts:					
For refunding	(2,147)	(370)	380	(2,137)	(380)
For issuance premiums	933	1,470	(163)	2,240	236
State of California - Revolving Fund Loan	41,952	-	(3,698)	38,254	3,767
Accrued vacation, sick leave and compensatory time	9,395	5,514	(5,515)	9,394	6,086
Estimated liability for self-insurance	8,725	1,531	(1,245)	9,011	2,022
Net other postemployment benefits (OPEB) obligation	10,995	-	(1,044)	9,951	-
Pollution remediation obligation	330	384	-	714	714
Business-type long-term obligations	$ 1,200,444	29,949	(53,674)	1,176,719	$ 28,426

Airport Revenue Bonds are issued primarily to finance the construction of capital improvements at the Norman Y. Mineta San José International Airport. Pursuant to the Airport's Master Trust Agreement, the City has irrevocably pledged the general airport revenues and certain other funds held or made available under the Airport's Master Trust Agreement, first to the payment of maintenance and operation costs of the Airport, and second to the payment of principal of and premium, if any, and interest on the bonds. General airport revenues generally include all revenues, income, receipts and moneys derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues. The net revenues available to pay debt service in the current fiscal year totaled $73,159,000, which is composed of $24,106,000 of net general airport revenues and $49,053,000 of other available funds. Bond debt service payable from general airport revenues in the current fiscal year totaled $23,037,000, which is net of $42,539,000 of bond debt service paid from the capitalized interest accounts established in conjunction with the issuance of the 2007 Airport Revenue Bonds. The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service for each fiscal year will be at least 125% of annual debt service for such fiscal year. Total principal and interest remaining on the bonds is $2.13 billion, with the final payment due on March 1, 2047.

San José-Santa Clara Clean Water Financing Authority Sewer Revenue Bonds are issued primarily to finance the construction of capital improvements at the San José-Santa Clara Water Pollution Control Plant and the City has pledged its net systems revenues as security for its obligations under the improvement agreement to make base payments and additional payments with respect to the outside revenue bonds. The net system revenues available to pay debt service in the current fiscal year totaled $50,238,000. Bond debt service payable from net system revenues in the current fiscal year totaled $7,065,000. The City has covenanted in the Improvement Agreement that net system revenues will be at least 115% of its allocable percentage of annual debt service. The City's allocable percentage of annual debt service is currently 100%. Total principal and interest remaining on the bonds is $77.9 million, with the final payment due on November 15, 2020.

9. Annual Requirements to Maturity

The annual requirements to amortize all bonds, notes, and certificates of participation outstanding as of June 30, 2009, are as follows (dollars in thousands):

	Governmental Activities				
	City of San Jose General Obligation Bonds and HUD Loan [1]		City of San Jose Financing Authority Lease Revenue Bonds [1,2,3,4]		
Fiscal Year Ending June 30,	Principal	Interest	Principal	Accreted Interest	Interest
2010	$ 20,358	$ 24,070	$ 9,799	$ 501	$ 20,859
2011	20,688	23,279	6,309	521	20,549
2012	20,724	22,435	9,160	540	20,434
2013	20,770	21,562	10,374	556	20,271
2014	20,826	20,664	11,275	-	20,074
2015 - 2019	105,233	89,908	75,460	-	95,693
2020 - 2024	107,612	66,913	106,760	-	83,755
2025 - 2029	100,502	42,984	115,900	-	66,548
2030 - 2034	89,640	19,195	138,760	-	44,319
2035 - 2039	36,590	3,084	169,554	-	12,955
2040 - 2044	300	8	-	-	-
Total	$ 543,243	$ 334,102	$ 653,351	$ 2,118	$ 405,457

	Governmental Activities					
	Special Assessment Bonds with Limited Governmental Commitment		Redevelopment Agency Redevelopment Project Bonds and HUD Loans [1,3]		Redevelopment Agency Housing Set-Aside Bonds and Bank of New York Term Loan [1, 5]	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 3,396	$ 3,416	$ 60,505	$ 98,300	$ 17,095	$ 10,747
2011	3,521	3,266	64,650	95,386	17,370	10,349
2012	3,677	3,103	68,235	92,360	17,665	9,940
2013	3,823	2,929	71,405	89,165	17,975	9,508
2014	3,989	2,743	75,195	85,718	18,310	9,056
2015 - 2019	18,610	10,761	417,925	371,908	47,445	39,780
2020 - 2024	21,210	5,387	493,785	265,278	57,040	29,579
2025 - 2029	3,220	1,704	467,150	152,144	60,905	17,106
2030 - 2034	3,440	476	344,960	59,456	42,455	5,800
2035 - 2039	-	-	97,610	4,649	7,010	190
2040 - 2044	-	-	-	-	-	-
Total	$ 64,886	$ 33,785	$ 2,161,420	$ 1,314,364	$ 303,270	$ 142,055

Fiscal Year Ending June 30,	Business-Type Activities — Airport Revenue Bonds [4] Principal	Airport Revenue Bonds [4] Interest	Wastewater Treatment System Revenue Bonds and Loans Principal	Wastewater Treatment System Revenue Bonds and Loans Interest
2010	$ 11,645	$ 53,878	$ 8,407	$ 3,038
2011	12,120	53,356	8,625	2,816
2012	12,620	52,801	8,850	2,569
2013	13,165	52,211	9,102	2,310
2014	21,795	51,550	9,369	2,048
2015 - 2019	121,965	240,008	46,000	5,710
2020 - 2024	137,805	207,487	10,586	468
2025 - 2029	164,470	168,332	-	-
2030 - 2034	186,535	128,186	-	-
2035 - 2039	304,235	51,886	-	-
2040 - 2044	36,040	14,911	-	-
2045 - 2049	27,240	3,332	-	-
Total	$ 1,049,635	$ 1,077,938	$ 100,939	$ 18,959

[1] Projected interest payments for the variable rate series of bonds are based on the following rates in effect on June 30, 2009. Lease Revenue Bonds: Series 2008A (0.20%), Series 2008B (0.25%), Series 2008C (0.11%), Series 2008D (0.55%), Series 2008E (0.45%), Series 2008F (0.50%). Redevelopment Agency Revenue Bonds: Series 1996A (0.11%), Series 1996B (0.15%), Series 2003A (0.42%), Series 2003B (0.17%). Redevelopment Agency Housing Set-Aside Tax Allocation Bonds: Series 2005C (0.24%), Series 2005D (0.30%). HUD Section 108 Notes: City of San Jose and Redevelopment Agency Loans (0.87%). Bank of New York Loans: Housing Set-Aside Term Loan (1.73%). Each series may be set at different interest rate calculation modes, including daily, weekly, monthly, and long rates.

[2] Amount shown is accreted value payable in each period. As of June 30, 2009, $1,786,000 of value had accreted on the outstanding capital appreciation bonds, which combined with the $653,351,000 principal amount of outstanding lease revenue bonds totals $655,137,000 of outstanding lease revenue debt.

[3] Projected debt service payments for the City of San Jose Financing Authority Series 2001A Parking Revenue Bonds and Series 2001F Lease Revenue Bonds are included in the Redevelopment Agency Redevelopment Project category, reflecting that the Redevelopment Agency is the primary source of payment for those bonds.

[4] Does not include notional amortization of outstanding commercial paper notes.

[5] Excludes the impact of the reclassification of $5,300,000 to short-term liability. (See Note III F.7.; Variable-rate Demand Bonds)

For governmental and business-type activities, the specific year for payment of estimated liabilities for Hayes Mansion construction loan, arbitrage liability, accrued vacation, sick leave and compensatory time, accrued landfill post-closure costs, estimated liability for self-insurance, the net OPEB obligation and the pollution remediation obligation are not practicable to determine.

10. New Debt Issuances and Unused Authorizations

Governmental Activities

City of San José Financing Authority Lease Revenue Bonds, Series 2008E (Taxable) (Ice Centre Refunding Project). On July 3, 2008, the Authority issued $28,070,000 of Series 2008E Taxable Lease Revenue Bonds. The proceeds of the Series 2008E Bonds were used to current refund the Authority's Series 2000C (taxable) and Series 2004A (taxable) Lease Revenue Bonds (together, the "2000/2004 Bonds") issued to finance and refinance real property and improvements to the City's Ice Centre of San José. Debt service on the bonds will be paid from base rental payments received by the City from the Ice Centre operator, Silicon Valley Sports and Entertainment. However, such payments are not pledged to the Series 2008E Bonds, and thus the City's obligation to make the Series 2008E lease payments are not conditional on the receipt of such payments.

This refunding of variable-rate bonds with another series of variable-rate bonds constitutes a restructuring of the 2000/2004 Bonds, which had been negatively impacted by disruptions in the financial markets related to auction rate securities and rating agency downgrades of bond insurers. The Series 2008E Bonds financing structure eliminated the bond insurance which provided credit enhancement to the 2000/2004 Bonds and replaced it with a direct-pay letter of credit. The 2000/2004 Bonds were redeemed on July 3, 2008, and have been removed from the City's basic financial statements.

The Series 2008E Bonds, which are supported by an irrevocable direct-pay letter of credit provided by Bank of America and the California State Teachers' Retirement System (CalSTRS), bear interest at a weekly variable rate, which on June 30, 2009, was 0.45%, and have a final maturity date of June 1, 2025.

City of San José Financing Authority Lease Revenue Bonds, Series 2008B (Civic Center Garage Refunding Project). On July 10, 2008, the Authority issued $36,580,000 of Series 2008B Lease Revenue Bonds. The proceeds of the Series 2008B Bonds were used to refinance the portion of the Authority's Tax-Exempt Lease Revenue Commercial Paper Notes issued as an interim financing mechanism to finance land acquisition and construction of the Civic Center Employee Parking Garage and certain improvements to the Civic Center. Debt service on the Series 2008B Bonds will be paid by lease payments from the General Fund, the special funds and the capital funds.

This refinancing of variable-rate commercial paper notes with a series of variable-rate bonds provides long-term financing for the Civic Center Garage. Commercial paper notes, in the amount of $32,528,000, were redeemed on July 11, 2008, and have been removed from the City's basic financial statements.

The Series 2008B Bonds, which are supported by an irrevocable direct-pay letter of credit provided by Bank of America and the CalSTRS bear interest at a weekly variable rate, which on June 30, 2009, was 0.25%, and have a final maturity date of June 1, 2039.

City of San José Financing Authority Lease Revenue Bonds, Series 2008A (Civic Center Refunding Project). On August 14, 2008, the Authority issued $60,310,000 of Series 2008A Lease Revenue Bonds. The proceeds of the Series 2008A Bonds were used to current refund the Authority's Series 2002C Lease Revenue Bonds issued to finance a portion of the costs of the City Hall project. Debt service on the Series 2008A bonds will be paid by lease payments from the General Fund, the special funds and the capital funds.

This refunding of variable-rate bonds with another series of variable-rate bonds constitutes a restructuring of the Series 2002C Bonds, which had been negatively impacted by disruptions in the financial markets related to rating agency downgrades of bond insurers. The Series 2008A Bonds financing structure eliminated the bond insurance which provided credit enhancement to the Series 2002C Bonds and replaced it with a direct-pay letter of credit. The Series 2002C Bonds were redeemed on August 14, 2008, and have been removed from the City's basic financial statements.

The Series 2008A Bonds, which are supported by an irrevocable direct-pay letter of credit provided by The Bank of Nova Scotia (Scotiabank) and the CalSTRS, bear interest at a weekly variable rate, which on June 30, 2009, was 0.20%, and have a final maturity date of June 1, 2039.

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2008B. On November 13, 2008, the San José Redevelopment Agency (SJRA) issued $80,145,000 of Series 2008B tax allocation bonds. The proceeds of the Series 2008B bonds will be used to finance multiple redevelopment projects within the SJRA's Merged Area Redevelopment Project. The 2008B tax allocation bonds were issued at parity with the outstanding tax allocation bonds by SJRA and are secured primarily by a pledge of tax revenues, consisting of a portion of all taxes levied upon all taxable properties within the Merged Area Redevelopment Project.

The Series 2008B bonds bear interest at fixed rates ranging from 6.25% to 7.00%, and have a final maturity date of August 1, 2035.

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2008A. On December 17, 2008, the San José Redevelopment Agency (SJRA) issued $37,150,000 of Series 2008A tax allocation bonds. The proceeds of the Series 2008B bonds will be used to finance multiple redevelopment projects within the SJRA's Merged Area Redevelopment Project. The 2008A tax allocation bonds were issued at parity with the outstanding tax allocation bonds by SJRA and are secured primarily by a pledge of tax revenues, consisting of a portion of all taxes levied upon all taxable properties within the Merged Area Redevelopment Project.

The Series 2008A bonds bear interest at fixed rates ranging from 5.25% to 6.50%, and have a final maturity date of August 1, 2018.

Bank of New York Housing Set-Aside Term Loan. On April 1, 2009, the City converted a $50,000,000 line of credit with the Bank of New York into a five-year term loan that is payable in twenty (20) equal, quarterly installments. The proceeds of the loan will be used to finance affordable housing projects. Debt service is secured from the 20% portion of Agency tax increment revenues set aside for affordable housing.

The loan bears interest at an annual rate of LIBOR plus spread of 1.35% to LIBOR plus 3.35%, which on June 30, 2009 was 1.73%, and has a final maturity date of April 1, 2014.

City of San José General Obligation Bonds, Series 2009 (Public Safety Projects). On June 25, 2009, the City issued $9,000,000 of Series 2009 General Obligation Bonds. The proceeds will be used to fund $9,000,000 of public safety projects. Debt service on the Series 2009 Bonds is payable from ad valorem taxes levied upon all property subject to taxation by the City. The Series 2009 Bonds bear interest at fixed rates ranging from 4.00% to 6.00%, and have a final maturity date of September 1, 2039.

At June 30, 2009, the City has issued $589,590,000 in general obligation bonds to provide funds for the acquisition and construction of major capital facilities and parks. Of this amount, as of June 30, 2009, $519,320,000 is outstanding. Of the total amount of $598,820,000 authorized to be issued, there remains an unused balance of $9,230,000.

City of San José Financing Authority Lease Revenue Commercial Paper Notes Payable. On January 13, 2004, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of City of San José Financing Authority tax-exempt lease revenue commercial paper notes in an amount not to exceed $98,000,000. This commercial paper program was established as a mechanism for financing public improvements of the City including the offsite parking garage for the new Civic Center and non-construction costs for technology, furniture, equipment and relocation services for the new Civic Center. On November 9, 2005, the

City Council and the Authority authorized use of the commercial paper program to finance procurement costs of the City's consolidated utility billing system.

Subsequently, on June 21, 2005, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of taxable lease revenue commercial paper notes, under the same $98,000,000 not to exceed limitation as the tax-exempt notes. This subsequent authorization permits the Authority to issue taxable commercial paper notes to pay for expenses otherwise authorized under the commercial paper program, but ineligible to be paid from tax-exempt commercial paper proceeds.

On November 15, 2005, the City Council and the City of San José Financing Authority each adopted a resolution expanding the capacity of the lease revenue commercial paper program from $98,000,000 to $116,000,000 and authorizing the issuance of commercial paper notes to pay a portion of the costs of the Phase II improvements at the City's Central Service Yard and a portion of the demolition and clean-up costs at the City's Main Service Yard.

On May 22, 2007, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of lease revenue commercial paper notes to pay for capital improvements at the City's HP Pavilion.

Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper notes are secured by a pledge of lease revenues from various City assets and additionally secured by a letter of credit provided by State Street Bank and Trust Company and the CalSTRS.

During fiscal year 2009, the Authority issued $3,357,000 of commercial paper notes for technology, furniture and relocation services for the New City Hall, $85,000 for municipal facility improvements, $280,000 for the consolidated utility billing system, $508,000 for the Central Service Yard Phase II project, and $175,000 for capital improvements at the City's HP Pavilion.

Also during fiscal year 2009, the Authority refinanced $32,528,000 of commercial paper notes for the new City Hall and offsite parking garage with a portion of the proceeds from the Authority's Lease Revenue Bonds, Series 2008B and redeemed $6,215,000 for technology, furniture and relocation services for the new City Hall, $1,306,000 for the consolidated utility billing system, and $604,000 for the Central Service Yard Phase II project.

On June 30, 2009, $39,643,000 of Authority tax-exempt commercial paper notes were outstanding at interest rates ranging from 0.40% to 0.47%. On June 30, 2009, $7,938,000 of Authority taxable commercial paper notes were outstanding at an interest rate of 1.50%.

The changes in commercial paper payables during the fiscal year ended June 30, 2009 are as follows (dollars in thousands):

June 30, 2008	Additions	Deletions	June 30, 2009
$83,829	4,405	40,653	$47,581

Business-Type Activities

San José-Santa Clara Clean Water Financing Authority Sewer Revenue Refunding Bonds, Series 2009A. On January 29, 2009, the Clean Water Financing Authority issued $21,420,000 of Series 2009A sewer revenue refunding bonds. The proceeds of the Series 2009A bonds were used to current refund the Authority's Series 2005B variable-rate sewer revenue refunding bonds. Debt service is payable from the Authority's revenues which consist primarily of payments from the City of San José's sewer revenues.

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 eliminated the bond insurance which provided credit enhancement to the Series 2005B Bonds 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 City's basic financial statements.

The Series 2009A bonds bear interest at fixed rates ranging from 3.00% to 5.00%, and have a final maturity date of November 15, 2020.

Airport Commercial Paper Notes Payable. On November 2, 1999, the City Council adopted a resolution authorizing the issuance of City of San José; San José International Airport subordinated commercial paper notes in three series (Series A - Tax-Exempt, Series B - Subject to the AMT, Series C - Taxable) in an amount not to exceed $100,000,000. The commercial paper program was established to provide an interim source of financing for the initial capital projects in the Airport Master Plan until a permanent financing plan was finalized and implemented. Subsequently, on April 1, 2003, the City Council authorized use of the commercial paper program to fund costs associated with implementation of the requirements under the federal Aviation and Transportation Security Act (ATSA).

On June 20, 2006, the City Council approved an expansion of the Airport commercial paper program from $100,000,000 to $200,000,000 to ensure that funding would be available for the award of the design and construction contracts related to the re-phased Airport Master Plan projects. On January 9, 2007, the City Council approved an additional expansion of the Airport commercial paper program from $200,000,000 to $450,000,000 to ensure that funding would be available for the award of the design and construction contracts related to the rephrased Airport Master Plan projects. Various Airport Master Plan projects over the next several years are focused on completion of the North Concourse Projects as well as the implementation of a Terminal Area Improvement Program (the "TAIP"). Additionally, the Airport CP Program may be used to pay costs related to the Airport's lease of the former FMC property and to pay debt service costs on other debt obligations as permitted.

On March 25, 2008, the City Council approved an expansion of the Airport commercial paper program from $450,000,000 to $600,000,000 to provide sufficient capacity to refund the City's outstanding Airport Revenue Bonds, Series 2004A and Series 2004B (the "2004AB Bonds"). This expansion was accomplished through a combination of three additional series of commercial paper notes (Series D – Tax-Exempt, Series E – Subject to AMT, Series F – Taxable) in an amount not to exceed $150,000,000.

Under this program, the City is able to issue commercial paper notes at prevailing interest rates for 0periods of maturity not to exceed 270 days. The portion of the commercial paper program approved by the City Council prior to March 25, 2008, is secured by a subordinate pledge of the

Airport's revenues and additionally secured by letters of credit issued on a several and not joint basis by JPMorgan Chase Bank, Bank of America, and Dexia Credit Local. The portion of the commercial paper program approved by the City Council on March 25, 2008, is secured by a subordinate pledge of the Airport's revenues and separately secured by a direct-pay letter of credit with Lloyds TSB Bank plc.

During fiscal year 2009, no Series A, Series D or Series E commercial paper notes were issued or outstanding. During fiscal year 2009, the City issued $12,464,000 of Series B commercial paper notes, $50,777,000 of Series C commercial paper notes, and $79,930,000 of Series F commercial paper notes.

Also during year 2009, the Authority redeemed $5,800,000 of Series B commercial paper notes.

On June 30, 2009, $150,331,000 of Airport Series B commercial paper notes was outstanding at interest rates ranging from 1.80% to 1.90%. On June 30, 2009, $93,300,000 of Airport Series C commercial paper notes was outstanding at an interest rate of 1.80%. On June 30, 2009, $79,930,000 of Airport Series F commercial paper notes was outstanding at an interest rate of 0.60%.

The change in commercial paper payables during the fiscal year 2009 are as follows (dollars in thousands):

June 30, 2008	Additions	Deletions	June 30, 2009
$186,190	143,171	5,800	$323,561

11. Landfill Post-closure Costs

The City has five closed landfills for which post-closure and monitoring services may be required for approximately a 30 year period which began in fiscal year 1996, coinciding with the closure of the last landfill. An estimated liability of $8,835,000 related to the closed landfills is recorded in the government-wide financial statements as of June 30, 2009. The City's Environmental Compliance Officer performs an annual evaluation of the aforementioned liability. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City does not own or operate any open landfills at this time.

12. Estimated Liability for Self-Insurance

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees, unemployment claims, and employee health and dental insurance. During fiscal year 2009, the City maintained an all-risk property policy including boiler and machinery exposures, coverage for loss due to business interruption and flood. The City did not carry earthquake insurance as it was not reasonably available. A summary of coverage is as follows:

Coverages	Coverage per Occurence	Deductible Per Occurrence
Property, including Business Interruption (1)	$ 1 billion	$100,000
Flood Zone A and V	$ 25 million	$500,000 (2)
Flood Zone B	$ 50 million	$100,000 (2)
All Other Flood Zones	$100 million	$100,000 (2)

(1) The policy limit for property damage caused by terrorism is $5 million per occurence and in aggregate.
(2) Deductable applies per location afflicted.

The City has an airport liability policy covering the Airport, which provides a limit of $200,000,000 combined single limit for bodily injury and property damage with a $25,000,000 each occurrence limit for personal injury subject to a per occurrence deductible of $100,000 and an aggregate deductible of $100,000. The Airport's $200,000,000 liability policy specifically excludes war and terrorism from its coverage. During the past three years, there have been not been any instances that the amount of claim settlements exceeding the insurance coverage.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, new discovered information and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends (including frequency and amount of pay-outs), economic and social factors, newly discovered information and changes in the law. The estimate of the claims liability also includes increases or decreases to previously reported unsettled claims.

With respect to the general liability accrual, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2009. The City Attorney and, with respect to workers' compensation claims, the City's Risk Manager have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated.

Changes in the reported liability during the past two years are as follows (dollars in thousands):

Liability as of July 1, 2007	$	159,269
Claims and changes in estimates during 2008		22,629
Claims payments		(26,835)
Liability as of June 30, 2008		155,063
Claims and changes in estimates during 2009		13,723
Claims payments		(28,833)
Liability as of June 30, 2009	$	139,953

Owner Controlled Insurance Programs - On March 31, 2004, the City bound certain liability insurance coverage for the major components of the North Concourse Project through an owner-controlled insurance program from American International Group, now AIU Holdings, Inc. and AIU LLC (AIU). An owner-controlled insurance program ("OCIP") is a single insurance program that provides insurance coverage for construction jobsite risk of the project owner, general contractors and all subcontractors associated with construction at the designated project site. The North Concourse Project has been completed and the policies expired December 31, 2008. Closeout procedures on the North Concourse have begun. All remaining work associated with opening of the facility is covered by Terminal Area Improvement Project ("TAIP"), Owner Controlled Insurance Program ("OCIP"), as described below or is addressed in the contracts for work not covered by the TAIP OCIP by requiring the contractors performing such work to provide insurance coverage naming the City as an additional insured.

The City was also required to establish a claims loss reserve for the North Concourse Project in the aggregate amount of $3,900,000 available in a cash working fund. The full amount of the claims loss reserve had been deposited with the insurance carrier and was recorded as advances and deposits in the accompanying statement of net assets. The claims loss reserve funds the deductable of up to $250,000 per occurrence to a maximum loss exposure to the City of $3,900,000. Cumulative amounts of claims paid for during the fiscal year ended June 30, 2009 was

$187,000. At the end of the OCIP program period, an actuarial review is to be conducted based on the claims outstanding and a portion of the unused amount is to be returned to the City, until all claims are closed and the coverage term ends.

On March 15, 2007, the City bound additional liability insurance through another OCIP for major components of the Airport's TAIP OCIP through AIU. The coverage for this program is as follows:

	Terminal Area Improvement Projects	
Coverages	Limits	Deductible Per Occurrence
General Liability	$2 million per occurrence/ $4 million aggregate	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$1 million per accident	$250,000
Excess Liability	$200 million	None

The liability under the TAIP OCIP is based upon an estimated payroll of $92,500,000 for the covered projects and a construction period of 57 months, commencing on March 15, 2007 through December 13, 2010. In the event that the actual payroll for the covered TAIP projects exceeds the estimated $92,500,000 payroll or in the event the construction period extends beyond 57 months, the City will be obligated to pay increased premiums for the TAIP OCIP and, in addition, may be required to augment the claims loss reserve fund. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with AIU in the amount of $8,900,000. The claims loss reserve fund is available to AIU to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of $8,900,000. The City was able to negotiate to fund 74% of the claims loss reserve. As of June 30, 2009, an amount of $4,355,000 has been deposited with AIU and was recorded as advances and deposits in the accompanying statement of net assets. The remaining balance of $2,177,000 was paid in March 2009. Cumulative claims for the covered projects paid as of June 30, 2009 amounted to $718,000.

13. Net Other Postemployment Benefits (OPEB) Obligation

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, prospectively and as such, the City did not have a net OPEB obligation at transition (i.e., July 1, 2007). The Police and Fire Department Retirement Plan (the Plan) and the Federated Employees' Retirement System (the System) calculated a net OPEB obligation in accordance with GASB Statement No. 45 as discussed in Note IV A.2. At June 30, 2009, the City recorded a net OPEB obligation in the amount of $129,271,000 in the government-wide financial statements.

14. Pollution Remediation Obligations

The City is currently responsible for the management and cleanup of pollution remediation activities at several City sites including two recreational park sites – one ground contamination site at Watson Park and one migrating landfill gas site at Martin Park; five active leaking petroleum storage tank sites: Fire Stations #5 and #16, Las Plumas Warehouse, the Main Yard and the Airport, as discussed in Note IV C.1. The Agency is obligated for the management and cleanup of one ground water accumulation and contamination site at the Adobe office building site. Although the City and Agency have significant experience in estimating these types of cleanups, the calculation of the expected outlays related to this pollution remediation is based on estimates provided by both City engineers and consultants and engineers hired by the City and the Agency. The amount of the estimated pollution remediation liability assumes that there will be no major increases in the cost of providing these cleanup services. As of June 30, 2009, the City recorded a net pollution remediation obligation in the amount of $5,660,000 in the government-wide financial statements.

G. Inter-fund Transactions

The composition of inter-fund balances as of June 30, 2009, with explanations of significant transactions, is as follows (dollars in thousands):

1. Due from/Due to other funds

Receivable Fund	Payable Fund	Amount	
General Fund	Redevelopment Agency	4,093	(1)
	Nonmajor Governmental Funds	1,595	(2)
Redevelopment Agency	General Fund	278	(3)
	Nonmajor Governmental Funds	3,947	(4)
Housing Activities	Redevelopment Agency	54	(5)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	37,413	(6)
	Redevelopment Agency	2,300	(7)
Wastewater Treatment System	Nonmajor Governmental Funds	50	(8)
	Municipal Water System	700	(9)
Airport Fund	Nonmajor Governmental Funds	14	(10)
		$ 50,444	

(1) $1,731 represents reimbursement for services performed for the Redevelopment Agency and $2,362 represents short-term borrowing for working capital.
(2) $1,310 represents accrual of gas tax transfer and $285 represents short-term borrowing for working capital.
(3) $9 represents accrual of pooled cash funds interest receivable of and $269 represents accrual for staff services performed by the Redevelopment Agency.
(4) $3,297 represents parkland in-lieu fees for the Watson Park Restoration project and $650 represents Project Service Memorandum refunds to the Redevelopment Agency.
(5) Represents year-end tax increment and SB 813 accrual.
(6) Represents short-term borrowing for working capital.
(7) Represents short-term portion of parkland voucher fees loan to the Redevelopment Agency.
(8) Represents short-term portion of loan for Fiber Optics Conduit project
(9) Represents short-term portion of loan for the North Coyote Valley Water Project.
(10) Represents reimbursable expenses related to the Airport West project.

2. Advances to/Advances from other funds

Receivable Fund	Payable Fund		Amount	
General Fund	San José Financing Authority	$	3,333	(1)
Redevelopment Agency	Housing Activities		580	(2)
	General Fund		500	(3)
Nonmajor Governmental Funds	Redevelopment Agency		5,812	(4)
Parking System	Redevelopment Agency		6,800	(5)
Wastewater Treatment System	Nonmajor Governmental Funds		301	(6)
	Municipal Water System		2,117	(7)
		$	19,443	

(1) $36 represents a loan for Seismic District bond purchase and $3,297 represents a loan to support the City-owned golf course.
(2) Represents discounted loan to the YMCA Villa Nueva Housing project.
(3) Represents executive staff home loans.
(4) Represents parkland vouchers fees loans for low income housing projects. Agreement was amended in 2009 for the advance to be repaid by October 2, 2011.
(5) On June 12, 2007 the City Council/Redevelopment Agency Board extended the maturity of the RDA loan from the Parking System Fund to July 31, 2012, and removed the provisions of any future interest beyond June 30, 2007.
(6) Represents a long-term loan for the Fiber Optics Conduit project and is scheduled to be paid within 15 years from 1996.
(7) Represents a loan for the North Coyote Valley Water Project.

3. Transfers in/Transfers out

Transfers are indicative of funding for capital projects, lease payments or debt service and subsidies of various City operations. The following schedules summarize the City's transfer activity with explanations of significant transactions (dollars in thousands):

Between Governmental and Business-type Activities:

Transfers from	Transfers to		Amount	
General Fund	Airport Fund	$	282	(1)
	Municipal Water System		35	(2)
San Jose Financing Authority	Parking System		135	(3)
Parking System	General Fund		51	(4)
	Redevelopment Agency		135	(5)
	Nonmajor Governmental Funds		981	(6)
Municipal Water System	General Fund		725	(7)
	Nonmajor Governmental Funds		134	(8)
	San Jose Financing Authority		159	(9)
Wastewater Treatment System	General Fund		2,559	(10)
	Nonmajor Governmental Funds		1,316	(11)
	San Jose Financing Authority		286	(12)
Airport Fund	General Fund		104	(13)
Nonmajor Governmental Funds	Airport Fund		43	(14)
	Wastewater Treatment System		670	(15)
		$	7,615	

(1) Transfer for interest expense on commercial paper.
(2) Transfer for operating expenses.
(3) Transfer for joint parking project.
(4) Transfer to the General Fund for miscellaneous non-downtown parking receipts and other postemployment benefits.
(5) Transfer for refund of interest earned on surplus funds held by the fiscal agent.
(6) Transfer of convention center parking receipts and City Hall debt service payment.
(7) Transfer for in-lieu taxes payment of $270, other postemployment benefits of $10, and return on assets of $445.
(8) Transfer for City Hall debt service payments.
(9) Transfer for commercial paper redemption expense.
(10) Transfers for in-lieu taxes payment of $2,083, other postemployment benefits of $129, rent of $67 and interest of $280.
(11) Transfer for City Hall debt service payments.
(12) Transfer for commercial paper redemption expense.
(13) Transfer for other postemployment benefits.
(14) Represents various debt service, operations and capital transfers.
(15) Transfers for reimbursement of expenditures received from Federal and State agencies for past public emergencies.

Between Funds within the Governmental Activities:

Transfers from	Transfers to		Amount	
General Fund	Redevelopment Agency	$	1,435	(1)
	San Jose Financing Authority		2,242	(2)
	Nonmajor Governmental Funds		38,403	(3)
Redevelopment Agency	General Fund		2,004	(4)
	Housing Activities		90,469	(5)
	San Jose Financing Authority		3,364	(6)
	Nonmajor Governmental Funds		10,017	(7)
Housing Activities	Redevelopment Agency		18,047	(8)
	Nonmajor Governmental Funds		933	(9)
	General Fund		21	(10)
Nonmajor Governmental Funds	Redevelopment Agency		5,210	(11)
	General Fund		27,339	(12)
	Nonmajor Governmental Funds		12,161	(13)
	San Jose Financing Authority		41,909	(14)
San Jose Financing Authority	Nonmajor Governmental Funds		3,313	(15)
Special Assessment Districts	General Fund		6	(16)
Public Works Program Support Internal Service Fund	Nonmajor Governmental Fund		2,358	(17)
		$	259,231	

(1) Transfer to Redevelopment Agency for the Edenvale Community Center construction expenses.

(2) Debt service payments of $369 for the 1997B bond series and $1,873 for the 2008F bond series.

(3) Various debt service payments, loan repayments, operations and subsidies.

(4) $348 for San Jose arena pass through payment, $1,585 for the acquisition of property and $71 for rent and tenant improvements received for the property at Keyes Street.

(5) $40,469 for 20% increment tax transfers as required under California Community Redevelopment Law. $50,000 is transfer proceeds from line of credit.

(6) Debt service payment for 4th & San Fernando parking garage.

(7) Transfers for capital projects.

(8) Transfer for debt service payments.

(9) Transfer for City Hall lease payments.

(10) Transfer for other postemployment benefits.

(11) $3,872 is for the Edenvale Community Center project and $1,338 is for various Project Service Memorandum refunds.

(12) Various transfers for operations, capital projects and other postemployment benefits.

(13) Various transfers for debt service, operations and capital projects.

(14) Various transfers for debt service payments.

(15) Various transfers for debt service, operations and capital projects.

(16) Transfer of interest earnings to General Fund.

(17) Transfer to establish the Public Works Program Support Special Revenue Fund.

IV. Other Information

A. Employee Defined Benefit Retirement Systems

A. 1 Defined Benefit Pension Plans

1. Plan Description

The City sponsors and administers two single employer defined benefit retirement systems, the Police and Fire Department Retirement Plan (the "Plan") and the Federated City Employees' Retirement System (the "System" and collectively, "the Retirement Systems"), which together cover all full-time and certain part-time employees of the City. The Retirement Systems provide general retirement benefits under single employer Defined Benefit Pension Plans, as well as the Postemployment Healthcare Plans. The pension plans are accounted for in the Pension Trust Funds. The estimated payrolls for employees covered under both the Plan and the System for the fiscal year ended June 30, 2009, were approximately $243,196,000 and $320,912,000, respectively. The City's total actual payroll for the fiscal year ended June 30, 2009, was approximately $608,628,000.

The separately issued annual reports of the Police and Fire Department Retirement Plan and the Federated City Employees' Retirement System, together with the City's municipal code provide more detailed information about the pension plans. Those reports may be obtained by writing to the City of San José Department of Retirement Services, 1737 North First Street, Suite 580, San José, California 95112.

The Defined Benefit Pension Plans provide general retirement benefits including pension, death, and disability benefits to members. Benefits are based on average final compensation, years of service, and limited required cost-of-living increases. The Defined Benefit Pension Plans are administered by the Director of Retirement, an employee of the City, under the direction of the Boards of Administration for the Retirement Systems. The contribution and benefit provisions and all other requirements are established by City ordinances.

The current membership in the Defined Benefit Pension Plans as of June 30, 2009, is as follows:

	The Plan	The System
Defined Benefit Pension Plans:		
Retirees and beneficiaries currently receiving benefits	1,661	2,997
Terminated vested members not yet receiving benefits	75	603
Active members	2,087	4,196
Total	3,823	7,796

The Retirement Systems are not subject to the provisions of the Employee Retirement Income Security Act of 1974.

2. Funding Policy

It is the City's policy to obtain actuarial valuations for the Retirement Systems every two years. Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future. For pension plans, the assumptions include those about future employment, mortality, salary increases, and investment rate of return. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The contributions to the Defined Benefit Pension Plan for each retirement system for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due.

On June 24, 2008 the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for pension benefits to the Police and Fire Department Retirement Plan and Federated City Employees' Retirement System. The lump sum prepayment for fiscal year 2009 was calculated to be actuarially equivalent to the biweekly payments that would otherwise have been the City's required contributions to the pension plans. The Boards of Administration for the San José Police and Fire Department Retirement Plan and Federated Employees' Retirement System approved the actuarially determined prepayment amount to be paid by the City on August 1, 2008, for the remaining 24 pay dates from August 1, 2008 through June 19, 2009 on June 5 and June 12, 2008, respectively.

Contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for fiscal year 2009 were established in accordance with actuarially determined requirements computed through actuarial valuations dated June 30, 2007. The contribution rates in effect and the amounts contributed to the pension plans for the fiscal year ended June 30, 2009 are as follows (dollars in thousands):

	The Plan			The System		
	City	Participants	Total	City	Participants	Total
Actuarial Rate:						
Defined Benefit Pension Plan:						
7/01/08 - 6/30/09 (police members)	21.61% *	8.18%				
7/01/08 - 6/30/09 (fire members)	24.12% *	8.62%				
7/01/08 - 6/30/09				18.31% **	4.28%	
Annual Pension Contribution (in thousands):						
Defined Benefit Pension Plan	$ 53,103	$ 20,324	$ 73,427	$ 57,020	$ 13,848	$ 70,868

* *The actual contribution rate paid by the City was 20.89% and 23.32% for the Police and Fire members, respectively, as a result of the City exercising their option to make a lump sum prepayment for 24 pay periods of fiscal year 2009.*

** *The actual contribution rate paid by the City was 17.63% for the Federated members as a result of the City exercising its option to make a lump sum prepayment for 24 pay periods of fiscal year 2009.*

3. Annual Pension Cost and Net Pension Obligation

The following is three-year trend information for the City's Defined Benefit Pension Plans (dollars in thousands):

	Fiscal year ended	Annual Pension Cost (APC)	Percent APC Contributed	Net Pension Obligation
The Plan	6/30/07	$ 46,625	100%	$ -
	6/30/08	56,372	100%	-
	6/30/09 ***	53,103	100%	-
The System	6/30/07	51,004	100%	3,239
	6/30/08	51,718	106%	-
	6/30/09 ***	57,020	100%	-

*** *These amounts represent the annual pension cost factoring in the City's elected lump-sum prepayment. In the absence of the City's elected lump-sum prepayment, the annual required employer contributions based on the Boards of Administration of the Retirement Systems' adopted contribution rates for the Plan and the System would be $54,780,000 and 58,759,000, respectively.*

4. Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the Plan was 100% funded. The actuarial accrued liability for benefits was $2,372,386,000, and the actuarial value of assets was $2,365,790,000, resulting in an unfunded actuarial accrued liability (UAAL) of $6,596,000. The covered payroll (annual payroll of active employees covered by the plan) was $227,734,000, and the ratio of the UAAL to the covered payroll was 3%. As of the June 30, 2007 valuation date, the System was 83% funded. The actuarial accrued liability for benefits was $1,960,943,000 and the actuarial value of assets was $1,622,851,000, resulting in an unfunded actuarial accrued liability (UAAL) of $338,092,000. The covered payroll was $291,405,000, and the ratio of the UAAL to the covered payroll was 116%.

As noted in the Statement of Changes in Fiduciary Net Assets, the City's pension trust funds experienced a net decrease in net assets of $850,000,000 in fiscal year 2009 following a $262,200,000 decline in net assets in the prior year. Due to this significant decrease in net assets, the Retirement Systems' next actuarial studies are expected to substantially increase the annual required contribution amounts for fiscal year 2010.

The Schedule of Funding Progress, presented as RSI following the Notes to Basic Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

5. Actuarial Methods and Assumptions

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrual liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The more significant actuarial methods and assumptions used in the calculations of employee and employer contributions to the Retirement Systems for the pension plans for the fiscal year ended June 30, 2009 are as follows:

Method/Assumption	**The Plan**	**The System**
Valuation date	June 30, 2007	June 30, 2007
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	10 years, closed for unfunded pension liabilities; 16 years, closed for gains and losses between valuations, and changes in assumptions	30 years, open
Actuarial asset valuation method	5 year smoothed market	5 year smoothed market
Investment rate of return	8.00% per annum	8.25% per annum
Postretirement mortality	RP-2000 combined healthy mortality table, with a three-year set back, is used for male members. RP-2000 combined healthy mortality table, with a one year set forward, is used for female members.	The 1994 Group Annuity Mortality Table used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.
Active service, withdrawal, death, disability service retirement	Based upon the June 30, 2007 experience study	Based upon current experience
Salary increases	9% for employees for the first five years of service, 6% for six and seven years of service, and 5% for eight or more years of service. The total salary increase of 4% is for combined inflation and real across-the-board salary increase.	The rate of annual salary increase for all members with at least five years of service is equal to 4.25% plus an added merit component for those with zero to four years of service.
Cost-of-living adjustments	3.00% per year	3.00% per year

A. 2 Postemployment Healthcare Plans

1. Plan Description

In addition to the Defined Benefit Pension Plans, the City also sponsors and administers two single employer postemployment healthcare plans, the Police and Fire Department Postemployment Healthcare Plan and the Federated City Employees' Postemployment Healthcare Plan, which together cover eligible full-time and certain part-time employees of the City. The postemployment healthcare plans are accounted for in the Pension Trust Funds.

The separately issued annual reports of the Police and Fire Department Retirement Plan and the Federated City Employees' Retirement System, together with the City's municipal code provide more detailed information about the Postemployment Healthcare Plans. As stated in Section A.1 of this note, those reports may be obtained from the City of San Josė Department of Retirement Services.

The Postemployment Healthcare Plans provide medical and dental benefits to eligible retirees. Benefits are 100% of the premium cost for the lowest priced medical insurance plan and 100% of the premium cost for dental insurance plan available to an active City employee. The Postemployment Healthcare Plans are administered by the Director of Retirement, an employee of the City, under the direction of the Boards of Administration for the Retirement Systems. The contribution and benefit provisions and all other requirements are established by City ordinances.

The current membership in the Postemployment Healthcare Plans as of June 30, 2009, is as follows:

	The Plan	The System
Postemployment Healthcare Plans:		
Retirees and beneficiaries currently receiving benefits	1,571	2,641
Terminated vested members not yet receiving benefits	5	80
Active members	2,087	4,196
Total	3,663	6,917

2. Funding Policy

As stated above in the Defined Benefit Pension Plan section of this note, it is the City's policy to obtain actuarial valuations for the Retirement Systems every two years. Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future. For postemployment healthcare plans, the assumptions include those about future employment, mortality, salary increases, healthcare cost trend, and investment rate of return. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Projections of postemployment healthcare benefit costs for financial reporting purposes are based on the substantive plan as understood by the employer and plan members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point.

On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for postemployment healthcare benefits to the Police and Fire Department Retirement Plan and Federated City Employees' Retirement System. The lump sum prepayment for fiscal year 2009 was calculated to be actuarially equivalent to the biweekly payments that would otherwise have been the City's required contributions to the postemployment healthcare plans. The Boards of Administration for the San José Police and Fire Department Retirement Plan and Federated Employees' Retirement System approved the actuarially determined prepayment amount to be paid by the City on August 1, 2008, for the remaining 24 pay dates from August 1, 2008 through June 19, 2009 on June 5 and June 12, 2008, respectively.

Contribution rates for the Postemployment Healthcare Plans for the City and the participating employees for fiscal year 2009 were established in accordance with actuarially determined requirements computed through actuarial valuations dated June 30, 2007. The postemployment healthcare contribution rates were based upon an actuarially determined percentage of each employee's base salary prior to the requirements of GASB Statement Numbers 43 and 45. The contributions are not currently sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement Numbers 43 and 45. The contribution rates in effect and the amounts contributed to the Police and Fire Plan and the Federated Plan for the fiscal year ended June 30, 2009, are as follows (dollars in thousands):

	The Plan			The System		
	City	Participants	Total	City	Participants	Total
Actuarial Rate:						
Postemployment Healthcare Plan:						
7/01/08 - 6/27/09 (police and fire members)	4.19% *	3.78%				
7/01/08 - 6/27/09				5.25% **	4.65%	
6/28/09 - 6/30/09 (police members)	5.28% *	4.78%				
6/28/09 - 6/30/09 (fire members)	4.19% *	3.78%				
6/28/09 - 6/30/09				5.70% **	5.07%	
Annual OPEB Contribution (in thousands):						
Postemployment Healthcare Plan	$ 9,888	$ 9,218	$ 19,105	$ 16,368	$ 15,076	$ 31,444

* *The actual contribution rate paid by the City was 4.05% for both the Police and Fire members as a result of the City exercising their option to make a lump sum prepayment for 24 pay periods of fiscal year 2009.*

** *The actual contribution rate paid by the City was 5.05% for the Federated members as a result of the City exercising its option to make a lump sum prepayment for 24 pay periods of fiscal year 2009.*

The City has begun a five-year phase-in to fully pre-fund retiree healthcare benefits for the majority of its employee units, with the exception of the San José Firefighters union (International Association of Firefighters, Local 230). This will result in an incremental increase in retiree healthcare contributions for both the City and its employees over the next five years.

3. Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation

The City implemented GASB 45 in fiscal year 2008 and elected to report a zero net OPEB obligation at the beginning of the transition year. The City's annual other postemployment benefit cost and net OPEB obligation for the Plan and the System as of and for the fiscal year ended June 30, 2009, were as follows (dollars in thousands):

	The Plan	The System
Annual required contribution	$ 46,720	$ 33,381
Interest on net OPEB obligation	3,155	1,746
Adjustment to annual required contribution	(3,541)	(1,402)
Annual OPEB cost	46,334	33,725
Contributions made	(12,548)	(15,919)
Increase in net OPEB obligation	33,786	17,806
Net OPEB obligation – beginning of year	50,726	26,953
Net OPEB obligation – end of year	$ 84,512	$ 44,759

The following is two-year trend information for the City's single employer Postemployment Healthcare Plans (dollars in thousands):

	Fiscal year ended	Annual OPEB Cost	Percent Annual OPEB Cost Contributed	Net OPEB Obligation
The Plan	6/30/08	$ 61,344	17%	$ 50,726
	6/30/09	46,334	27%	84,512
The System	6/30/08	$ 38,513	30%	$ 26,953
	6/30/09	33,725	47%	44,759

4. Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the Plan was 7% funded. The actuarial accrued liability for benefits was $666,228,000, and the actuarial value of assets was $45,393,000 resulting in an unfunded actuarial accrued liability (UAAL) of $620,835,000. The covered payroll (annual payroll of active employees covered by the plan) was $227,734,000, and the ratio of the UAAL to the covered payroll was 273%. As of the June 30, 2007 valuation date, the System was 16% funded. The actuarial accrued liability for benefits was $616,749,000, and the actuarial value of assets was $96,601,000, resulting in an unfunded actuarial accrued liability (UAAL) of $520,148,000. The covered payroll was $271,833,000, and the ratio of the UAAL to the covered payroll was 191%.

The Schedule of Funding Progress, presented as RSI following the Notes to Basic Financial Statements, presents information about whether the actuarial value of plan assets increased or decreased in fiscal year 2009 over the transition year in relation to the actuarial accrued liability for benefits.

5. Actuarial Methods and Assumptions

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrual liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The more significant actuarial methods and assumptions used in the calculation of the annual OPEB cost, the annual required contribution, and the funded status and funding progress for the fiscal year ended June 30, 2009 are as follows:

Method/Assumption	The Plan	The System
Valuation date	June 30, 2007	June 30, 2007
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	30 years as of June 30, 2007, open	30 years as of June 30, 2007, closed
Actuarial asset valuation method	5 year smoothed market	5 year smoothed market
Discount rate*	6.4%	6.6%
Salary increases	The total salary increase of 4% is for combined inflation and real across-the-board salary increase.	The rate of projected payroll increase is 4%
Healthcare cost trend rate:		
Medical	10% for fiscal year 2009, 8.25% for fiscal year 2010, decreasing by 0.50% for each year for seven years until it reaches an ultimate rate of 5%	The valuation assumes that future medical inflation will be at a rate of 8% per annum graded down each year in 0.5% increments to an ultimate rate of 4.5%.
Dental	5%	Dental inflation is assumed to be 6% graded down to 4% over a nine year period.
Inflation rate	3.5%	4%

* Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the funded level of the plan at the valuation date.

B. Defined Contribution Retirement Plan

In January 1995, the Agency Board adopted a single employer defined contribution retirement plan, the Redevelopment Agency of the City of San José Retirement Plan (the Retirement Plan), which provides pension benefits for its non-civil service employees. For eligible employees who contribute 3.5% of their annual base salary, the Agency contributes approximately 9.0%. The Agency's contributions are based on a formula taking into account employee annual base salary and length of service. The Agency's contributions for each employee (and interest allocated to the employee's account) are fully vested after three years of continuous service from the original date of employment. The Agency's contributions and interest forfeited by employees who leave employment before vesting occurs may be used to reduce the Agency's contribution requirement or to offset plan-operating expenses. The Agency contracts with an advisor to manage the Retirement Plan with all assets being held in trust by a third party custodian in the name of each of the Retirement Plan's participants. Each of the Retirement Plan's participants directs the investments of his/her separate account. The Agency's Board of Directors may authorize changes to the Retirement Plan.

The Agency's total payroll in fiscal year ended June 30, 2009 for all non-civil service employees was approximately $9,451,000. Contributions to the Retirement Plan during the year ended June 30, 2009, made by both the Agency and the participating employees, amounted to approximately $847,000 and $323,000, respectively.

C. Commitments and Contingencies

1. Norman Y. Mineta San José International Airport

Purchase Commitments. As of June 30, 2009, the Airport was obligated for purchase commitments of approximately $332,000,000, primarily for the terminal area development projects, noise attenuation, as well as design and construction of the rental car facility and the North Concourse building. Additionally, the Airport has projected that it will expend or encumber approximately $326,935,000, including approximately $13,116,000 pertaining to Phase 2 of the Airport Master Plan, on proposed capital projects during the next five fiscal years. Construction on Phase 2 projects is contingent upon satisfying activity-based triggers. It is anticipated that funding for such capital projects will be provided primarily by proceeds from passenger facility charges (PFC), Federal grant monies, bond proceeds and other Airport revenues.

Fuel Storage Facility. In 1985, the Airport and a fuel supplier with a fuel storage facility adjacent to the City owned fuel tank farm facility discovered a fuel leak whereby petroleum products had been released into the soil and ground water from either or both of the City owned facility and/or the other fuel supplier facility. The Airport and a fuel supplier with a fuel storage facility adjacent to the City owned facility agreed to share the costs of a study to develop an acceptable cleanup program for the contaminated site. The cleanup program submitted to the Santa Clara Valley Water District, the responsible regulatory authority, was approved and the cleanup program commenced during the fiscal year ended June 30, 1991. Under an operating agreement, the Airport implemented a groundwater extraction system to control the migration of the contamination and begin efforts to remediate the contamination. Under the agreement and until 1998 when the agreement expired, the Airport was required to pay 60% of the costs and the fuel supplier to pay the balance of 40% of the costs. The fuel supplier also receives a 10% management fee for overseeing the cleanup operation. Since there is currently no agreement in place, approximately $660,000 of unpaid invoices exist relating to the remediation and managements fees for the period of December 1998 through December 2008.

The City has budgeted approximately $7,400,000 for the site characterization and remediation costs, which is being financed as a component of Phase 1 of the Airport Development Program. However, the actual costs of the site characterization and remediation may exceed the budgeted amount. The Airport and a fuel supplier are currently negotiating an agreement for corrective actions at the existing fuel tank farms at a cost to the City not to exceed $1,800,000 and additional expenditures not to exceed $1,800,000. The proposed agreement will provide for a 50% - 50% cost sharing responsibility for the actual future costs until the successful closure of the site and will provide the mechanism for the City to pay its 50% share of the past costs that the fuel supplied had incurred since the expiration of the original agreement. The fuel supplier will be responsible for administering the agreement including retaining a corrective action contractor. The proposed agreement will also be structured to facilitate potential reimbursement from the State Water Resource Control Board Underground Storage Tank Commingled Plume Fund. Reimbursement from the Fund is potentially available up to $1,500,000 for each party. The new agreement is expected to be executed during the fiscal year 2009-10.

On December 22, 1998, due to minimal fuel activities, the Airport temporarily closed its facility and ceased operation at that time. Construction of a new fuel storage facility started in July 2008 and it is anticipated that it will become operational in approximately March 2010. The current facility will then be closed and site remediation activities will commence. As of June 30, 2009, the Airport has accrued approximately $714,000 to cover the estimated remaining costs of its portion of the interim remediation costs. In the absence of a site characterization study by a corrective action contractor, the Airport has insufficient information to reasonably estimate the future remediation costs. Based on presently available information, the City's management does not anticipate that the full cost of remediation of the fuel storage facility will have a significant impact on the City's financial position or change in financial position.

Acoustical Treatment Program. The Airport has an Acoustical Treatment Program (ACT) to comply with the requirements of Title 21 of the California Noise Standard. The program provides acoustical treatment to residences in the noise impact areas surrounding the Airport, at no cost to the property owners. The program is primarily funded by grants from the Federal Aviation Administration (FAA) and by PFC revenues. The Airport expended approximately $5,433,000 on noise attenuation projects during the fiscal year ended June 30, 2009 and expects to spend approximately $7,295,000 during fiscal year ending June 30, 2010.

Master Plan. The Airport Master Plan consists of a program of facility improvements designed to fully accommodate commercial aviation demand (passengers and cargo) projected for the year 2017, with development phased as demand warrants and is determined to be financially feasible. The Master Plan was originally adopted by the City of San José in June 1997 and approved by the Federal Aviation Administration (FAA) in December 1999. In June 2006, the City Council approved revisions to the Airport Master Plan regarding implementation of the Terminal Area Improvement Program (TAIP). The current Program consists of two phases that total approximately $1.6 billion. Phase 1 of the Program has a total budget of approximately $1.3 billion and construction of most of the projects is scheduled to be completed near the end of 2009-2010, with some projects to be completed in 2010-2011. Construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. Funding for Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

2. Redevelopment Agency

Tax Sharing Agreement with the County of Santa Clara. On May 22, 2001, the County of Santa Clara, City of San José and the Agency amended and restated the 1993 Tax Revenue Sharing Agreement (the 2001 Agreement). The 2001 Agreement requires the Agency to provide the County a portion of the Agency's bond proceeds in addition to the 1993 revenue sharing amounts. The money will be used by the County to undertake redevelopment projects in or of benefit to the merged area, and requires the Agency to transfer funds to the County to pay for such projects. Such payments are considered Delegated Payments. Until June 30, 2004, the Delegated Payment was equal to the County's pass-through payment. However, after January 1, 2004, the Delegated Payment was re-defined as 20% of the proceeds of any debt secured by the Agency's non-housing tax increment revenues (excluding refunding bonds). For the fiscal year ended June 30, 2009, the pass-through payment totaled approximately $21,347,000 and Delegated Payments totaled in the amount of $16,832,000.

3. City of San José and the Redevelopment Agency of the City of San José

In August 2004, the City and the Agency filed a lawsuit seeking a judicial determination as to whether the County had breached the 2001 Agreement entered into among the parties in May 2001. The 2001 Agreement included provisions regarding redevelopment tax increment allocation and the application of land use procedures in County territory within the San José urban service area. The City and the Agency contend that under the 2001 Agreement, the County was required to abide by City land use procedures before it entered into agreements with private entities for the development of a theater on the County fairgrounds.

In April 2005, the County filed a cross complaint against the City and the Agency alleging, among other things, breach of the 2001 Agreement, breach of the 2001 Agreement's implied covenant of good faith and fair dealing, and intentional interference with prospective economic relations. The County's cross complaint alleged no specific amount of damages and sought damages and restitution according to proof. In addition a second lawsuit was filed by the County challenging the Council's approval of the North San José Development Policies Update. These lawsuits resulted in a settlement in November 2006.

The settlement among the City, Agency and County is that each agreed to dismiss their respective lawsuits and the Agency and/or City would pay the County a sum of $22,500,000, to be used by County on specified facilities that benefit the citizens of the City of San José. The Agency and/or City will pay the $22,500,000 in three installments of $7,500,000 over a three-year period, commencing on July 1, 2007. At June 30, 2009, the final installment liability in the amount of $7,500,000 was recorded as part of the current obligations; estimated liability for self-insurance in the government wide financial statements. In addition, as part of the agreement, the City is required to fund up to $11,000,000 toward certain improvements on Montague Expressway no later than June 30, 2010.

4. San José - Santa Clara Water Pollution Control Plant

The City's 2010-2014 Five-Year Capital Improvement Program includes approximately $20,000,000 for the South Bay Water Recycling (SBWR) project, a regional water reclamation program to recycle highly treated wastewater for irrigation and industrial uses in the cities of San José, Santa Clara, and Milpitas, California. This program is part of an action plan, developed by the City and other agencies tributary to the Plant and adopted by the Regional Water Quality Control Board (RWQCB), to control the amount of effluent discharged by the Plant into San Francisco Bay.

The SBWR distribution system includes approximately 60 miles of pipe, a four million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately $140,000,000 funded by the tributary agencies, grants, and bond proceeds.

Proceeds from prior bonds that were refunded by the Series 2005 A and Series 2009 A San José-Santa Clara Clean Water Financing Authority Sewer Revenue Bonds, were used to pay for the City's share of Phase I costs. The City of Santa Clara's share of Phase I costs was approximately $20,067,000. Sources of funding included credit for the City of Santa Clara's existing non-potable water reclamation distribution system, in-kind services, additional construction, and City of Santa Clara sewer utility cash reserves. Other sources of funding for Phase I included U.S. Bureau of Reclamation grants, $6,449,000 transferred in fiscal year 1995 from the Authority to the City's Wastewater Treatment Plant Capital Fund, and cash contributions from the other participating agencies.

In June 1997, the RWQCB and the City approved the Proposed Revision to the South Bay Action Plan, which described the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 million gallons per day (mgd) and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I non-potable reuse system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated cost for implementing these projects was $127,500,000, of which $101,269,000 has been expended or encumbered. These estimated costs are to be funded by the City and other tributary agencies through a combination of State Revolving Fund Loans, Sewage Treatment Plant Connection Fees, federal grants, and cash contributions.

5. Retirement Systems - Unfunded Commitments

As of June 30, 2009, the Retirement System and Plan had unfunded commitments to contribute capital for private fund investments in the amount of $59,403,000 and $69,950,000, respectively.

6. Federal Financial Assistance Programs

The City participates in a number of federally assisted grant programs, primarily with the Department of Housing and Urban Development, Federal Aviation Administration, the Department of Transportation, the Department of Homeland Security, the Department of Labor, and the Department of Justice. These programs are subject to program compliance audits by the grantors or their representatives.

Although the City's grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 for the fiscal year ended June 30, 2009, these programs are still subject to financial and compliance audits by Federal auditors, and to resolution of identified findings and questioned costs. At this time, the amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined.

D. Subsequent Events

1. Fiscal Year 2010 State Budget Impacts

On July 28, 2009, Governor Schwarzenegger signed a package of bills to close the State's fiscal year 2010 $23.0 billion budget shortfall. The following are the significant impacts to the City and the Redevelopment Agency as a result of the State's actions:

Borrows City Property Taxes – The State's suspension of Proposition 1A would divert $1.9 billion of local government property tax revenues in fiscal year 2010. The suspension diverts 8% of the total property tax revenues received by cities, counties and special districts in 2009 (excluding debt levies). The county auditors are instructed to shift 8% of each local government's share of property taxes to the county-level Supplemental Revenue Augmentation Fund to fund K-12 schools and other State programs that would otherwise be funded from the State General Fund. The State must repay the amount shifted, with interest, no later than June 30, 2013. The City's Proposition 1A property tax shift is $20,467,000.

In addition to suspending Proposition 1A, the 2009 State Budget package also authorized the securitization of Proposition 1A Receivables. California Communities has been authorized to implement the Proposition 1A Securitization Program to enable local agencies to sell their respective Proposition 1A Receivable to California Communities. Under the Securitization Program, California Communities will simultaneously purchase the Proposition 1A Receivable from participating local agencies, issue bonds, and provide each participating local agency with the cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010, to coincide with the dates that the State will be shifting property tax from local agencies thereby not impacting the City's expected cash flow. The purchase price of Proposition 1A Receivable paid to the local agencies will equal 100% of the amount of the property tax reduction. All transaction costs of issuance and interest will be paid by the State of California. Participating local agencies will have no obligation on the bonds and no credit exposure to the State.

On October 20, 2009, City Council adopted a resolution approving the sale of the City's Proposition 1A Receivable from the State of California. The proceeds of the sale are expected to be received in two equal installments, on January 15, 2010 and May 3, 2010 to offset the City's reduced property tax allocation in fiscal year 2010 due to the State's suspension of Proposition 1A.

Supplemental Educational Revenue Augmentation Fund (SERAF) Taxes – On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of $2.1 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of $2.1 billion will be made over two years, $1.7 billion in fiscal year 2010 and $350,000,000 in fiscal year 2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately $62,200,000 in fiscal year 2010 and $12,800,000 in fiscal year 2011. Payments are to be made by May 10 of each respective fiscal year. In response to AB 26x 4, the Agency will attempt to renegotiate the tax sharing and other payment agreements with the County of Santa Clara by deferring payments forthe next three years and negotiate with the City in obtaining a loan from the Housing 20% Set-aside Funds.

On October 20, 2009, the California Redevelopment Association (CRA) together with two redevelopment agencies have filed a lawsuit in Sacramento Superior Court challenging the constitutionality of AB 26x 4. The lawsuit asserted that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserted impairment of contract and gift of public funds arguments.

2. Letters of Credit

The principal and interest payment of the 1996 Merged Area Revenue Bonds and 2003 Merged Area Revenue Bonds are supported by the Letters of Credit under a Reimbursement Agreement with JPMorgan Chase Bank. The Letters of Credit were set to expire on October 31, 2010, and August 27, 2009, for the 1996 Bonds and 2003 Bonds, respectively. Failure to extend or replace the Letters of Credit would require the Agency to redeem the bonds upon the expiration date of the Letters of Credit.

To avoid the need to redeem the 2003 Bonds on November 27, 2009, the Bank has agreed to extend the 2003 Letters of Credit to November 26, 2010, and to extend the 1996 Letters of Credit to the same date, under the terms of an Amendment to Reimbursement Agreements that amend both the 2003 and 1996 Reimbursement Agreements. The Amendment to Reimbursement Agreements includes the following basic terms:

1. The annual fee for the 2003 Letters of Credit will increase from 1.50% times the outstanding Letters of Credit amount to 2.30% subject to an increase of 0.15% for each downgrade of the Agency' senior tax allocation bond rating by either Moody's or Standard and Poor's.

2. The annual fee with respect to the 1996 Letters of Credit will increase from 0.45% to 2.10% times the outstanding Letters of Credit subject to an increase of 0.15% for each Rating Downgrade Event.

3. The Agency must reduce, by November 27, 2009, the aggregate amount of the 2003 Bonds and 1996 Bonds to no more than $100,000,000. The Agency will direct the Bond Trustee of the bonds to redeem $5,300,000 of the 1996 Bonds (the $5,300,000 has been recognized by the Agency as short-term obligation in the governmental funds in the current fiscal year as Variable-Rate Demand Bonds).

Required Supplementary Information

City of San José
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2009
($000's)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES							
Taxes:							
Property	$ 208,267	210,356	488	210,844	-	210,844	
Sales	152,536	135,920	(3,915)	132,005	-	132,005	
Utility	83,690	90,904	2,715	93,619	-	93,619	
State of California in-lieu	7,946	7,860	978	8,838	-	8,838	
Franchise	41,621	41,190	(122)	41,068	-	41,068	
Other	9,972	7,818	(23)	7,795	-	7,795	
Licenses, permits and fines	78,884	85,473	(1,199)	84,274	-	84,274	
Intergovernmental	8,104	16,164	202	16,366	-	16,366	
Charges for current services	30,853	27,244	896	28,140	-	28,140	
Investment income	14,768	7,860	(6)	7,854	(313)	7,541	(1)
Other revenues	28,159	33,905	(1,049)	32,856	(250)	32,606	(4)
Total revenues	664,800	664,694	(1,035)	663,659	(563)	663,096	
EXPENDITURES							
Current:							
General government	136,406	133,300	(26,362)	106,938	(8,402)	98,536	(2), (3)
Public safety	419,739	431,825	(10,015)	421,810	(2,767)	419,043	(2)
Capital maintenance	98,121	84,742	(19,682)	65,060	(11,620)	53,440	(2)
Community services	153,612	153,019	(10,692)	142,327	(3,335)	138,992	(2)
Sanitation	1,951	3,592	(684)	2,908	(287)	2,621	(2)
Capital outlay	6,275	6,275	(785)	5,490	(257)	5,233	(2)
Debt service:							
Principal	953	953	-	953	-	953	
Interest	630	630	-	630	-	630	
Total expenditures	817,687	814,336	(68,220)	746,116	(26,668)	719,448	
Excess (deficiency) of revenues over expenditures	(152,887)	(149,642)	67,185	(82,457)	26,105	(56,352)	
OTHER FINANCING SOURCES (USES)							
Transfers in	38,112	34,711	(1,902)	32,809	-	32,809	
Transfers out	(35,067)	(44,779)	2,382	(42,397)	-	(42,397)	
Total other financing sources (uses)	3,045	(10,068)	480	(9,588)	-	(9,588)	
Net change in fund balances	(149,842)	(159,710)	67,665	(92,045)	26,105	(65,940)	
Fund balances - beginning	223,651	223,651	-	223,651	53,482	277,133	
Beginning encumbrance	-	-	-	41,648	(41,648)	-	
Fund balances - ending	$ 73,809	63,941	67,665	173,254	37,939	211,193	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.
(2) Encumbrances of funds for which formal budget are prepared.
(3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.
(4) Loan advance is budgetary reclassed as other revenue.

See accompanying notes to the required supplementary information.

City of San Josė
Housing Activities
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2009
($000's)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES							
Intergovernmental	$ 17,659	39,145	(27,135)	12,010	-	12,010	
Investment income	6,150	6,150	4,369	10,519	475	10,994	(1)
Other revenues	38,276	11,376	(4,012)	7,364	(5,878)	1,486	(3)
Total revenues	62,085	56,671	(26,778)	29,893	(5,403)	24,490	
EXPENDITURES							
Current:							
Capital maintenance	125	86	(21)	65	-	65	
Community services	266,409	175,735	(50,387)	125,348	(67,818)	57,530	(2), (3)
Total expenditures	266,534	175,821	(50,408)	125,413	(67,818)	57,595	
Excess (deficiency) of revenues over expenditures	(204,449)	(119,150)	23,630	(95,520)	62,415	(33,105)	
OTHER FINANCING SOURCES (USES)							
Transfers in	174,873	90,469	-	90,469	-	90,469	
Transfers out	(19,077)	(19,001)	-	(19,001)	-	(19,001)	
Total other financing sources (uses)	155,796	71,468		71,468	-	71,468	
Net change in fund balances	(48,653)	(47,682)	23,630	(24,052)	62,415	38,363	
Fund balance - beginning	13,677	13,677	-	13,677	309,216	322,893	
Add beginning encumbrance balance	-	-	-	36,587	(36,587)	-	
Fund balances - ending	$ (34,976)	(34,005)	23,630	26,212	335,044	361,256	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.
(2) Encumbrances of funds for which formal budget are prepared.
(3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

Required Supplementary Information

June 30, 2009

Schedules of Funding Progress
($000's)

Police and Fire Department Retirement Plan - Defined Benefit Pension Plan

Actuarial Valuation Date (4)		Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded (Overfunded) AAL	Funded Ratio	Annual Covered Payroll (3)	(Overfunded) Unfunded AAL as a Percentage of Covered Payroll
6/30/03	$	1,826,287	1,823,200	(3,087)	100%	202,222	(2)%
6/30/05		1,983,090	2,027,432	44,342	98%	210,018	21%
6/30/07	(5)	2,365,790	2,372,386	6,596	100%	227,734	3%

Federated City Employees' Retirement System - Defined Benefit Pension Plan

Actuarial Valuation Date (4)		Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL	Funded Ratio	Annual Covered Payroll (3)	Unfunded AAL as a Percentage of Covered Payroll
6/30/03	$	1,280,719	1,311,691	30,972	98%	292,961	11%
6/30/05		1,384,454	1,711,370	326,916	81%	286,446	114%
6/30/07		1,622,851	1,960,943	338,092	83%	291,405	116%

(1) Excludes accounts payable and postemployment healthcare plan assets.
(2) Excludes postemployment healthcare liability.
(3) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.
(4) Actuarial valuations have been performed biennially through June 30, 2007.
(5) After reflection of benefit improvements effective July 1, 2008 for Police members.

Police and Fire Department Retirement Plan - Postemployment Healthcare Benefit Plan

Actuarial Valuation Date		Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (6)	Unfunded AAL	Funded Ratio	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/06	$	38,381	851,217	812,836	5%	218,521	372%
6/30/07		45,393	666,228	620,835	7%	227,734	273%

Federated City Employees' Retirement System - Postemployment Healthcare Benefit Plan

Actuarial Valuation Date		Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (6)	Unfunded AAL	Funded Ratio	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/06	$	81,288	702,939	621,651	12%	275,559	226%
6/30/07		96,601	616,749	520,148	16%	271,833	191%

(6) The decrease in the actuarial accrued liability from 6/30/06 valuation to 6/30/07 valuation for both the Plan and the System is largely due to an increase in the sharing of benefit costs for the members as a result of the negotiations between the City and the members' unions.

Notes to Required Supplementary Information

June 30, 2009

I. 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 General Fund and all special revenue funds except for the following:

- Developer Fees
- William F. Prusch, Jr.
- Special Assessment Special Services
- Emergency Reserve

The annual appropriation ordinance adopts the budget at the appropriation level by expenditure category (personal services, nonpersonal) within departments. Accordingly, the lowest level of budgetary control exercised by the City Council is the appropriation level within a department. The City's legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within the CAFR itself. As a result, the City prepares a separate report to demonstrate compliance with its legal level of budgetary control.

Capital project budgets are based on a project time frame rather than a fiscal year time frame and therefore are not included. Debt Service Funds appropriations were implicitly adopted by the Council when the formal bond resolutions were approved.

II. 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 (GAAP) basis. The results of operations are presented in the accompanying budget and actual comparison schedules 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:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until the equipment, supplies, or services are received.

- Certain loan transactions are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these loans are made, they are recorded as receivables for the GAAP basis and as expenditures for the budgetary basis. When loan repayments are received, they are recorded as reductions to receivables for the GAAP basis, but are recognized as revenues for the budgetary basis.

- Net decreases were made to certain GAAP basis loans receivable to reflect carrying amounts at a discounted present value and allowances for bad debts. The discount is treated as an expenditure for the GAAP basis and is not included in the budgetary basis financial statements. In addition, the allowance for bad debts is not included in the budgetary basis financial statements, but is an expenditure for the GAAP basis.

- 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 financial statements.

- The Community Facility Revenue non-major special revenue fund has been blended to include the financial operations of the Dolce Hayes Mansion. Formal budgets are not prepared for this financial activity and is excluded from the budgetary basis financial statements.

- Certain line of credit transactions are recognized as expenditures in the budgetary basis financial schedules but are recorded as an asset in the GAAP basis financial statements. When the outside agency drawdown on the line of credit, the City records an asset, advances to other agencies, in the GAAP basis financial statements and an expenditure on the budgetary basis financial schedules. When the outside agency pays down the line of credit, the City records a reduction to its assets in the GAAP basis financial statements and revenues on the budgetary basis financial schedules.

- Certain grant revenues received in advance are recognized on the budgetary basis financial statements, but are deferred and not recognized as revenue on the GAAP basis financial statements. This process normally creates a variance in recognized revenue from the prior year to the current year.

III. Budget Revisions

On September 30, 2009, the City Council approved certain fiscal 2009 budget revisions that increased appropriations for various expenditure categories. The budget amounts presented in the accompanying schedule of revenues, expenditures, and changes in fund balances - budget and actual (budgetary basis) reflect such budget revisions.

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OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN DIEGO

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
City of San José, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (the City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 4, 2009. Our report contains an explanatory paragraph describing the City's adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and an emphasis of a matter regarding an uncertainty related to a recently passed State legislation. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Federal Awards Schedule of Findings and Questioned Costs as findings #2009-A and #2009-B to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City'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*.

We noted certain matters that we reported to management of the City in a separate letter dated November 4, 2009.

The City's response to the findings identified in our audit is described in the accompanying Federal Awards Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, the City's management, and federal awarding agencies and pass-through entities and the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
November 4, 2009

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SACRAMENTO

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SAN DIEGO

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program, the Passenger Facility Charges Program and the Internet Crimes Against Children State Grant Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

City Council
City of San José, California

Compliance

We have audited the compliance of the City of San José, California (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement,* the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration *(PFC Guide),* and the *Recipient Handbook* issued by the California Emergency Management Agency (CalEMA) that are applicable to each of its major federal programs, the passenger facility charges program, and the Internet Crimes Against Children (ICAC) State Grant program, respectively, for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Federal Awards Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs, the passenger facility charges program and the ICAC State Grant program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; the *PFC Guide;* and the *Recipient Handbook*. Those standards, OMB Circular A-133, the *PFC Guide* and the *Recipient Handbook* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program, the passenger facility charges program and the ICAC State Grant program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs, the passenger facility charges program and the ICAC State Grant program for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Federal Awards Schedule of Findings and Questioned Costs as finding #2009-01.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs, the passenger facility charges program and the ICAC State Grant program. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program, the passenger facility charges program, and the ICAC State Grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Federal Awards Schedule of Findings and Questioned Costs as finding #2009-01 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program, the passenger facility charges program, or the ICAC State Grant program will not be prevented or detected by the City's internal control. We do not consider the deficiency described in the accompanying Federal Awards Schedule of Findings and Questioned Costs to be a material weakness.

The City's response to the findings identified in our audit is described in the accompanying Federal Awards Schedule of Findings and Questioned costs. We did not audit the City's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, the City's management, the Federal Aviation Administration, federal awarding agencies and pass-through entities, and the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

January 5, 2010

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Grant Amount	Expenditures Federal Grant	Expenditures Other
U.S. Department of Housing and Urban Development					
Community Development Block Grants/Entitlement Grants	14.218	B06-07-08 MC-06-0021	$ 30,543,910	$ 14,995,026	$ -
Community Development Block Grants/Entitlement Grants	14.218	Prior Year Ending Loan Balance	-	6,883,411	-
Subtotal Community Development Block Grants/Entitlement Grants			30,543,910	21,878,437	-
Emergency Shelter Grants Program	14.231	S08-MC-060021	469,642	469,636	-
Home Investment Partnerships Program	14.239	M01-02 MC06215	8,637,000	62,543	-
Home Investment Partnerships Program	14.239	M03-04 MC06215	10,321,912	1,413,787	-
Home Investment Partnerships Program	14.239	M05-06 MC06215	9,185,083	75,000	-
Home Investment Partnerships Program	14.239	M07-08 MC06215	8,612,627	4,343,023	-
Home Investment Partnerships Program	14.239	Prior Year Ending Loan Balance	-	39,612,448	-
Subtotal Home Investment Partnerships Program			36,756,622	45,506,801	-
Housing Opportunities for Persons with AIDS	14.241	CA-39-H06-F069	738,000	18,830	-
Housing Opportunities for Persons with AIDS	14.241	CA-H07-F0-04	739,000	148,598	-
Housing Opportunities for Persons with AIDS	14.241	CA-H08-F0-04	765,180	522,839	-
Housing Opportunities for Persons with AIDS	14.241	CA-H107-0003	1,226,500	416,685	-
Subtotal Housing Opportunities for Persons with AIDS			3,468,680	1,106,952	-
Total U.S. Department of Housing and Urban Development			71,238,854	68,961,826	-
U.S. Department of Justice					
Pass-through Office of Justice Programs:					
Missing Children Assistance	16.543	2008-MC-CX-K002	550,141	349,493	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2005-VT-BX-1155	225,000	1,305	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2007-DD-BX-0005	394,890	126,497	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2008-JL-FX-0161	469,494	160,961	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2008-VT-BX-0005	250,000	88,137	100,216
Subtotal Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program			1,339,384	376,900	100,216
Community Capacity Development Office	16.595	2007-WS-Q7-0046	200,000	170,698	214,295
Community Capacity Development Office	16.595	2007-WS-Q7-0024/2008-WS-QX-0142	40,625	24,529	1,159
Community Capacity Development Office	16.595	2008-WS-QX-0184	150,000	31,743	-
Subtotal Community Capacity Development Office			390,625	226,970	215,454

See accompanying notes to the Schedule of Expenditures of Federal Awards and
Schedule of Revenues and Expenditures of Passenger Facility Charges

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Grant Amount	Expenditures Federal Grant	Expenditures Other
U.S. Department of Justice (continued)					
Public Safety Partnership and Community Policing Grants	16.710	2003INWX001	3,692,162	2,683,736	894,582
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC08190430	100,681	100,546	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-1720	395,243	723	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2006-DJ-BX-0883	270,939	5,191	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2007-DJ-BX-0531	303,923	14,610	-
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			1,070,786	121,070	-
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	16.748	2007-WP-BX-0008	250,000	111,697	29,374
Total U.S. Department of Justice			7,293,098	3,869,866	1,239,626
U.S. Department of Labor					
WIA Cluster:					
Pass-through State of California, Employment Development Department:					
WIA Adult Program	17.258	R865486	2,786,942	858,313	-
WIA Youth Activities	17.259	R865486	2,562,904	2,288,451	-
WIA Dislocated Workers	17.260	R865486	1,339,754	1,339,754	-
WIA Adult Program	17.258	R970569	3,567,075	3,567,075	-
WIA Youth Activities	17.259	R970569	3,713,904	1,545,155	-
WIA Dislocated Workers	17.260	R970569	4,186,728	2,359,465	-
ARRA - WIA Adult Program	17.258	R970569	2,026,103	8,431	-
ARRA - WIA Youth Activities	17.259	R970569	4,744,413	255,835	-
ARRA - WIA Dislocated Workers	17.260	R970569	4,448,400	8,431	-
Subtotal WIA Cluster			29,376,223	12,230,910	-
Total U.S. Department of Labor			29,376,223	12,230,910	-
U.S. Department of Transportation					
Federal Aviation Administration:					
Airport Improvement Program	20.106	3-06-0226-61	3,400,000	33,616	8,096
Airport Improvement Program	20.106	3-06-0226-63	6,000,000	95,491	23,000
Airport Improvement Program	20.106	3-06-0226-64	1,000,000	1,617	389
Airport Improvement Program	20.106	3-06-0226-66	2,467,466	-	594,286
Airport Improvement Program	20.106	3-06-0226-67	6,000,000	1,441,930	347,287
Airport Improvement Program	20.106	3-06-0226-68	870,372	83,256	20,046
Airport Improvement Program	20.106	3-06-0226-69	1,800,341	1,800,341	433,610
Airport Improvement Program	20.106	3-06-0226-70	3,000,000	2,394,555	572,772
Airport Improvement Program	20.106	3-06-0226-71	1,039,286	829,090	199,685
Airport Improvement Program	20.106	3-06-0226-72	1,122,816	474,627	114,313
Airport Improvement Program	20.106	3-06-0226-73	4,628,099	131,338	31,632
Subtotal Airport Improvement Program			31,328,380	7,285,861	2,345,116

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Grant Amount	Expenditures Federal Grant	Expenditures Other
U.S. Department of Transportation (Continued)					
Highway Planning and Construction Cluster:					
Pass-through California Department of Transportation:					
Federal-Aid Highway Program:					
SVSC ITS Enhancement	20.205	ITS99-5005(058)	1,187,204	178,984	176,792
Safe Routes to School (SRTS)	20.205	SRTSL-5005(091)	770,366	137,130	-
SVSC West Corridor - Stevens Creek - CMAQ	20.205	CML-5005(064)	4,748,000	1,282,252	165,852
Community Design and Transportation	20.205	CML-5005(094)	1,300,000	-	272,962
TEA-21-ITS: New CC TMC (Web II)	20.205	ITS03-5005(073)	579,123	105,705	105,693
Federal Street Maintenance	20.205	SCL 050028	16,300,666	3,722,242	2,223,567
TiMC (HPP 2017)	20.205	HPP2017	5,400,000	175,658	35,269
HBRR Seismic Bridge Retrofit - Julian Street	20.205	BRLZ 5005(080)	769,443	580,045	79,563
HBRR Seismic Bridge Retrofit - Southwest Expressway	20.205	BRLZ 5005(079)	671,058	198,686	161,556
HBRR Seismic Bridge Retrofit - William Street	20.205	BRLZ 5005(081)	521,795	123,118	97,435
Traffic Synchronization	20.205	TLSP-5005(095)	15,000,000	3,385,739	1,126,399
Subtotal Federal-Aid Highway Program			47,247,655	9,889,559	4,445,088
Recreational Trails Program:					
SAFETEA-LU Trail: Lower Guadalupe	20.219	SCL 050081 HPLUL-5005(084)	175,000	175,000	43,849
SAFETEA-LU Trail: Lower Guadalupe	20.219	SCL 050081 VTP 2030-30-B3 #B31	1,377,000	1,010,535	317,817
SAFETEA-LU Trail: Bay Reach 7/9	20.219	SCL 050082 HPLUL-5005(086)	675,000	254,758	86,239
SAFETEA-LU Trail: Coyote Creek	20.219	SCL 050083 HPLUL-5005(087)	1,317,999	208,042	68,923
SAFETEA-LU Trail: Almaden Express	20.219	SCL 050089 DEMO05-5005(088)	496,000	35,768	3,646
Subtotal Recrational Trails Program			4,040,999	1,684,103	520,474
Subtotal pass-through California Department of Transportation			51,288,654	11,573,662	4,965,562
Pass-through the Metropolitan Transportation Commission					
HBRR - Willow Glen Way Bridge	20.205	BRLS 5005(038)	3,428,354	330,937	141,168
Subtotal Highway Planning and Construction Cluster			54,717,008	11,904,599	5,106,730
State and Community Highway Safety					
Pass-through the California Department of Transportation:					
2008 Sobriety Checkpoint Mini-Grant	20.600	SC08372	91,814	32,692	-
2009 Sobriety Checkpoint Mini-Grant	20.600	SC09372	107,246	70,212	-
2009 Click it or Ticket Grant	20.600	CT-09372	45,054	36,980	-
Avoid the 13	20.600	AL0980	153,119	17,155	69,896
Elk Grove Police Department - Street Racing	20.600	PT0816	5,400	3,543	137
Subtotal State and Community Highway Safety			402,633	160,582	70,033
Total U.S. Department of Transportation			86,448,021	19,351,042	7,521,879

See accompanying notes to the Schedule of Expenditures of Federal Awards and
Schedule of Revenues and Expenditures of Passenger Facility Charges

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Grant Amount	Expenditures Federal Grant	Expenditures Other
National Endowment for the Humanities					
Pass-through the California State Library					
Promotion of the Humanities_Public Programs	45.164	LT-50052-08	2,500	1,635	-
Grants to States Program:					
Staff Education 2008-09	45.310	40-7050	13,808	13,808	-
Outreach to Latino Communities	45.310	40-7209	4,991	4,991	-
Self Directed Interest Groups	45.310	40-7142	20,000	3,747	-
Libraries as Community Resources	45.310	40-7089	39,933	36,848	-
California of Past Digital Storytelling	45.310	40-7129	10,000	10,000	-
Survey and Analysis of San Jose Teens	45.310	40-7210	5,000	5,000	-
Subtotal Grants to States Program			93,732	74,394	-
Total National Endowment for the Humanities			96,232	76,029	-
Environmental Protection Agency					
Congressionally Mandated Projects	66.202	XP-96942501-0	673,000	70,291	281,162
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-96922201-2	200,000	40,000	-
Total Environmental Protection Agency			873,000	110,291	281,162
U.S. Department of Energy					
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	DE-FC36-08GO18099	200,000	25,768	23,392
Total U.S. Department of Energy			200,000	25,768	23,392
U.S. Department of Education					
Fund for the Improvement of Education	84.215	U215K080307	191,593	139,188	-
Fund for the Improvement of Education	84.215	U215K080308	277,074	38,173	-
Total U.S. Department of Education			468,667	177,361	-
U.S. Department of Health and Human Services					
Pass-through from Council on Aging - Silicon Valley					
Aging Cluster:					
Special Programs for the Aging_Title III, Part B _ Grants for Supportive Services and Senior Centers	93.044	Contract 1200 (2008)	10,800	10,800	-
Special Programs for the Aging_Title III, Part B _ Grants for Supportive Services and Senior Centers	93.044	Contract 1200 (2009)	10,800	10,800	-
Nutrition Services Incentive Program	93.053	Contract 1200	96,000	23,516	-
Subtotal Aging Cluster			117,600	45,116	-
Social Services Research and Demonstration	93.647	90XPO27401	191,593	92,818	-
Total U.S. Department of Health and Human Services			309,193	137,934	-

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Grant Amount	Expenditures Federal Grant	Expenditures Other
Corporation for National and Community Services					
Retired and Senior Volunteer Program	94.002	06SRPCA017	277,855	72,871	184,649
Retired and Senior Volunteer Program	94.002	09SRPCA014	91,533	20,815	55,037
Subtotal Retired and Senior Volunteer Program			369,388	93,686	239,686
Senior Companion Program	94.016	06SCPCA007	388,651	128,033	168,335
Total Corporation for National and Community Services			758,039	221,719	408,021
U.S. Department of Homeland Security					
National Explosives Detection Canine Team Program	97.072	HSTS0208HCAN452	301,000	201,000	513,220
Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS0208HSLR344	776,366	362,410	481,639
Pass-through the County of Santa Clara					
Emergency Management Performance Grants	97.042	N/A	92,142	92,142	95,881
Homeland Security Cluster:					
Pass-through the County of Santa Clara					
FY 07 Urban Areas Security Initiative	97.008	n/a	3,098,659	2,695,314	-
FY 07 Urban Areas Security Initiative	97.008	n/a	1,000,000	721,765	-
FY 09 Urban Areas Security Initiative	97.008	n/a	335,189	62,346	-
FY 07 Metropolitan Medical Response System	97.067	2007-0008	258,145	12,038	-
FY06 State Homeland Security Grant Program	97.067	2006-0071	47,772	619	-
FY07 State Homeland Security Grant Program	97.067	n/a	52,922	5,034	-
State Homeland Security Grant program	97.067	n/a	43,898	23,856	10,055
Subtotal pass-through the County of Santa Clara			4,836,585	3,520,972	10,055
Subtotal Homeland Security Cluster			4,836,585	3,520,972	10,055
Airport Checked Baggage Screening Program	97.100	HSTS04-08-H-CT1234	18,135,000	9,495,782	1,055,117
Total U.S. Department of Homeland Security			24,141,093	13,672,306	2,155,912
Total Federal Awards			$ 221,202,420	$ 118,835,052	$ 11,629,992
State of California - Internet Crimes Against Children State Grant Program					
Internet Crimes Against Children Grant	n/a	IC07017928	$ 500,000	$ -	$ 311,138

See accompanying notes to the Schedule of Expenditures of Federal Awards and
Schedule of Revenues and Expenditures of Passenger Facility Charges

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CITY OF SAN JOSE, CALIFORNIA
Schedule of Revenues and Expenditures of Passenger Facility Charges
Year Ended June 30, 2009

Passenger Facility Charges Project Number/Description		Identifying Number	Passenger Facility Charges Project Amount	Expenditures	Revenue Recognized
Total Passenger Facility Charges Collection Revenues					
Passenger Facility Charges Collections					$ 17,415,668
Interest Earned on PFC Program					1,498,633
Passenger Facility Charges Projects					
#1	Communication Center Upgrade	92-01-C-00-SJC	$ 528,691	$ -	-
#2	Fire Truck Replacement	92-01-C-00-SJC	599,826	-	-
#3	Handlift Replacement	92-01-C-00-SJC	103,000	-	-
#4	Noise Attenuation	92-01-C-06-SJC	47,792,121	192,353	-
#5	Noise Monitoring System Upgrade	92-01-C-00-SJC	184,000	-	-
#6	Noise Remedy/Land Acquisition	92-01-C-00-SJC	5,133,000	-	-
#7	Security Access Control System	92-01-C-07-SJC	1,032,000	-	-
#40a	Runway 30L Reconstruction	98-06-I-00-SJC	72,022,700	-	-
#40b	Runway 30L Extension	98-06-I-00-SJC	38,671,724	-	-
#41	Aircraft Noise & Operation Management System	99-07-C-00-SJC	100,000	-	-
#42	Emergency Command Post Relocation & Equipment	99-07-C-00-SJC	150,000	-	-
#43	Interim Federal Inspection Service (FIS) Facility	99-08-C-02-SJC	36,879,750	62,193	-
#44	Airfield Lighting Control System	99-07-C-00-SJC	200,000	-	-
#46	Ewert Road Improvements	99-07-C-00-SJC	408,208	-	-
#47	Skyport Access to Airport Boulevard	99-07-C-00-SJC	1,083,000	-	-
#48	Taxiway Y Pavement Reconstruction	99-07-C-01-SJC	2,100,000	-	-
#49	Transportation Access Plan, Terminal Area Concept	99-07-C-01-SJC	1,200,401	-	-
#50	Terminal C Ramp Lighting Improvement	99-07-C-00-SJC	37,000	-	-
#51	Acoustical Treatment of Four Eligible Schools	99-07-C-01-SJC	7,500,000	-	-
#52	Taxiway Z - Apron Reconstruction (Phase II)	00-11-C-00-SJC	825,000	-	-
#53	Terminal C Fire Protection	00-11-C-00-SJC	580,000	10,064	-
#54	Fiber Optic Cable to ARC & Fire Station 29	00-11-C-00-SJC	87,345	-	-
#55	Green Island Bridge	00-11-C-00-SJC	825,000	-	-
#56	Replacement of AACS and CCTV	00-11-C-00-SJC	4,418,645	-	-
#57	Skyport Grade Separation	00-11-C-00-SJC	18,218,154	-	-
#58	Terminal Drive Improvements	00-11-C-00-SJC	1,146,165	-	-
#59	Replacement of PASSUR	00-11-C-00-SJC	221,000	-	-
#60	Terminal C Restroom	00-11-C-00-SJC	2,485,000	267	-
#61	Interim Air Cargo Ramp Extension	00-11-C-01-SJC	1,100,000	-	-
#62	Runway 30R/12L Reconstruction	00-11-C-00-SJC	84,105,103	-	-
#63	Noise Attenuation Category II & III	00-11-C-00-SJC	4,500,000	725	-
#64	Taxiway Y Extension	00-11-C-00-SJC	12,890,000	-	-
#65	Extended Noise Attenuation	02-13-C-00-SJC	61,589,000	1,474,625	-
#66	Taxiway Y Reconstruction	04-14-C-00-SJC	39,131,000	142,925	-
#67	Terminal B - North Concourse	06-15-C-00-SJC	495,095,000	-	-
#68	Terminal B Extension, Phase I	08-16-C-00-SJC	110,159,000	39,333,847	
#69	Roadway Improvements: Grade Separations	08-16-C-00-SJC	10,244,000	10,242,443	
	Total Passenger Facility Charge Projects		$ 1,063,344,833	$ 51,459,442	$ 18,914,301

See accompanying notes to the Schedule of Expenditures of Federal Awards and
Schedule of Revenues and Expenditures of Passenger Facility Charges

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CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Expenditures of Federal Awards and
Schedule of Revenues and Expenditures of Passenger Facility Charges (Continued)

Year Ended June 30, 2009

(1) GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of the federal award programs and the State of California - Internet Crimes Against Children State Grant Program of the City of San José, California (the City). The City's reporting entity is defined in Note I to its basic financial statements. The SEFA includes all federal awards received directly from federal agencies and federal awards passed-through other governmental agencies. In addition, the SEFA includes local, state and other expenditures matched along with the federal award expenditures.

The Schedule of Revenues and Expenditures of Passenger Facility Charges (PFCs) presents only the activity of the passenger facility charges program of the Norman Y. Mineta San José International Airport (Airport), an enterprise fund of the City. PFCs are fees imposed on enplaned passengers by the Airport for the purpose of generating revenue for Airport projects that increase capacity, increase safety, mitigate noise impact and enhance competition between and among air carriers in accordance with Federal Aviation Administration approvals.

(2) BASIS OF PRESENTATION

The accompanying schedules are presented using the modified accrual basis of accounting for program expenditures accounted for in the governmental funds and the accrual basis of accounting for program expenditures accounted for in the proprietary funds as described in Note I to the City's basic financial statements, with the exception of the City's loan programs (see Note 7). For reimbursable grants, except for the San José Water Reclamation & Reuse Program as discussed in Note 9, which revenues are recognized upon Congressional appropriations, the City recognizes revenues commencing on the date of grant approval since this is when the City is eligible to claim expenditures for reimbursements. As a result, prior year expenditures are included in the current year SEFA because these expenditures only become eligible when the grant was approved.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Expenditures of federal awards and PFCs are reported in the City's basic financial statements as expenditures in the general, special revenue and capital projects funds and as expenses for non-capital expenditures and as additions to capital assets for capital related expenditures in the enterprise funds. Federal award expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

(4) RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the SEFA and Schedule of Revenues and Expenditures of Passenger Facility Charges agree to or can be reconciled with the amounts reported in the related federal financial reports.

(5) AIRPORT EXPENDITURES

The Federal Aviation Administration reimburses the Airport for approximately 80% of allowable Airport Improvement Program (AIP) grant expenditures. The remaining unreimbursed portion of grant expenditures, if eligible, are reimbursed from PFC revenue. Total allowable AIP expenditures are presented in the accompanying SEFA.

CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Expenditures of Federal Awards and
Schedule of Revenues and Expenditures of Passenger Facility Charges (Continued)

Year Ended June 30, 2009

The accompanying Schedule of Revenues and Expenditures of Passenger Facility Charges includes approximately 20% of expenditures reimbursed by PFC revenue for AIP approved projects and 100% for non-AIP approved projects.

(6) AMOUNTS PROVIDED TO SUBRECIPIENTS

Included in the total expenditures of federal awards are the following amounts passed through to subrecipients:

Program Title	Federal Catalog Number	Provided to Subrecipients
Community Development Block Grants/Entitlement Grants	14.218	$3,611,042
Emergency Shelter Grants Program	14.231	469,636
Housing Opportunities for Persons with AIDS	14.241	940,469
Workforce Investment Act (WIA) Adult Program	17.258	897,299
Workforce Investment Act (WIA) Youth Activities	17.259	1,363,675
Workforce Investment Act (WIA) Dislocated Workers	17.260	2,132,358
Highway Planning and Construction	20.205	330,937

(7) LOANS OUTSTANDING

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest. The federal government has imposed certain continuing compliance requirements with respect to the loans under the Community Development Block Grants/Entitlement Grants (CDBG) and the HOME Investment Partnership Program (HOME). In accordance with Subpart B, Section 205 of the Office of Management and Budget Circular A-133, the City has reported the outstanding balance of loans from previous years that have continuing compliance requirements as of June 30, 2009 along with the value of total outstanding and new loans made during the current year in the schedule. The following is a summary of the loan programs maintained by the City and their balances at June 30, 2009:

Program Title	CFDA Number	Amount Outstanding	Prior year loans with continuing compliance requirements	New loans
Community Development Block Grants/Entitlement Grants	14.218	$ 7,214,337	$ 6,883,411	$ 330,926
HOME Investment Partnerships Program	14.239	44,218,973	39,612,448	4,606,525
		$ 51,433,310	$ 46,495,859	$ 4,937,451

(8) PROGRAM TOTALS

The SEFA does not summarize all programs that receive funding from various funding sources or grants by Catalog of Federal Domestic Assistance (CFDA) number. The following table summarizes these programs by CFDA numbers.

CFDA Number - Program Title Grant Identifying Number or Pass-through Grantor	Federal Expenditures
WIA Cluster, pass-through State of California Employment Development Department	
CFDA No. 17.258 - WIA Adult Program	
R865486	$ 858,313
R970569	3,567,075
R970569 - American Recovery and Reinvestment Act of 2009	8,431
CFDA No. 17.258 - WIA Adult Program Total	4,433,819
CFDA No. 17.259 - WIA Youth Activities Program	
R865486	2,288,451
R970569	1,545,155
R970569 - American Recovery and Reinvestment Act of 2009	255,835
CFDA No. 17.259 - WIA Youth Activities Program Total	4,089,441
CFDA No. 17.260 - WIA Dislocated Workers Program	
R865486	1,339,754
R970569	2,359,465
R970569 - American Recovery and Reinvestment Act of 2009	8,431
CFDA No. 17.260 - WIA Dislocated Workers Program Total	3,707,650
Total WIA Cluster	$ 12,230,910
CFDA No. 20.205 - Federal-Aid Highway Program	
Pass-through California Department of Transportation	$ 9,889,559
Pass-through Metropolitan Transportation Commission	330,937
CFDA No. 20.205 - Federal-Aid Highway Program	$ 10,220,496

(9) SAN JOSE AREA WATER RECLAMATION & REUSE PROGRAM

The San José Area Water Reclamation & Reuse Program assists the City and tributary agencies of the San José-Santa Clara Water Pollution Control Plant in protecting endangered species habitats, achieving federally mandated water quality standards and reducing reliance on area surface, ground water, and imported water supplies. The U.S. Department of Interior – Bureau of Reclamation awarded the City $32.5 million in federal fiscal year 1995 and approved an increase of $2.5 million in federal fiscal year 2000. Funding for subsequent years, up to $35 million, is contingent upon subsequent Congressional appropriations acts. As a result of the timing of the subsequent funding approvals, the City requests reimbursements for costs incurred in prior fiscal years.

As of September 30, 2009, Congress appropriated $31,650,300 and the City has cumulative reimbursements of $28,070,300 of which $970,000 was claimed in fiscal year 2009 for expenditures incurred in prior fiscal years. The City accrued the revenue and has in process a $3,580,000 reimbursement request for fiscal year ended June 30, 2009 that is awaiting final funding approval from the State Water Resources Control Board, the administering agent for the U.S. Department of the Interior.

(10) SPECIAL PROGRAMS FOR THE AGING TITLE III, PART B GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS GRANT

The City receives various pass-through grants from the Council on Aging of Silicon Valley. During fiscal year 2009, the Council on Aging of Silicon Valley noted that the City underreported its fiscal year 2008 expenditures in the amount of $10,800 related to the Special Programs for the Aging III, Part B Grants for Supportive Services and Senior Centers (CFDA #93.044) grant. As a result, the City included this expenditure amount reported in the fiscal year 2009 SEFA.

(11) INTERNET CRIMES AGAINST CHILDREN (ICAC) STATE GRANT

The following schedule represents expenditures for the Internet Crimes Against Children Task Force Program from the U.S. Department of Justice and the State of California Governor's Office of Emergency Service (OES) for the year ended June 30, 2009. This information is included in the City's Single Audit Report at the request of OES.

Program Title and Expenditure Category	Grant Number Grant Period	Cumulative Expense through June 30, 2008	Actual 7/1/08-6/30/09 Non-match	Actual 7/1/08-6/30/09 Match	Cumulative Expense through June 30, 2009	Revenue
Internet Crimes Against Children						
Task Force Program (Federal)	2008 MC CX K002					
Personnel Services	7/1/08 - 12/31/2009	$ -	$ 63,173	$ -	$ 63,173	$ 63,173
Operating Expenses		-	209,420	-	209,420	209,420
Equipment		-	76,902	-	76,902	76,902
Total		$ -	$ 349,495 1	$ -	$ 349,495	$ 349,495
Internet Crimes Against Children						
Task Force Program (State)	IC07017928					
Personnel Services	1/1/2008-6/30/2010	$ -	$ -	$ -	$ -	$ -
Operating Expenses		4,400	256,929	-	261,329	256,929
Equipment		-	54,209	-	54,209	54,209
Total		$ 4,400	$ 311,138 2	$ -	$ 315,538	$ 311,138

1 Amount is reported as federal expenditures in the SEFA under CFDA number 16.543 for the Missing Children Assistance Grant, from the U.S. Department of Justice.

2 Amount is reported as other expenditures in the SEFA under the State of California - Internet Crimes Against Children Task Force Program. This grant is a State grant from the Law Enforcement and Victim Services Division of the Governor's Office of Emergency Services.

(12) SUBSEQUENT EVENT

On September 28, 2009, the Transportation Security Administration (TSA) executed a federal grant agreement, HSTS04-09-HREC161 (Agreement) with the City of San José. The estimated project cost is $23,240,400, of which TSA agreed to reimburse ninety percent (90%) of the allowable, allocable and reasonable costs of the Baggage Handling System Terminal B project (Project) including design and construction management in addition to construction costs but not to exceed a total reimbursement of $20,916,360. Although this grant agreement was executed in fiscal year 2009-2010, the Agreement provides a provision that the cost recognition date for the Project be effective in April 2009. Upon execution of the TSA grant agreement, the City has prepared information for reimbursement requests for eligible expenditures incurred from April 2009 and recognition of the related revenues from the date of the grant approval (September 28, 2009) will be reported in subsequent years' City financial statements.

CITY OF SAN JOSE, CALIFORNIA

Federal Awards Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the basic financial statements of the City:	Unqualified
Internal control over financial reporting:	
♦ Material weakness (es) identified?	No
♦ Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
♦ Material weakness (es) identified?	No
♦ Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

Federal Catalog Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.231	Emergency Shelter Grants Program
14.239	Home Investment Partnerships Program
16.543	Missing Children Assistance
17.258, 17.259, 17.260	Workforce Investment Act Cluster
20.106	Airport Improvement Program
97.100	Airport Checked Baggage Screening Program

Dollar threshold used to distinguish between type A and type B programs:	$2,170,176
Auditee qualified as a low-risk auditee?	No

Section II Financial Statement Findings

Finding #2009-A – Accounting for Variable Rate Demand Obligations

Criteria
Accounting standards require bonds that have *demand provisions exercisable at the balance sheet date* be reported as a liability of the fund used to account for proceeds of the bond issue unless the following conditions are met:

- Before the financial statements are issued, the issuer has entered into an arm's-length financing (take-out) agreement to convert bonds "put", but not resold, into some other form of long-term obligation.
- The take-out agreement does not expire within one year from the date of the issuer's balance sheet or statement of net assets.
- The take-out agreement is not cancelable by the lender or the prospective lender during that year, and obligations incurred under the take-out agreement are not callable by the lender during that year.
- The lender or the prospective lender is expected to be financially capable of honoring the take-out agreement.

If these conditions are met, such bonds should be reported by the issuer as a long-term liability.

Condition
Variable rate demand obligations (VRDOs) are bonds that by their terms have *demand provisions exercisable at the balance sheet date* (June 30, 2009) or within one year from the date of that statement (June 30, 2010). At June 30, 2009, the City and the San José Redevelopment Agency (RDA) combined had $411.2 million of VRDOs outstanding. The key elements in determining classification of the VRDOs as current or noncurrent are the standby liquidity agreement (credit facility) and/or the take-out agreement. In order for the VRDOs to qualify as noncurrent obligations under Generally Accepted Accounting Principles (GAAP), the credit facility must provide short-term funds to redeem the bonds "put" by the bondholder pending resale by the remarketing agent and the take-out agreement must provide assurance that the issuer will be able to repay any borrowings under the credit facility in a manner that preserves the long-term nature of the obligation.

At June 30, 2009, the RDA had $56.6 million of variable-rate Tax Allocation Bonds, Series 2003A/B outstanding. These VRDOs were supported by a credit facility provided by JPMorgan Chase Bank, N.A. (JP Morgan) with an expiration date of August 27, 2009. The Series 2003 A/B Bonds did not have a take-out agreement in place (as described above). On July 31, 2009, JP Morgan extended the RDA's credit facility for these bonds to November 26, 2009. However, the extension did not meet the requirements under GAAP for continuing to report the bonds as noncurrent obligations. If the Series 2003A/B Bonds were reclassified as current, the RDA would be required to report a fund liability in its capital projects fund of $56.6 million, which would reduce its fund balance by the same amount. In order to preserve the long-term nature of the bonds, the RDA negotiated a one-year extension of this credit facility to November 26, 2010. However, the terms of the extension included a mandatory reduction of $5.3 million in the aggregate amount of letters of credit that JP Morgan provided to the RDA. As a result, we proposed an audit adjustment to record $5.3 million as a fund liability as of June 30, 2009. In addition to the mandatory reduction to the credit facility, other terms of the credit facility extension are less favorable as compared with the credit facility's prior terms including:

- Increasing the Series 1996 A/B credit facility fees from 0.45% to 2.10%
- Increasing the Series 2003 A/B credit facility fees from 1.50% to 2.30%

Finding #2009-A – Accounting for Variable Rate Demand Obligations (Continued)

- Requiring a new debt coverage covenant
- Increasing the interest rates of the amounts drawn on the credit facility from the greater of prime or the sum of the federal funds rate plus 0.5% to an interest rate the greater of 8.5%, prime plus 1.5%, or federal funds rate plus 2.0%.

Cause
Over the past year, the extreme turmoil in the financial markets resulted in considerable pressures on the supply of credit facilities for the VRDO market. As a result, credit facilities have recently been issued for shorter durations and with more stringent terms thereby increasing the risk that the City or RDA may misclassify these potential short-term obligations as long-term obligations.

Recommendation
Given the City's and RDA's reliance on third party VRDO credit facilities and the trends and pressures noted above in the VRDO market, we recommend evaluating the financial and operational implications should conditions related to the availability of such credit facilities worsen in the future. Additionally, we suggest expanding the traditional finance focused monitoring efforts related to bond obligations (e.g., covenant compliance and disclosure) to include coordination with the City's GAAP reporting unit to ensure changes impacting classifications or display are properly considered and reflected in the financial statements.

Management's Response
With respected to the City's debt portfolio, Debt Management staff meets with Specialized Accounting staff on approximately a bimonthly basis to coordinate activities related to the City's debt portfolio. These meetings will be updated to include discussions related to the renewal of credit facilities supporting outstanding debt.

Additionally, the City continually monitors the City's credit facilities and counterparty risks. Well in advance of any renewal request date, such as three to six months prior the commitment expiration, staff contacts the credit provider to better understand their willingness to renew a credit facility. Based on the City's very high credit ratings, including a AAA rating from S&P, and its long-standing relationships with numerous credit providers, staff anticipates that it will be possible to either renew existing credit facilities, acquire new credit facilities, or refund debt in a timely manner. For example, staff was able to successfully refund all of the City's long-term variable-rate debt within a 12 month period to address challenges in the financial markets. These refundings included two series or Airport Revenue Bonds, eight series of Lease Revenue Bonds, and one series of Sewer Revenue Bonds.

With respect to the Agency's debt and the related variable rate demand obligations, the Agency began working to extend the Letter of Credit before the expiration date of August 27, 2009. However, the negotiation with JP Morgan was longer than expected due to changes in the Letter of Credit market as a result of the current worldwide economic and financial market disruptions. Negotiations were not completed until October. On October 27, 2009, the Agency Board approved the new terms and conditions for extending the 2003 Bond's Letter of Credit including extending the Letter of Credit for the 1996 Bonds to November 26, 2010.

The new terms and conditions also required a mandatory reduction of $5.3 million on the outstanding 1996 and 2003 bonds, which required an early redemption of $5.3 million by November 27, 2009. This redemption required recognition of a $5.3 million short-term liability for these variable rate demand obligations, which was included in the June 30, 2009 financial statements along with the required disclosures.

Finding #2009-B – Housing Loan Reserves Calculations

Criteria
The City considers Governmental Fund resources to be available if they are collected within 60 days after year-end. The availability criterion principle requires that the related receivable be offset with a liability when the receivable is not collectible within the current period or soon enough thereafter. In addition to the offsetting of the governmental fund's loan receivables, the City also prepares a loan portfolio analysis and computes a valuation allowance using a complex spreadsheet to record against its loans receivable.

Condition
During our audit, we noted that the City recorded both an offset to the inclusionary and developer loans' receivable balance and a valuation allowance in the amount of $11.5 million. As a result, the fund balance of the Housing Activities Fund was understated by $11.5 million at June 30, 2009. In addition, we noted that the Housing Department's loan portfolio analysis included errors in the maturity dates which led to potential understatement of the loan portfolio's discount reserve by $0.9 million.

Cause
During the past two years, we noted that City departments worked together collaboratively and made significant progress towards improving the Housing Department's loan reserve calculations. The City's loan committee composed of members from the Finance Department and the Housing Department re-analyzed the loan loss reserve calculation with the main goal of re-analyzing the loan loss reserve worksheet to accurately record the maturity date stated on the promissory notes. However, the Housing Department continues to experience accounting and clerical errors and requires additional training on these complex and non-routine year-end loan loss reserve computations and analysis.

Recommendation
We recommend the Finance Department continue to train its financial statement preparers and reviewers on the recording of its loan balances and allowances on these balances and its related deferred revenues and reserved fund balances.

Management Response
As noted above, the Housing and Finance Departments have worked together collaboratively and made significant progress towards improving the Housing Department's loan reserve calculations. In addition, the Housing Department has implemented controls to review the maturity dates of all existing loans in order to ensure that the loan loss reserve calculations are accurate. The conditions noted in this finding were detected through the audit process and the appropriate adjustment was included in the financial statements as of June 30, 2009. The Housing Department will continue to train their staff to prevent clerical errors in the computations from happening in the future. The Housing and Finance Department management will also continue to stress the importance of providing the appropriate level of training and oversight in preparing and reviewing loan loss reserve schedules and fund financial statements.

Section III Federal Award Findings and Questioned Costs

Finding 2009-01 Schedule of Expenditures of Federal Awards (SEFA) Completeness

U.S Department of Health and Human Services
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers, CFDA #93.044
Passthrough Council on Aging of Silicon Valley

Corporation for National and Community Services
Senior Companion Program, CFDA #94.016

Criteria
The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profits Organizations* (OMB Circular A-133), requires that the City prepare a schedule showing total expenditures for the year for each federal program. Further, OMB Circular A-133 requires that the auditor identify and audit all high-risk type A federal programs. The City's Type A programs are those with current year expenditures exceeding $2,170,176

Condition
During our audit, we noted that the City included the following misstatements in its draft schedule of expenditures of federal awards (SEFA):

- CFDA #93.044 Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers understated prior year federal expenditures in the amount of $10,800. In addition, the SEFA incorrectly reported this grant as a direct federal grant instead of indicating that this grant is pass-through the Council on Aging of Silicon Valley.
- CFDA #94.016 Senior Companion Program overstated prior year other expenditures by $10,800. These expenditures should have been reported as federal expenditures under CFDA #93.044, as discussed above.

The City subsequently corrected the expenditure amounts reported in its fiscal year 2009 SEFA.

Effect
The City's SEFA serves as the basis in determining the number of major programs required to be audited in a fiscal year. Inaccuracy in its SEFA reporting may result in high-risk Type A programs not captured for testing and Type B programs not subject to the required audit risk assessment.

Questioned Costs
N/A

Recommendation
The City should develop a grants manual to provide guidance to grant administrators in City departments. In addition to completing the grants manual, we recommend the City develop and implement a mandatory single audit training program that is conducted at least annually. The training program should address expectations of the single audit, provide for changes and updates in available resources (e.g. the OMB Circular A-133 Compliance Supplement) and requirements, and provide guidance and updates on identification of funding source (federal, state and other) and on when to record revenues and expenditures in the general ledger. In addition, the City should improve its process in requiring the preparation and review of each grant reconciliations of its expenditures (both claimed and unclaimed) reported in the SEFA to the general ledger and related revenues.

Section III Federal Award Findings and Questioned Costs (Continued)

Management Response and Corrective Action Plan
Finance staff will work with department personnel City-wide to ensure that grant administration staff receive appropriate training and guidance associated with the Single Audit reporting requirements. In fiscal year 2007-08, the Finance Department implemented a new internal process requiring City departments to provide a reconciliation of reimbursable grant expenditures reported on the SEFA schedule to expenditures recorded in the City's accounting system. Finance staff will continue to provide assistance to City-wide grant administration staff to ensure that year end grant reports accurately report grant expenditures on the SEFA and that appropriate documentation is provided during the grant program testing process (was corrected).

CITY OF SAN JOSE, CALIFORNIA

Passenger Facility Charges Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the basic financial statements of the City:	Unqualified
Internal control over financial reporting:	
♦ Material weakness (es) identified?	No
♦ Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	No

Passenger Facility Charges

Internal control over Passenger Facility Charges:	
♦ Material weakness (es) identified?	No
♦ Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for the Passenger Facility Charges program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 in relation to the Passenger Facility Charge program?	No

Section II Financial Statement Findings

See Financial Statement Findings Items #2009-A and #2009-B in Federal Awards Schedule of Findings and Questioned Costs.

Section III Passenger Facility Charges Findings and Questioned Costs

None reported.

CITY OF SAN JOSE, CALIFORNIA

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2009

Reference Number:	**2008-A – Workers' Compensation Claims Control**
Audit Finding:	The City should continue to evaluate its process of closing of cases to ensure that all close cases are properly removed from the Claims Management Systems to avoid overstatement of the reserve balance and the worker's compensation claims liability. The City should also evaluate its training program to ensure that it has the appropriate level of expertise to ensure that the controls over the database system claims information are adequate to meet financial reporting and State compliance requirements.
Status of Corrective Action:	Corrected in during the year ended June 30, 2009.