

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

Reports of Independent Certified Public Accountants,  
Financial Statements and  
Other Supplementary Information

For the Year Ended June 30, 2016

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
For the Year Ended June 30, 2016

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

City Council  
Members of the Library and Early Education Commission  
City of San José, California

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### **Report on the financial statements**

We have audited the accompanying financial statements of the Branch Library Bond Projects Fund (the “Fund”), a fund of the City of San José (the “City”) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements as listed in the table of contents.

### **Management’s responsibility for the financial statements**

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

### **Auditor’s responsibility**

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

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

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

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Branch Library Bond Projects Fund as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Emphasis of Matter

As discussed in Note 2 to the financial statements, the financial statements present only the Branch Library Bond Projects Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### Other matters

##### *Supplementary information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Fund. The accompanying Statements of Revenues, Expenditures, and Changes in Fund Balance by fiscal year for the period June 6, 2001 through June 30, 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The fiscal 2016 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the fiscal 2016 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The financial statements of the Fund as of and for the periods ended June 30, 2001 through June 30, 2015 were audited by other auditors. Those auditors expressed unmodified opinions on those 2001-2015 financial statements in their report dated October 8, 2015. Those auditors' reports also stated that the Statements of Revenues, Expenditures, and Changes in Fund Balance by Fiscal Year for the period June 6, 2001 through June 30, 2015 were fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 17, 2016, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Grant Thornton LLP*

San José, California  
November 17, 2016

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Balance Sheet  
June 30, 2016

|   | <b>June 30, 2016</b> |
|---|----------------------|
| <b>Assets</b>                             |                      |
| Restricted investments:                   |                      |
| Investments held with fiscal agents       | \$ 2,808,046         |
| <br><b>Liabilities and Fund Balance</b>   |                      |
| Liabilities:                              |                      |
| Accounts payable                          | 288,094              |
| Accrued salaries, wages and payroll taxes | 2,123                |
| Due to other funds of the City            | 923,567              |
| Total liabilities                         | 1,213,784            |
| <br>Fund balance:                         |                      |
| Restricted for Branch Library projects    | 1,594,262            |
| Total liabilities and fund balance        | \$ 2,808,046         |

See accompanying notes to the financial statements.

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Statement of Revenues, Expenditures and Changes in Fund Balance  
June 30, 2016

|                                  | <b>June 30, 2016</b> |
|----------------------------------|----------------------|
| <b>Revenues:</b>                 |                      |
| Investment income                | \$ 21,038            |
| Intergovernmental                | 2,100,000            |
| Total revenues                   | 2,121,038            |
| <br><b>Expenditures:</b>         |                      |
| Capital outlay:                  |                      |
| Village Square Branch Library    | 4,195,155            |
| Branch efficiency projects       | 464,306              |
| Materials Handling Technology    | 197,906              |
| Project administration           | 34,948               |
| Total expenditures               | 4,892,315            |
| Change in fund balance           | (2,771,277)          |
| Fund balance, beginning of year  | 4,365,539            |
| <b>Fund balance, end of year</b> | <b>\$ 1,594,262</b>  |

See accompanying notes to the financial statements.

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

(A Fund of the City of San José)  
Notes to the Financial Statements  
June 30, 2016

**NOTE 1 – BACKGROUND**

In November 2000, registered voters of the City of San José (City) approved Measure O, the San José Neighborhood Libraries Bonds, authorizing the issuance and sale of general obligation bonds (Libraries Bonds) not to exceed \$211,790,000 to be used to fund the acquisition of property and construction of improvements to neighborhood library facilities throughout the City. The Library bond proceeds are not allowed to expend on salaries of Library administrators. Therefore, the City did not use bond proceeds to pay for administrative costs of the Library Department. The capital project management services provided by the Library Department are considered allowable expenditures and reported in the project administration costs.

The table below sets forth the amount of Libraries Bonds authorized and issued pursuant to Measure O:

|                         | Amount              | Date             |
|-------------------------|---------------------|------------------|
| Voter authorization     | \$ 211,790,000      | November 7, 2000 |
| Bonds issued:           |                     |                  |
| Series 2001 Bonds       | 31,000,000          | June 6, 2001     |
| Series 2002 Bonds       | 30,000,000          | July 18, 2002    |
| Series 2004 Bonds       | 58,300,000          | July 14, 2004    |
| Series 2005 Bonds       | 21,300,000          | June 23, 2005    |
| Series 2006 Bonds       | 60,000,000          | June 29, 2006    |
| Series 2008 Bonds       | <u>5,285,000</u>    | June 25, 2008    |
| Total bonds issued      | <u>205,885,000</u>  |                  |
| Authorized but unissued | <u>\$ 5,905,000</u> |                  |

The specific projects approved by the City Council to be funded by the bond proceeds include:

| Project                                       | Prior<br>Square Feet | Proposed<br>Square Feet | Status at<br>June 30, 2016 |
|---|----------------------|-------------------------|----------------------------|
| Almaden Branch Library & Community Center     | 20,000               | 64,000                  | Completed                  |
| Bascom Branch Library & Community Center      | 20,000               | 40,000                  | Completed                  |
| Berryessa Branch Library                      | n/a                  | 26,000                  | Completed                  |
| Calabazas Branch Library                      | 5,800                | 10,420                  | Completed                  |
| Cambrian Branch Library                       | 10,126               | 27,800                  | Completed                  |
| Dr. Roberto Cruz Alum Rock Branch Library     | n/a                  | 26,000                  | Completed                  |
| East San Jose Carnegie Branch Library         | 7,281                | 10,220                  | Completed                  |
| Edenvale Branch Library                       | n/a                  | 22,000                  | Completed                  |
| Educational Park Branch Library               | 14,084               | 18,000                  | Completed                  |
| Evergreen Branch Library                      | 7,448                | 21,000                  | Completed                  |
| Hillview Branch Library                       | 7,288                | 21,000                  | Completed                  |
| Joyce Ellington Branch Library                | 6,715                | 14,500                  | Completed                  |
| Pearl Avenue Branch Library                   | 7,116                | 14,000                  | Completed                  |
| Rose Garden Branch Library                    | 6,850                | 19,000                  | Completed                  |
| Santa Teresa Branch Library                   | 13,860               | 22,000                  | Completed                  |
| Seven Trees Branch Library & Community Center | 20,000               | 60,000                  | Completed                  |
| Village Square Branch Library                 | n/a                  | 16,000                  | Completed                  |
| Tully Community Branch Library                | n/a                  | 24,000                  | Completed                  |
| Vineland Branch Library                       | n/a                  | 24,000                  | Completed                  |
| Willow Glen Branch Library                    | 5,330                | 13,000                  | Completed                  |

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Notes to the Financial Statements (Continued)  
June 30, 2016

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

**Basis of Presentation**

The accompanying financial statements present only the financial position as of June 30, 2016 and the changes in financial position of the Branch Library Bond Projects Fund (Fund) for the year then ended in accordance with accounting principles generally accepted in the United States of America. They do not purport to, and do not, present fairly the City's financial position as of June 30, 2016 and the changes in its financial position for the year then ended.

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

**Basis of Accounting**

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

**Restricted Cash and Investments**

Cash and investments that are restricted for specified uses by bond covenants or other requirements are classified as restricted. The Fund's restricted cash and investments are held in fiscal agent accounts to be spent only on authorized capital projects. The Fund's restricted cash and investments are subject to the requirements of the City's adopted investment policy and the bond indentures. The fair value of investments is based on quoted market information obtained from fiscal agents or other sources.

**Due to Other Funds of the City**

The Fund's cash and investments balance is pooled and invested by the City. The Fund's overdraft position of the City's pooled investments is displayed on the balance sheet as "Due to other funds of the City." It is the City's policy not to charge interest to those funds that have negative average daily cash balances. Income earned or losses arising from positive pooled investments are allocated on a monthly basis by the City Treasury to the Fund based on the average weekly cash balances.

**Intergovernmental Revenues**

During the year ended June 30, 2016, the City contributed \$2,100,000 from the City's Construction & Conveyance Tax Fund to the Fund.

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

(A Fund of the City of San José)

Notes to the Financial Statements (Continued)

June 30, 2016

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

**Fund Balance**

Under GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the balance sheets of governmental funds classify fund balances based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent. The Fund only has restricted fund balance at June 30, 2016. Restricted fund balance represents amounts when constraints placed on use of resources are either: (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

**Use of Estimates**

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

**NOTE 3 – RESTRICTED INVESTMENTS**

A summary of the Fund's restricted investments at June 30, 2016 are as follows:

| Type of Investment                               | Fair Value          | Moody's Credit<br>Risk Rating | Weighted<br>Average Maturity |
|--|---------------------|-------------------------------|------------------------------|
| State of California Local Agency Investment Fund | \$ 2,718,503        | Unrated                       | 167 days                     |
| Wells Fargo Treasury Money Market Mutual Fund    | <u>89,543</u>       | Aaa                           | 47 days                      |
| Total investments                                | <u>\$ 2,808,046</u> |                               |                              |

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

Government Code Section 16429.1 authorizes each local government agency to invest funds in the LAIF administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2016 was approximately \$22.7 billion. LAIF is part of the State's Pooled Money Investment Account (PMIA). The total amount recorded by all public agencies in PMIA at June 30, 2016 was approximately \$75.4 billion and of that amount, 58.91% was invested in US Treasuries and agencies, 30.41% in depository securities, 9.93% in commercial paper, 0.67% in loans and 0.08% in mortgages. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Fund's position in the pool.

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

(A Fund of the City of San José)

Notes to the Financial Statements (Continued)

June 30, 2016

**NOTE 3 – RESTRICTED INVESTMENTS (Continued)**

*Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by nationally recognized statistical rating organizations. The City has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures.

*Concentration Credit Risk*

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Fund. Investments issued by or explicitly guaranteed by the U.S. government and investments in mutual funds and other pooled investments are exempt from this requirement, as they are normally diversified themselves.

*Interest Rate Risk*

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market rates. The City has mitigated interest rate risk by establishing policies over liquidity, including maturity limits by investment classification. These limits, for investments other than external investment pools and money market mutual funds, are as short as 10 days and as long as 5 years.

**Fair Value Measurement Categorization**

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

|  | Carrying Value | Fair Value Measurements Using  |   |   |
|--|----------------|--|---|---|
|  |                | Quote Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
| Investments by fair value level:                 |                |  |   |   |
| Wells Fargo Treasury Money Market Mutual Fund    | \$ 89,543      | \$ 89,543  | \$ -  | \$ -  |
| State of California Local Agency Investment Fund | 2,718,503      | -  | -   | -   |
| Total investments                                | \$ 2,808,046   | \$ 89,543  | \$ -  | \$ -  |

**NOTE 4 – COMMITMENTS**

At June 30, 2016, the Fund has related outstanding project encumbrances in the amount of \$1,165,688 for the Village Square Branch Library project.

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

(A Fund of the City of San José)

Statements of Revenues, Expenditures, and Changes in Fund Balance by Fiscal Year  
For the Period June 6, 2001 through June 30, 2016

|   | 2001                 | 2002                 | 2003                 | 2004                 | 2005                 | 2006                  | 2007                 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|----------------------|
| <b>Revenues:</b>  |                      |                      |                      |                      |                      |                       |                      |
| Investment income   | \$ 133,145           | \$ 1,171,104         | \$ 2,152,449         | \$ 102,310           | \$ 1,529,968         | \$ 3,047,142          | \$ 5,670,140         |
| Intergovernmental   | -                    | -                    | -                    | -                    | -                    | 706,000               | 714,000              |
| Other   | -                    | -                    | 26,792               | -                    | 14,355               | 20,641                | 8,219                |
| Total revenues  | <u>133,145</u>       | <u>1,171,104</u>     | <u>2,179,241</u>     | <u>102,310</u>       | <u>1,544,323</u>     | <u>3,773,783</u>      | <u>6,392,359</u>     |
| <b>Expenditures:</b>                                      |                      |                      |                      |                      |                      |                       |                      |
| Capital outlay:   |                      |                      |                      |                      |                      |                       |                      |
| Almaden Branch Library & Community Center                 | 8,900                | 3,662                | 391,731              | 348,318              | 3,796,919            | 3,018,030             | 497,885              |
| Bascom Branch Library & Community Center                  | -                    | 12,021               | 20,853               | 3,588,176            | 2,809,525            | 60,926                | 1,602,517            |
| Berryessa Branch Library                                  | 29,371               | 513,793              | 1,871,441            | 2,939,419            | 3,949,386            | 25,022                | 63                   |
| Calabazas Branch Library                                  | -                    | -                    | -                    | -                    | -                    | -                     | 61,418               |
| Cambrian Branch Library                                   | -                    | 13,490               | 10,352               | 567,576              | 1,967,365            | 7,357,309             | 2,026,217            |
| Dr. Roberto Cruz Alum Rock Branch Library                 | -                    | 1,572,645            | 1,649,173            | 2,623,886            | 6,730,704            | 1,037,586             | 92,465               |
| East San José Carnegie Branch Library                     | -                    | -                    | -                    | -                    | -                    | 147,183               | 804,089              |
| Edenvale Branch Library                                   | -                    | 13,902               | 12,595               | 62,782               | 361,625              | 765,275               | 7,446,744            |
| Educational Park Branch Library                           | -                    | -                    | -                    | -                    | -                    | -                     | 4,115                |
| Evergreen Branch Library                                  | -                    | -                    | 26,655               | 951,248              | 3,060,594            | 5,945,766             | 208,622              |
| Hillview Branch Library                                   | -                    | 39,666               | 49,450               | 701,752              | 1,925,367            | 6,742,348             | 1,641,332            |
| Joyce Ellington Branch Library                            | -                    | -                    | -                    | 98,928               | 162,453              | 832,135               | 3,531,201            |
| Pearl Avenue Branch Library                               | -                    | -                    | -                    | -                    | 18,655               | 757,173               | 2,113,187            |
| Rose Garden Branch Library                                | -                    | 30,882               | 920,059              | 1,889,343            | 3,932,886            | 2,571,175             | -                    |
| Santa Teresa Branch Library                               | -                    | -                    | -                    | -                    | -                    | 123,696               | 833,145              |
| Seven Trees Branch Library & Community Center             | -                    | -                    | -                    | -                    | -                    | 17,879                | 577,146              |
| Southeast Branch Library                                  | -                    | 12,956               | 22,425               | 1,388                | -                    | -                     | -                    |
| Tully Community Branch Library                            | 56,288               | 1,595,093            | 996,780              | 5,097,574            | 3,960,015            | -                     | -                    |
| Village Square Branch Library                             | -                    | -                    | -                    | -                    | -                    | -                     | -                    |
| Vineland Branch Library                                   | 170,588              | 867,627              | 6,209,272            | 1,832,853            | -                    | 281                   | -                    |
| Willow Glen Branch Library                                | -                    | -                    | -                    | 7,717                | 16,737               | 539,321               | 3,204,884            |
| Branch efficiency projects                                | -                    | -                    | -                    | -                    | -                    | -                     | -                    |
| Materials Handling Technology                             | -                    | -                    | -                    | -                    | -                    | -                     | -                    |
| Miscellaneous post-construction costs                     | -                    | -                    | -                    | -                    | -                    | -                     | -                    |
| Project administration                                    | 140,668              | 518,746              | 721,843              | 879,112              | 1,137,939            | 905,966               | 715,082              |
| Intergovernmental   | -                    | -                    | -                    | -                    | -                    | -                     | -                    |
| <b>Debt service:</b>                                      |                      |                      |                      |                      |                      |                       |                      |
| Arbitrage rebate payment                                  | -                    | -                    | -                    | -                    | -                    | -                     | -                    |
| Total expenditures  | <u>405,815</u>       | <u>5,194,483</u>     | <u>12,902,629</u>    | <u>21,590,072</u>    | <u>33,830,170</u>    | <u>30,847,071</u>     | <u>25,360,112</u>    |
| Excess (deficiency) of revenues over (under) expenditures | (272,670)            | (4,023,379)          | (10,723,388)         | (21,487,762)         | (32,285,847)         | (27,073,288)          | (18,967,753)         |
| <b>Other Financing Sources:</b>                           |                      |                      |                      |                      |                      |                       |                      |
| Bond proceeds   | 31,000,000           | -                    | 30,000,000           | -                    | 79,600,000           | 60,000,000            | -                    |
| Proceeds from sale of land                                | -                    | -                    | -                    | -                    | -                    | -                     | -                    |
| Change in fund balance                                    | <u>30,727,330</u>    | <u>(4,023,379)</u>   | <u>19,276,612</u>    | <u>(21,487,762)</u>  | <u>47,314,153</u>    | <u>32,926,712</u>     | <u>(18,967,753)</u>  |
| Fund balance, beginning of period                         | -                    | 30,727,330           | 26,703,951           | 45,980,563           | 24,492,801           | 71,806,954            | 104,733,666          |
| Fund balance, end of period                               | <u>\$ 30,727,330</u> | <u>\$ 26,703,951</u> | <u>\$ 45,980,563</u> | <u>\$ 24,492,801</u> | <u>\$ 71,806,954</u> | <u>\$ 104,733,666</u> | <u>\$ 85,765,913</u> |

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

Statements of Revenues, Expenditures, and Changes in Fund Balance by Fiscal Year  
For the Period June 6, 2001 through June 30, 2016

|   | 2008                 | 2009                 | 2010                 | 2011                 | 2012                 | 2013                 | 2014                 | 2015                | 2016                | Total               |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|
| <b>Revenues:</b>  |                      |                      |                      |                      |                      |                      |                      |                     |                     |                     |
| Investment income   | \$ 3,551,248         | \$ 1,486,568         | \$ 473,966           | \$ 162,896           | \$ 77,734            | \$ 52,164            | \$ 33,782            | \$ 30,886           | \$ 21,038           | \$ 19,696,540       |
| Intergovernmental   | 748,000              | -                    | 325,136              | -                    | 366,112              | -                    | -                    | 700,000             | 2,100,000           | 5,659,248           |
| Other   | -                    | 4,151                | -                    | -                    | -                    | -                    | -                    | -                   | -                   | 74,158              |
| Total revenues  | <u>4,299,248</u>     | <u>1,490,719</u>     | <u>799,102</u>       | <u>162,896</u>       | <u>443,846</u>       | <u>52,164</u>        | <u>33,782</u>        | <u>730,886</u>      | <u>2,121,038</u>    | <u>25,429,946</u>   |
| <b>Expenditures:</b>                                      |                      |                      |                      |                      |                      |                      |                      |                     |                     |                     |
| Capital outlay:   |                      |                      |                      |                      |                      |                      |                      |                     |                     |                     |
| Almaden Branch Library & Community Center                 | 147,140              | 8                    | -                    | -                    | -                    | -                    | -                    | -                   | -                   | 8,212,593           |
| Bascom Branch Library & Community Center                  | 676,987              | 3,278,673            | 5,681,015            | 2,012,108            | -                    | -                    | (1,250)              | -                   | -                   | 19,741,551          |
| Berryessa Branch Library                                  | -                    | 3,500                | 191,863              | 646,358              | -                    | -                    | -                    | -                   | -                   | 10,170,216          |
| Calabazas Branch Library                                  | 402,605              | 744,611              | 653,616              | 4,366,496            | 1,587,922            | 24,283               | 16,062               | 3,000               | -                   | 7,860,013           |
| Cambrian Branch Library                                   | 21,414               | 1,674                | -                    | -                    | -                    | -                    | -                    | -                   | -                   | 11,965,397          |
| Dr. Roberto Cruz Alum Rock Branch Library                 | 12,248               | 422                  | -                    | 188                  | -                    | -                    | -                    | -                   | -                   | 13,719,317          |
| East San José Carnegie Branch Library                     | 1,949,315            | 6,145,570            | 716,033              | 19,378               | -                    | -                    | -                    | -                   | -                   | 9,781,568           |
| Edenvale Branch Library                                   | 1,214,474            | 122,846              | -                    | -                    | -                    | -                    | -                    | -                   | -                   | 10,000,243          |
| Educational Park Branch Library                           | 611,391              | 801,967              | 3,630,614            | 4,821,219            | 868,760              | (237,426)            | 140,001              | -                   | -                   | 10,640,641          |
| Evergreen Branch Library                                  | -                    | -                    | 96,342               | 114,514              | -                    | -                    | -                    | -                   | -                   | 10,403,741          |
| Hillview Branch Library                                   | 86                   | -                    | -                    | 3,361                | -                    | -                    | -                    | -                   | -                   | 11,103,362          |
| Joyce Ellington Branch Library                            | 4,996,233            | 94,388               | 582                  | 5,052                | -                    | -                    | -                    | -                   | -                   | 9,720,972           |
| Pearl Avenue Branch Library                               | 4,552,391            | 643,633              | -                    | -                    | -                    | -                    | -                    | -                   | -                   | 8,085,039           |
| Rose Garden Branch Library                                | 45,294               | -                    | -                    | -                    | -                    | -                    | -                    | -                   | -                   | 9,389,639           |
| Santa Teresa Branch Library                               | 1,307,672            | 6,764,910            | 2,685,185            | 123,968              | -                    | -                    | -                    | -                   | -                   | 11,838,576          |
| Seven Trees Branch Library & Community Center             | 915,389              | 4,916,875            | 4,579,905            | 614,859              | 119,540              | -                    | -                    | -                   | -                   | 11,741,593          |
| Southeast Branch Library                                  | 30                   | 199,995              | 169,629              | 289,701              | 1,107,127            | 566,103              | 998,650              | 6,579,634           | -                   | 9,947,638           |
| Tully Community Branch Library                            | -                    | -                    | -                    | -                    | -                    | -                    | -                    | -                   | -                   | 11,705,750          |
| Village Square Branch Library                             | -                    | -                    | -                    | -                    | -                    | -                    | -                    | -                   | 4,195,155           | 4,195,155           |
| Vineland Branch Library                                   | 18,083               | -                    | 28,829               | 11,078               | -                    | -                    | -                    | -                   | -                   | 9,138,611           |
| Willow Glen Branch Library                                | 4,799,513            | 188,637              | -                    | -                    | -                    | -                    | -                    | -                   | -                   | 8,756,809           |
| Branch efficiency projects                                | -                    | -                    | -                    | -                    | 992,826              | 1,089,489            | 612,942              | 91,497              | 464,306             | 3,251,060           |
| Materials Handling Technology                             | -                    | -                    | -                    | -                    | -                    | -                    | -                    | -                   | 197,906             | 197,906             |
| Miscellaneous post-construction costs                     | -                    | -                    | -                    | -                    | -                    | 103,697              | 14,858               | 48,562              | -                   | 167,117             |
| Project administration                                    | 726,408              | 650,936              | 500,821              | 259,175              | 206,918              | 101,759              | 77,797               | 36,059              | 34,948              | 7,614,177           |
| Intergovernmental   | -                    | -                    | 706,000              | 714,000              | 748,000              | -                    | -                    | -                   | -                   | 2,168,000           |
| Debt service:   |                      |                      |                      |                      |                      |                      |                      |                     |                     |                     |
| Arbitrage rebate payment                                  | 683,000              | -                    | -                    | -                    | -                    | -                    | -                    | -                   | -                   | 683,000             |
| Total expenditures  | <u>23,079,673</u>    | <u>24,558,645</u>    | <u>19,640,434</u>    | <u>14,001,455</u>    | <u>5,631,093</u>     | <u>1,647,905</u>     | <u>1,859,060</u>     | <u>6,758,752</u>    | <u>4,892,315</u>    | <u>232,199,684</u>  |
| Excess (deficiency) of revenues over (under) expenditures | (18,780,425)         | (23,067,926)         | (18,841,332)         | (13,838,559)         | (5,187,247)          | (1,595,741)          | (1,825,278)          | (6,027,866)         | (2,771,277)         | (206,769,738)       |
| Other Financing Sources:                                  |                      |                      |                      |                      |                      |                      |                      |                     |                     |                     |
| Bond proceeds   | 5,285,000            | -                    | -                    | -                    | -                    | -                    | -                    | -                   | -                   | 205,885,000         |
| Proceeds from sale of land                                | -                    | -                    | -                    | -                    | -                    | 2,469,000            | 10,000               | -                   | -                   | 2,479,000           |
| Change in fund balance                                    | <u>(13,495,425)</u>  | <u>(23,067,926)</u>  | <u>(18,841,332)</u>  | <u>(13,838,559)</u>  | <u>(5,187,247)</u>   | <u>873,259</u>       | <u>(1,815,278)</u>   | <u>(6,027,866)</u>  | <u>(2,771,277)</u>  | <u>1,594,262</u>    |
| Fund balance, beginning of period                         | 85,765,913           | 72,270,488           | 49,202,562           | 30,361,230           | 16,522,671           | 11,335,424           | 12,208,683           | 10,393,405          | 4,365,539           | -                   |
| Fund balance, end of period                               | <u>\$ 72,270,488</u> | <u>\$ 49,202,562</u> | <u>\$ 30,361,230</u> | <u>\$ 16,522,671</u> | <u>\$ 11,335,424</u> | <u>\$ 12,208,683</u> | <u>\$ 10,393,405</u> | <u>\$ 4,365,539</u> | <u>\$ 1,594,262</u> | <u>\$ 1,594,262</u> |



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT  
AUDITING STANDARDS***

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City Council  
Members of the Library and Early Education Commission  
City of San José, California

We have audited, 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, the financial statements of the Branch Library Bond Projects Fund (the “Fund”), a fund of the City of San José (the “City”), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated November 17, 2016.

**Internal control over financial reporting**

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

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

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

**Compliance and other matters**

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

**Intended purpose**

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

*Grant Thornton LLP*

San José, California  
November 17, 2016



# Grant Thornton

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH MEASURE O

City Council  
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We have examined the City of San José's (the "City") compliance with certain provisions of Measure O for the year ended June 30, 2016 as follows:

- Branch library bond proceeds were used for expanding and improving aging branch libraries to reduce noise, and parking, and add space for more books and computers; and building new libraries in neighborhoods throughout the City.
- Branch library bond proceeds were not used for library administrators' salaries.
- Annual audits were performed.
- A citizen's oversight committee was established.

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with the specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2016.

This report is intended solely for the information and use of the City Council, the Library and Early Education Commission, the City Auditor, and the City's management and is not intended to be and should not be used by anyone other than these specified parties.

*Grant Thornton LLP*

San José, California  
November 17, 2016