

**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, 2017

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
For the Year Ended June 30, 2017

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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

Grant Thornton LLP  
10 Almaden Blvd., Suite 800  
San Jose, CA 95113  
T 408.275.9000  
F 408.275.0582  
[www.GrantThornton.com](http://www.GrantThornton.com)

### 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, 2017, 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 financial position of the Branch Library Bond Projects Fund as of June 30, 2017, and the changes in financial position 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, 2017, 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, 2017 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 and 2017 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 and 2017 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 October 20, 2017, 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  
October 20, 2017

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

(A Fund of the City of San José)

Balance Sheet

June 30, 2017

	<u>June 30, 2017</u>
<b>Assets</b>	
Restricted investments:	
Investments held with fiscal agents	\$   1,152,744
	<u>1,152,744</u>
 <b>Liabilities and Fund Balance</b>	
Liabilities:	
Due to other funds of the City	<u>224,313</u>
Total liabilities	<u>224,313</u>
 Fund balance:	
Restricted for Branch Library projects	<u>928,431</u>
Total liabilities and fund balance	<u>\$   1,152,744</u>

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  
For the Year Ended June 30, 2017

	<u>June 30, 2017</u>
<b>Revenues:</b>	
Investment income	\$ 15,987
Intergovernmental	350,000
Total revenues	<u>365,987</u>
<b>Expenditures:</b>	
Capital outlay:	
Village Square Branch Library	23,458
Branch efficiency projects	214,999
Materials handling technology	757,129
Project administration	12,774
Miscellaneous post-construction costs	23,458
Total expenditures	<u>1,031,818</u>
Change in fund balance	(665,831)
Fund balance, beginning of year	<u>1,594,262</u>
Fund balance, end of year	<u>\$ 928,431</u>

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  
 For the Year Ended June 30, 2017

**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 be expended on salaries of Library administrators. Therefore, the City did not use bond proceeds to pay for administrative salaries within 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	5,285,000	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 Square Feet	Proposed Square Feet	Status at June 30, 2017
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)  
 For the Year Ended June 30, 2017

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

*Basis of Presentation*

The accompanying financial statements present only the financial position as of June 30, 2017 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, 2017 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, 2017, the City contributed \$350,000 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)  
 For the Year Ended June 30, 2017

**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, 2017. 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, 2017 are as follows:

Type of Investment	Fair Value	Moody's Credit Risk Rating	Weighted Average Maturity
State of California Local Agency Investment Fund	\$ 888,857	Unrated	194 days
Wells Fargo Treasury Money Market Mutual Fund	263,887	Aaa	44 days
Total investments	<u>\$ 1,152,744</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, 2017 was approximately \$22.8 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, 2017 was approximately \$77.6 billion and of that amount, 60.79% was invested in US Treasuries and agencies, 27.73% in depository securities, 10.60% in commercial paper, 0.83% in loans and 0.05% 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)

For the Year Ended June 30, 2017

**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 Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Wells Fargo Treasury Money Market Mutual Fund	\$ 263,887	\$ 263,887	\$ -	\$ -
State of California Local Agency Investment Fund	888,857	-	-	-
Total investments	<u>\$ 1,152,744</u>	<u>\$ 263,887</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 4 – COMMITMENTS**

At June 30, 2017, the Fund has related outstanding project encumbrances in the amount of \$44,960 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, 2017

	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
<b>Total revenues</b>	<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	-	-	-	-	-	-	-
<b>Total expenditures</b>	<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	-	-	-	-	-	-	-
<b>Change in fund balance</b>	<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
<b>Fund balance, end of period</b>	<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, 2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	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	\$ 15,987	\$ 19,712,527
Intergovernmental	748,000	-	325,136	-	366,112	-	-	700,000	2,100,000	350,000	6,009,248
Other	-	4,151	-	-	-	-	-	-	-	-	74,158
<b>Total revenues</b>	<b>4,299,248</b>	<b>1,490,719</b>	<b>799,102</b>	<b>162,896</b>	<b>443,846</b>	<b>52,164</b>	<b>33,782</b>	<b>730,886</b>	<b>2,121,038</b>	<b>365,987</b>	<b>25,795,933</b>
<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	23,458	4,218,613
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	214,999	3,466,059
Materials Handling Technology	-	-	-	-	-	-	-	-	197,906	757,129	955,035
Miscellaneous post-construction costs	-	-	-	-	-	103,697	14,858	48,562	-	23,458	190,575
Project administration	726,408	650,936	500,821	259,175	206,918	101,759	77,797	36,059	34,948	12,774	7,626,951
Intergovernmental	-	-	706,000	714,000	748,000	-	-	-	-	-	2,168,000
<b>Debt service:</b>											
Arbitrage rebate payment	683,000	-	-	-	-	-	-	-	-	-	683,000
<b>Total expenditures</b>	<b>23,079,673</b>	<b>24,558,645</b>	<b>19,640,434</b>	<b>14,001,455</b>	<b>5,631,093</b>	<b>1,647,905</b>	<b>1,859,060</b>	<b>6,758,752</b>	<b>4,892,315</b>	<b>1,031,818</b>	<b>233,231,502</b>
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)	(665,831)	(207,435,569)
<b>Other Financing Sources:</b>											
Bond proceeds	5,285,000	-	-	-	-	-	-	-	-	-	205,885,000
Proceeds from sale of land	-	-	-	-	-	2,469,000	10,000	-	-	-	2,479,000
<b>Change in fund balance</b>	<b>(13,495,425)</b>	<b>(23,067,926)</b>	<b>(18,841,332)</b>	<b>(13,838,559)</b>	<b>(5,187,247)</b>	<b>873,259</b>	<b>(1,815,278)</b>	<b>(6,027,866)</b>	<b>(2,771,277)</b>	<b>(665,831)</b>	<b>928,431</b>
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	1,594,262	-
Fund balance, end of period	\$ 72,270,488	\$ 49,202,562	\$ 30,361,230	\$ 16,522,671	\$ 11,335,424	\$ 12,208,683	\$ 10,393,405	\$ 4,365,539	\$ 1,594,262	\$ 928,431	\$ 928,431



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

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

Grant Thornton LLP  
10 Almaden Blvd., Suite 800  
San Jose, CA 95113  
T 408.275.9000  
F 408.275.0582  
[www.GrantThornton.com](http://www.GrantThornton.com)

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, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 20, 2017.

**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 opinion 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  
October 20, 2017



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

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

Grant Thornton LLP  
10 Almaden Blvd., Suite 800  
San Jose, CA 95113  
T 408.275.9000  
F 408.275.0582  
www.GrantThornton.com

We have examined the City of San José's (the "City") compliance with the requirements of Measure O during the period July 1, 2016 to June 30, 2017 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.

The City's management is responsible for the City's compliance with the specified requirements. Our responsibility is to express an opinion on the City's compliance with the specified requirements 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with the specified requirements.

In our opinion, the City complied, in all material respects, with the requirements listed above during the period July 1, 2016 to June 30, 2017.

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  
October 20, 2017