



# Bond Oversight Committee Meeting

January 18, 2023

Library and Education Commission



# Oversight Role

- Understand the allowable costs
- Review expenditures for compliance with ballot language
- Review and approve outside audit of expenditures





# Bond History & Scope

- November 2000: Measure O approved
  - \$211,790,000 general obligation bond
- Restricted for the purchase of property and construction of improvements to libraries
  - × No administration/staffing
  - × New in 2019-2020, capital project management staff charges no longer allowed by the City - Previously capital project management staff could be charged to Bond Funds



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# 2021-22 Expenditures

**\$210,287 of Expenditures**



## Security Cameras

- Berryessa
- Vineland



## Facility Improvements

- West Valley Boiler Replacement
- Almaden HVAC/Chiller Replacement
- Bascom PA System Replacement





# Audit Basis

- Financial Records
- Justification and backup documentation related to project management costs. Examples include:
  - Documentation of contracts
  - Invoice support for expenditures
  - Inquiries of liquidations
  - Tasks performed by capital project staff
- Internal controls
  - Material Weakness in Internal Control over Financial Reporting – No questionable uses of bond proceeds or associated noncompliance
  - No audit findings of inappropriate expenditures





# Thank you!

January 18, 2023

Library and Education Commission



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Branch Library Bond  
Oversight Committee

**SUBJECT:** SEE BELOW

**DATE:** January 18, 2023

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Approved

Date

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**COUNCIL DISTRICT:** Citywide

**SUBJECT: ANNUAL STATUS REPORT ON THE BRANCH LIBRARY BOND  
PROGRAM FOR FISCAL YEAR 2021-2022**

## **RECOMMENDATION**

Accept the Fiscal Year (FY) 2021-22 Branch Library Bond Projects Fund audit report as the Library and Education Commission acting as the Branch Library Bond Oversight Committee.

## **OUTCOME**

Acceptance of this report would conclude the Branch Library Bond Oversight Committee's review of the audit of the Library's Bond program in FY 2021-22.

## **BACKGROUND**

In November 2000, registered voters approved Measure O, the San José Neighborhood Libraries Bond authorizing the issuance and sale of general obligation 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. The capital project management services provided by the Library department are considered allowable expenditures and reported in the project administration costs.

The City Council appointed the Library and Education Commission as the Branch Library Bond Citizens' Oversight Committee (Committee) to conduct an annual public hearing and prepare an annual report informing the Council and public of the appropriateness of bond expenditures, the

progress of the various projects, and the results of the annual audit on or before December 31<sup>st</sup> of each year.

On October 19, 2022, the Commission had an opportunity to review and discuss the process of the Bond audit reporting and provided specific questions, as well as requesting additional information on the Bond program to be addressed by the Library, City Auditor, and independent audit firm that conducts the annual Bond review.

Also, in November 2022, Macias Gini & O'Connell, LLP released the annual audit of the Branch Library Bond Projects Fund for FY 2021-22 and the results are attached to this report.

## **ANALYSIS**

FY 2021-22 marked the 22nd year of the City's implementation of the Library Bond program which has resulted in the expansion of 15 existing branch libraries and the construction of six new branches. The Library continued its commitment to efficiency and customer service by utilizing funds for branch efficiency projects. In anticipation of completing an assessment for renovations of the Biblioteca branch library and a installation of book lockers, there were minimal bond expenditures in FY 2021-22. Projects included a boiler replacement at West Valley, HVAC/Chiller replacement at Almaden, PA system replacement at Bascom, and installation of surveillance equipment at Berryessa and Vineland.

### **Project Financing and Expenditures**

A total of \$211.79 million in General Obligation Bonds had been issued to fund Library projects through FY 2021-22. In addition to the bond revenue, interest earned and land sales revenue totaling \$26.3 million through June 2022 has been accounted for, to bring the total revenue of the bond program to \$240.5 million. Through June 2022, approximately \$234.1 million of these bond funds had been expended or encumbered. The balance of the funds will be used for improvements to the Biblioteca branch library, purchase and installation of book lockers systemwide, additional efficiency improvements to older branch libraries, and other projects to be determined.

Table 1 shows the total revenues, expenditures, and encumbrances from inception through June 30, 2022, for library projects.



**Table 1 – Revenue, Expenditures & Encumbrances**

<b>Fiscal Year</b>	<b>Bond Proceeds/ Interest</b>	<b>Expenditures/ Encumbrances</b>
2000-01	\$ 31,133,145	\$ 405,815
2001-02	1,171,104	5,194,483
2002-03	32,179,241	12,902,629
2003-04	102,310	21,590,072
2004-05	81,144,323	33,830,170
2005-06	63,773,783	30,847,071
2006-07	6,392,359	25,360,112
2007-08	9,584,248	23,079,673
2008-09	1,490,719	24,558,645
2009-10	799,102	19,640,434
2010-11	162,896	14,001,455
2011-12	443,846	5,631,093
2012-13	2,521,164	1,647,905
2013-14	43,782	1,859,060
2014-15	730,886	6,758,752
2015-16	2,121,038	4,892,315
2016-17	365,987	1,031,818
2017-18	258,365	100,365
2018-19	20,292	175,148
2019-20	6,008,766	47,755
2020-21	61,423	323,490
2021-22	14,404	210,287
<b>Total</b>	<b>\$ 240,523,183</b>	<b>\$ 234,088,547</b>

The independent accounting firm of Macias Gini & O’Connell, LLP completed its annual audit of the Branch Libraries Bond Projects Fund in November 2022 for the FY ending June 30, 2022. As part of the outside auditor’s review, any significant issues are identified and commented upon.

During this report period, the outside auditor identified a material weakness in internal control over financial reporting. Two non-payroll transactions included a 25% overhead charges in the amount of \$76,000 to the branch efficiency projects and these were not adequately supported. These two transactions were not reimbursed with bond proceeds; therefore, there were no questionable uses of bond proceeds or associated noncompliance. The outside auditor recommends that the City adopt a methodology to make sure the personnel of various

departments involved in charging costs has the resources, technical skills, and training to effectively perform its fiscal functions. The City's Finance Department acknowledged that additional training is necessary and will meet directly with personnel involved with charging to the fund to ensure they are aware of allowable costs that can be charged to the library bond proceed account.

### **EVALUATION AND FOLLOW-UP**

Status reports on the project expenditures and performance of the Library Bond projects are reported on an annual basis.

### **COORDINATION**

This memo has been coordinated with the City Manager's Budget Office, Finance Department, the Department of Public Works, and the City Auditor.

### **PUBLIC OUTREACH**

- **Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

The memo does not meet any of the criteria listed above. The public hearing for the review of this item was posted on the City's Brown Act Board and the Library Department website.

COC/Library and Education Commission

**Subject: Annual Status Report on the Branch Library Bond Projects for Fiscal Year 2021-22**

January 18, 2023

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**CEQA**

CEQA: Not a Project, File No. PP10-069(a), Staff Reports/Assessments/Annual Reports/Informational Memos that involve no approvals of any City Actions.

Wendi Mahaney-Gurahoo, Chair  
Branch Library Bond Oversight Committee

For questions please contact Andrea Maestre, Administrative Officer at (408) 808-2192.

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

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

For the Year Ended June 30, 2022



Certified  
Public  
Accountants

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
For the Year Ended June 30, 2022

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## Independent Auditor's Report

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

### *Opinion*

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2022, and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

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

### *Emphasis of a Matter*

As discussed in Note 2, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2022, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying statements of revenues, expenditures, and change in fund balance by fiscal year for the period from June 6, 2001, through June 30, 2022, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information for the year ended June 30, 2022, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information for the year ended June 30, 2022, is fairly stated, in all material respects, in relation to the financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the Fund's financial statements as of and for the period from June 6, 2001 through June 30, 2008, as of and for the years ended June 30, 2009 through 2015, and as of and for the years ended June 30, 2018 through 2021 which are not presented with the accompanying financial statements. In our reports dated March 13, 2009, October 2, 2009, December 2, 2010, September 30, 2011, November 2, 2012, October 21, 2013, November 14, 2014, October 8, 2015, October 23, 2018, October 15, 2019, November 4, 2020, and November 3, 2021, respectively, we expressed unmodified opinions on the Fund's financial statements. Those audits were conducted for the purposes of forming an opinion on the financial statements as a whole. The information for the period from June 6, 2001 through June 30, 2015, and for the years ended June 30, 2018 through 2021, has been subjected to the auditing procedures applied in the audits of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information for the period from June 6, 2001 through June 30, 2008, the years ended June 30, 2009 through 2015, and the years ended June 30, 2018 through 2021, are fairly stated in all material respects in relation to the financial statements from which they have been derived.

The financial statements of the Fund as of and for the years ended June 30, 2016 and 2017 were audited by other auditors. Those auditors expressed unmodified opinions on those reports dated November 17, 2016 and October 20, 2017, respectively. Those auditors' reports also stated that the statements of revenues, expenditures, and change in fund balance by fiscal year for the years ended June 30, 2016 and 2017 were fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022, on our consideration of the City's internal control over the Fund's financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Fund's financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Fund's financial reporting and compliance.



Walnut Creek, California  
November 18, 2022



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**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Balance Sheet  
June 30, 2022

**Assets**

Restricted investments:

Investments held with fiscal agents \$ 6,613,101

**Liabilities and Fund Balance**

Liabilities:

Due to other funds of the City \$ 178,465

Fund balance:

Restricted for Branch Library projects 6,434,636

Total liabilities and fund balance \$ 6,613,101

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 Change in Fund Balance  
For the Year Ended June 30, 2022

<b>Revenues:</b>	
Investment income	<u>\$ 14,404</u>
<b>Expenditures:</b>	
Capital outlay:	
Branch efficiency projects	40,515
Miscellaneous post-construction costs	<u>169,772</u>
Total expenditures	<u>210,287</u>
Change in fund balance	(195,883)
Fund balance, beginning of year	<u>6,630,519</u>
<b>Fund balance, end of year</b>	<u><u>\$ 6,434,636</u></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, 2022

**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 Libraries Bonds 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:

	<u>Amount</u>	<u>Date</u>
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
Series 2019 Bonds	5,905,000	July 9, 2019
	<u>211,790,000</u>	
Total bonds issued	<u>211,790,000</u>	
Authorized but unissued	<u>\$ -</u>	

**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, 2022

**NOTE 1 – BACKGROUND (Continued)**

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, 2022
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
Tully Community Branch Library	n/a	24,000	Completed
Village Square Branch Library	n/a	16,000	Completed
Vineland Branch Library	n/a	24,000	Completed
Willow Glen Branch Library	5,330	13,000	Completed

The final general obligation bond sale from the Measure O (2000) authorization occurred in 2019-2020, with the funds (\$5.905 million) being allocated in the 2023-2027 Adopted Capital Improvement Program for a new suite of bond eligible projects, including renovations at the Biblioteca Branch Library, and efficiency improvements at various branch libraries. The remaining general obligation bond proceeds are budgeted to be spent by 2023-2024.

**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, 2022

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

*Basis of Presentation*

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

A 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 Fund considers revenues to be available if collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to vacation, sick leave, claims and judgments are recorded only when payment is due.

*Restricted Cash and Investments*

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

*Fund Balance*

Under Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the balance sheets of governmental funds classify fund balances based primarily on the extent to which the Fund is bound to honor constraints on the specific purposes for which those funds can be spent. The Fund only has restricted fund balance at June 30, 2022. Restricted fund 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.

**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, 2022

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

*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, 2022 are as follows:

Type of investment	Fair Value	Moody’s Credit Risk Rating	Weighted Average Maturity
State of California Local Agency Investment Fund	\$ 5,047,239	Unrated	311 days
Wilmington Trust Money Market Mutual Fund	1,565,862	Aaa-mf	24 days
Total investments	<u>\$ 6,613,101</u>		

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

The Fund maintains its investments in the City’s cash and investment pool. The amounts held in the City’s investment pool can be withdrawn upon demand. Income and losses arising from the investment activity of pooled cash are allocated to the participating funds on a monthly basis, based on their proportionate shares of the average daily cash balance. As of June 30, 2022, there was a negative pooled balance of \$178,465 in the City’s cash and investment pool, which is reported as a payable to the City of San José on the accompanying financial statements.

Information regarding the characteristics of the entire investment pool can be found in the City’s basic financial statements for the year ended June 30, 2022. A copy of that report may be obtained by contacting the City’s Finance Department, 200 East Santa Clara Street, 13<sup>th</sup> Floor, San José, CA, 95113 or can be found at the City’s Finance Department Website at <http://www.sanjoseca.gov>.

Government Code Section 16429.1 authorizes each local government agency to invest funds in the LAIF administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2022 was approximately \$35.8 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, 2022, was approximately \$234.5 billion and of that amount, 98.12% was invested in non-derivative financial products and 1.88% in structured notes and asset backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Fund’s position in the pool.

**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, 2022

**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's investment policy 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's investment policy has mitigated interest rate risk by establishing policies over liquidity, including maturity limits by investment classification. These limits, for investments other than external investment pools and money market mutual funds, 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. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities. The City's investment in Wilmington Trust Money Market Mutual Funds is measured at level 1 inputs, while investments in the City's cash and investment pool and LAIF are not subject to fair value hierarchy.



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

Statements of Revenues, Expenditures, and Change in Fund Balance by Fiscal Year  
For the Period June 6, 2001 through June 30, 2022

	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>	<b>133,145</b>	<b>1,171,104</b>	<b>2,179,241</b>	<b>102,310</b>	<b>1,544,323</b>	<b>3,773,783</b>	<b>6,392,359</b>
<b>Expenditures:</b>							
<b>Capital outlay:</b>							
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	-	-
Vineland Branch Library	170,588	867,627	6,209,272	1,832,853	-	281	-
Village Square Branch Library	-	-	-	-	-	-	-
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>	<b>405,815</b>	<b>5,194,483</b>	<b>12,902,629</b>	<b>21,590,072</b>	<b>33,830,170</b>	<b>30,847,071</b>	<b>25,360,112</b>
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	-
Excess bond premium	-	-	-	-	-	-	-
Proceeds from sale of land	-	-	-	-	-	-	-
<b>Total other financing sources</b>	<b>31,000,000</b>	<b>-</b>	<b>30,000,000</b>	<b>-</b>	<b>79,600,000</b>	<b>60,000,000</b>	<b>-</b>
Change in fund balance	30,727,330	(4,023,379)	19,276,612	(21,487,762)	47,314,153	32,926,712	(18,967,753)
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>	<b>\$ 30,727,330</b>	<b>\$ 26,703,951</b>	<b>\$ 45,980,563</b>	<b>\$ 24,492,801</b>	<b>\$ 71,806,954</b>	<b>\$ 104,733,666</b>	<b>\$ 85,765,913</b>

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

Statements of Revenues, Expenditures, and Change in Fund Balance by Fiscal Year  
For the Period June 6, 2001 through June 30, 2022

	2008	2009	2010	2011	2012	2013	2014
<b>Revenues:</b>							
Investment income	\$ 3,551,248	\$ 1,486,568	\$ 473,966	\$ 162,896	\$ 77,734	\$ 52,164	\$ 33,782
Intergovernmental	748,000	-	325,136	-	366,112	-	-
Other	-	4,151	-	-	-	-	-
<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>Expenditures:</b>							
<b>Capital outlay:</b>							
Almaden Branch Library & Community Center	147,140	8	-	-	-	-	-
Bascom Branch Library & Community Center	676,987	3,278,673	5,681,015	2,012,108	-	-	(1,250)
Berryessa Branch Library	-	3,500	191,863	646,358	-	-	-
Calabazas Branch Library	402,605	744,611	653,616	4,366,496	1,587,922	24,283	16,062
Cambrian Branch Library	21,414	1,674	-	-	-	-	-
Dr. Roberto Cruz Alum Rock Branch Library	12,248	422	-	188	-	-	-
East San José Carnegie Branch Library	1,949,315	6,145,570	716,033	19,378	-	-	-
Edenvale Branch Library	1,214,474	122,846	-	-	-	-	-
Educational Park Branch Library	611,391	801,967	3,630,614	4,821,219	868,760	(237,426)	140,001
Evergreen Branch Library	-	-	96,342	114,514	-	-	-
Hillview Branch Library	86	-	-	3,361	-	-	-
Joyce Ellington Branch Library	4,996,233	94,388	582	5,052	-	-	-
Pearl Avenue Branch Library	4,552,391	643,633	-	-	-	-	-
Rose Garden Branch Library	45,294	-	-	-	-	-	-
Santa Teresa Branch Library	1,307,672	6,764,910	2,685,185	123,968	-	-	-
Seven Trees Branch Library & Community Center	915,389	4,916,875	4,579,905	614,859	119,540	-	-
Southeast Branch Library	30	199,995	169,629	289,701	1,107,127	566,103	998,650
Tully Community Branch Library	-	-	-	-	-	-	-
Vineland Branch Library	18,083	-	28,829	11,078	-	-	-
Village Square Branch Library	-	-	-	-	-	-	-
Willow Glen Branch Library	4,799,513	188,637	-	-	-	-	-
Branch efficiency projects	-	-	-	-	992,826	1,089,489	612,942
Materials handling technology	-	-	-	-	-	-	-
Miscellaneous post-construction costs	-	-	-	-	-	103,697	14,858
Project administration	726,408	650,936	500,821	259,175	206,918	101,759	77,797
Intergovernmental	-	-	706,000	714,000	748,000	-	-
<b>Debt service:</b>							
Arbitrage rebate payment	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>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(18,780,425)</b>	<b>(23,067,926)</b>	<b>(18,841,332)</b>	<b>(13,838,559)</b>	<b>(5,187,247)</b>	<b>(1,595,741)</b>	<b>(1,825,278)</b>
<b>Other Financing Sources:</b>							
Bond proceeds	5,285,000	-	-	-	-	-	-
Excess bond premium	-	-	-	-	-	-	-
Proceeds from sale of land	-	-	-	-	-	2,469,000	10,000
<b>Total other financing sources</b>	<b>5,285,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,469,000</b>	<b>10,000</b>
<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>
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
<b>Fund balance, end of period</b>	<b>\$ 72,270,488</b>	<b>\$ 49,202,562</b>	<b>\$ 30,361,230</b>	<b>\$ 16,522,671</b>	<b>\$ 11,335,424</b>	<b>\$ 12,208,683</b>	<b>\$ 10,393,405</b>

(Continued)

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

Statements of Revenues, Expenditures, and Change in Fund Balance by Fiscal Year  
For the Period June 6, 2001 through June 30, 2022

	2015	2016	2017	2018	2019	2020	2021	2022	Total
<b>Revenues:</b>									
Investment income	\$ 30,886	\$ 21,038	\$ 15,987	\$ 11,365	\$ 20,292	\$ 103,766	\$ 58,698	\$ 14,404	\$ 19,921,052
Intergovernmental	700,000	2,100,000	350,000	247,000	-	-	-	-	6,256,248
Other	-	-	-	-	-	-	-	-	74,158
<b>Total revenues</b>	<b>730,886</b>	<b>2,121,038</b>	<b>365,987</b>	<b>258,365</b>	<b>20,292</b>	<b>103,766</b>	<b>58,698</b>	<b>14,404</b>	<b>26,251,458</b>
<b>Expenditures:</b>									
Capital outlay:									
Almaden Branch Library & Community Center	-	-	-	-	-	-	-	-	8,212,593
Bascom Branch Library & Community Center	-	-	-	-	-	-	-	-	19,741,551
Berryessa Branch Library	-	-	-	-	-	-	-	-	10,170,216
Calabazas Branch Library	3,000	-	-	-	-	-	-	-	7,860,013
Cambrian Branch Library	-	-	-	-	-	-	-	-	11,965,397
Dr. Roberto Cruz Alum Rock Branch Library	-	-	-	-	-	-	-	-	13,719,317
East San José Carnegie Branch Library	-	-	-	-	-	-	-	-	9,781,568
Edenvale Branch Library	-	-	-	-	-	-	-	-	10,000,243
Educational Park Branch Library	-	-	-	-	-	-	-	-	10,640,641
Evergreen Branch Library	-	-	-	-	-	-	-	-	10,403,741
Hillview Branch Library	-	-	-	-	-	-	-	-	11,103,362
Joyce Ellington Branch Library	-	-	-	-	-	-	-	-	9,720,972
Pearl Avenue Branch Library	-	-	-	-	-	-	-	-	8,085,039
Rose Garden Branch Library	-	-	-	-	-	-	-	-	9,389,639
Santa Teresa Branch Library	-	-	-	-	-	-	-	-	11,838,576
Seven Trees Branch Library & Community Center	-	-	-	-	-	-	-	-	11,741,593
Southeast Branch Library	6,579,634	-	-	-	-	-	-	-	9,947,638
Tully Community Branch Library	-	-	-	-	-	-	-	-	11,705,750
Vineland Branch Library	-	-	-	-	-	-	-	-	9,138,611
Village Square Branch Library	-	4,195,155	23,458	-	-	-	-	-	4,218,613
Willow Glen Branch Library	-	-	-	-	-	-	-	-	8,756,809
Branch efficiency projects	91,497	464,306	214,999	86,503	161,236	47,755	265,520	40,515	4,067,588
Materials handling technology	-	197,906	757,129	-	-	-	-	-	955,035
Miscellaneous post-construction costs	48,562	-	23,458	-	-	-	57,970	169,772	418,317
Project administration	36,059	34,948	12,774	13,862	13,912	-	-	-	7,654,725
Intergovernmental	-	-	-	-	-	-	-	-	2,168,000
Debt service:									
Arbitrage rebate payment	-	-	-	-	-	-	-	-	683,000
<b>Total expenditures</b>	<b>6,758,752</b>	<b>4,892,315</b>	<b>1,031,818</b>	<b>100,365</b>	<b>175,148</b>	<b>47,755</b>	<b>323,490</b>	<b>210,287</b>	<b>234,088,547</b>
Excess (deficiency) of revenues over (under) expenditures	(6,027,866)	(2,771,277)	(665,831)	158,000	(154,856)	56,011	(264,792)	(195,883)	(207,837,089)
<b>Other Financing Sources:</b>									
Bond proceeds	-	-	-	-	-	5,905,000	-	-	211,790,000
Excess bond premium	-	-	-	-	-	-	2,725	-	2,725
Proceeds from sale of land	-	-	-	-	-	-	-	-	2,479,000
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,905,000</b>	<b>2,725</b>	<b>-</b>	<b>214,271,725</b>
Change in fund balance	(6,027,866)	(2,771,277)	(665,831)	158,000	(154,856)	5,961,011	(262,067)	(195,883)	6,434,636
Fund balance, beginning of period	10,393,405	4,365,539	1,594,262	928,431	1,086,431	931,575	6,892,586	6,630,519	-
<b>Fund balance, end of period</b>	<b>\$ 4,365,539</b>	<b>\$ 1,594,262</b>	<b>\$ 928,431</b>	<b>\$ 1,086,431</b>	<b>\$ 931,575</b>	<b>\$ 6,892,586</b>	<b>\$ 6,630,519</b>	<b>\$ 6,434,636</b>	<b>\$ 6,434,636</b>

(Concluded)



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Branch Library Bond Projects Fund (Fund), a fund of the City of San José (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2022.

**Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying Schedule of Finding and Response that we consider to be a material weakness.

**Report on Compliance and Other Matters**

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

## **Purpose of this Report**

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

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 18, 2022



## Independent Accountant's Report on Compliance with Measure O

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

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

- Bond proceeds were used for expanding and improving aging branch libraries to reduce noise, add parking, and add space for more books and computers; and building new libraries in neighborhoods throughout the City.
- 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied with the specified requirements, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about the City's compliance with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

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

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

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2022.

Walnut Creek, California  
November 18, 2022

**CITY OF SAN JOSE**  
**BRANCH LIBRARY BOND PROJECTS FUND**  
(A Fund of the City of San José)  
Schedule of Finding and Response  
For the Year Ended June 30, 2022

**Material Weakness in Internal Control over Financial Reporting –  
Costs not adequately supported**

**Condition**

We selected nine nonpayroll individually significant items out of a population of 14 for testing. For two transactions tested in the amount of \$75,846, the nonpayroll costs were not adequately supported to justify the 25% overhead charge to the branch efficiency projects. As such, we were not able to verify the allowability of the nonpayroll costs. We also observed that the City did not request reimbursement of the questioned nonpayroll costs with bond proceeds and, accordingly, there were no questionable uses of bond proceeds or associated noncompliance. These questionable costs were removed from the Branch Library Bond Projects Fund financial statements.

**Effect**

The City did not timely identify questionable nonpayroll costs in the Branch Library Bond Projects Fund financial statements.

**Recommendation**

The City should adopt a methodology to make sure the personnel of the various departments involved in charging costs has the resources, technical skills, and training to effectively perform its fiscal functions. In addition, the City should ensure the appropriate personnel is aware of, and utilizes, the G.O. bond policies and procedures manual to comply with all bond requirements.

**Management's Response**

Management agrees with MGO's comment and acknowledges that additional training is necessary to accurately charge to the Library bond fund. To resolve this comment, Finance will meet directly with personnel involved with charging to the fund to ensure they are aware of allowable costs that can be charged to the library bond proceed account.