

*City of San José*  
*Fiscal Year 2017-2018*

*Comprehensive Annual Financial Report*  
*Item 3*  
*Report to Those Charged with Governance*  
*Item 4*

*Public Safety, Finance and Strategic Support Committee*  
*November 21, 2019*

**Presenters:**

**Julia Cooper, Director of Finance**

**Lisa Taitano, Assistant Director of Finance**

**Annie To, Deputy Director of Finance, Accounting**

**David Bullock, Partner, Macias Gini & O'Connell LLP**

# Audits and Engagements

- City of San Jose CAFR
- Airport CAFR
- SARA Financials
- San Jose-Santa Clara Clean Water Financing Authority Financial Audit and Related Fund Compliance Audit
- Dolce Hayes Mansion Financial Audit (Close-Out Audit)
- San Jose McEnery Convention Center
- Deferred Compensation 457 Plan
- City of San Jose VEBA Trust
- Employee Tier 3 Defined Contribution 401(a) Plan
- Bond Audits (Parks, Libraries, and Public Safety)
- Library Parcel Tax Special Revenue Fund
- San Jose Investment Program Agreed-upon Procedures
- South Bay Water Recycling Report and Schedule of Net Operating Revenue \*
- Single Audit (including Airport Compliance)\*
- Bicycle/Pedestrian Facilities Grant \*
- GANN Appropriation Limitation \*

*\* Still in progress*

*These reports are available on the City Auditor's website under Published Work – External Financial Audits.*

## *Item 3*

# *Comprehensive Annual Financial Report (CAFR)*

*Fiscal Year 2018-2019*

# CAFR – Table of Contents

- **Introductory Section**
  - Letter of Transmittal, Awards, Mayor and Council, Organization Chart
- **Financial Section**
  - Independent Auditor’s Opinion
  - Management’s Discussion and Analysis
  - Basic Financial Statements
    - Government-wide, Governmental funds, Enterprise Funds, Fiduciary Funds
    - Notes to Basic Financial Statements
  - Required Supplementary Information
  - Supplemental Information
    - Non-major Funds, Internal Service Funds,
    - Trust and Agency Funds
- **Statistical Section**

# Independent Auditor's Report

- **Management's Responsibility**
- **Auditor's Responsibility**
- **Opinion**
- **Other Matters**

# **Accounting Standards Implemented**

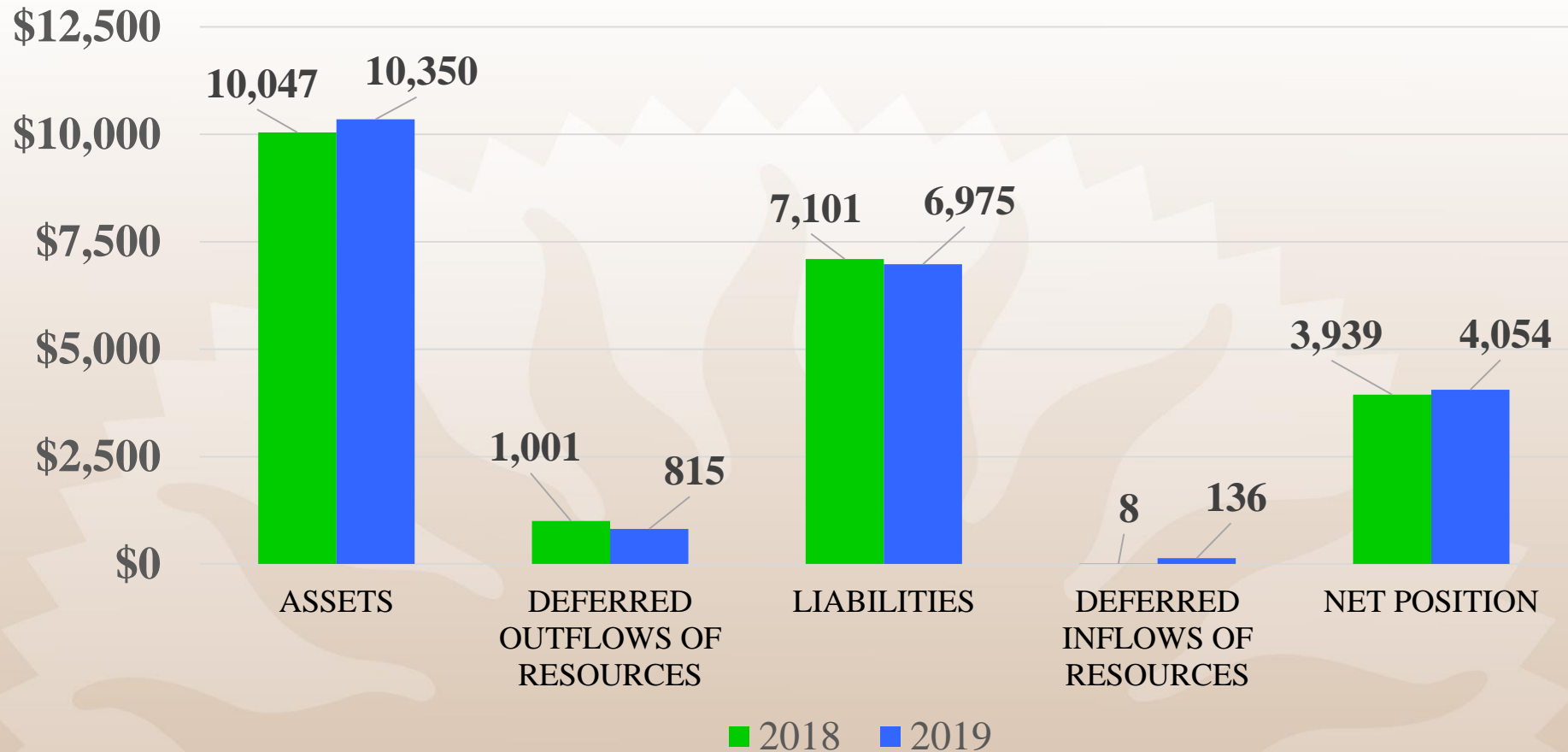
## **GASB Statement No. 88**

- **Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements**
- **Governmental and Business-type activities Long-term Debt Disclosures (Note III.F and IV.C)**

# Statement of Net Position

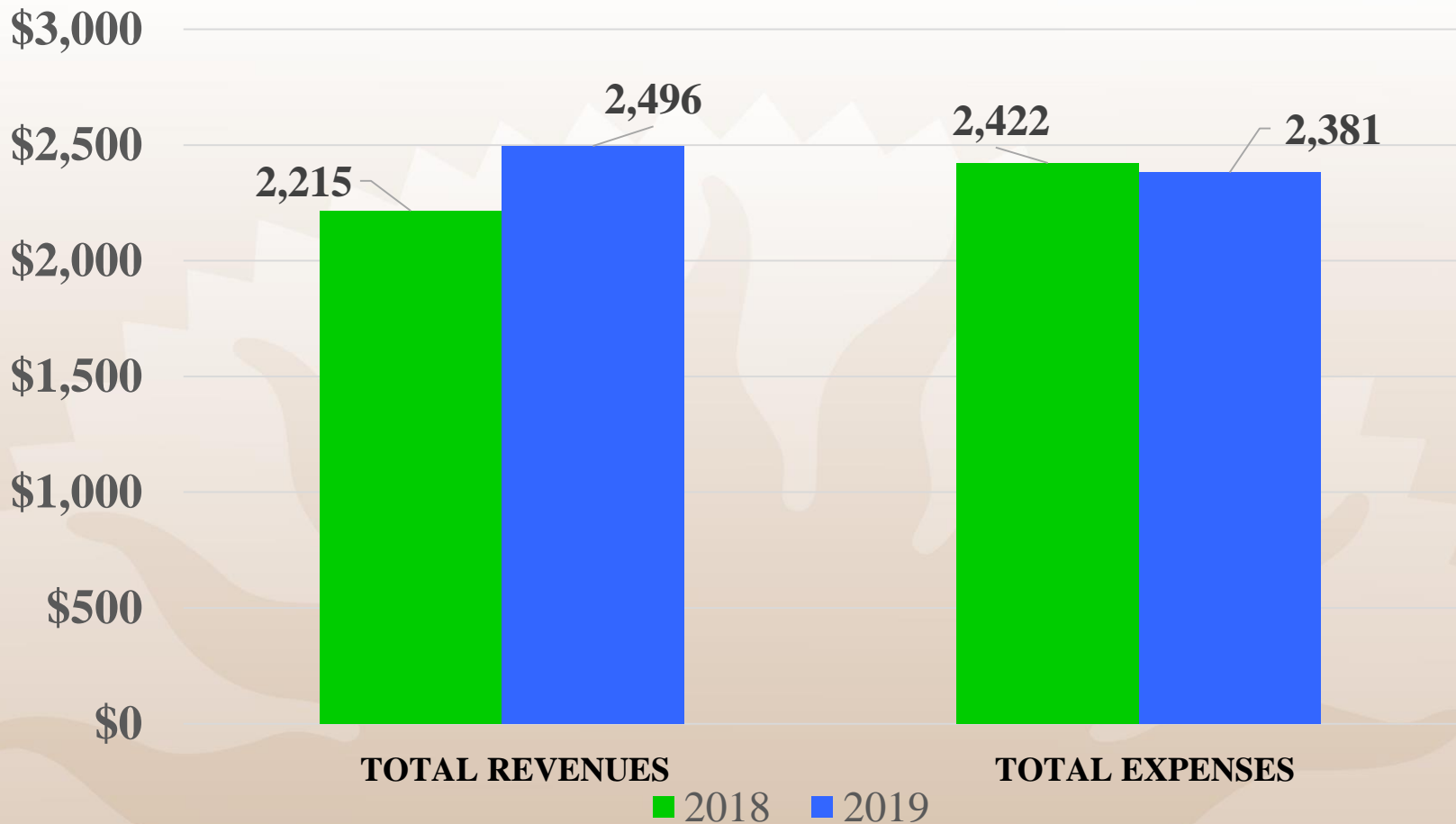
## As of June 30, 2019 and June 30, 2018

(in millions)



# Revenues and Expenses

As of June 30, 2019 and June 30, 2018  
(in millions)





# General Fund Comparison

(in millions)

		2018	2019	% Change
Total revenues	\$	1,029	1,220	18.6%
Total expenditures		1,049	1,098	4.7%
Net change in fund balance		(20)	122	
GAAP Fund balance - beginning		313	293	-6.4%
<u>GAAP Fund balance - ending</u>		293	415	41.6%
Budgetary Fund Balance		251	365	45.4%
Budgetary to GAAP Difference* \$		(42)	(50)	

\* Budgetary to GAAP differences are primarily attributed to encumbrances.

# FY 2018-2019 GASB Pronouncements

## Impact on City's Financial Statements

City has implemented the GASB 83 and 88 Pronouncements in FY 2018-19:

- **GASB 83** – Certain Asset Retirement Obligations
- **GASB 88** – Certain Disclosures Related to Debt, Including Borrowings and Direct Placements

# Upcoming GASB Pronouncements - Impact on City's Financial Statements

## 2020

- GASB 84 – Fiduciary Activities
- GASB 90 – Majority Equity Interests

## 2021

- GASB 87 – Leases
- GASB 89 – Interest Cost Incurred before the End of Construction Period.

## *Item 4*

# *Report to Those Charged with Governance*

*Fiscal Year 2018-2019*

# Report to Those Charged with Governance – Current Year Comments








Certified  
Public  
Accountants

Reference Number and Comment	Material Weakness	Significant Deficiency	Control Deficiency
2019-001 – Internal Controls Over the Financial Reporting Process			
2019-002 – Completeness of the Schedule of Expenditures of Federal Award			

## Report to Those Charged with Governance – Status of Prior Year Comments



Certified  
Public  
Accountants

Reference Number and Comment	Material Weakness	Significant Deficiency	Control Deficiency
2018-001 – Risk Assessment of Internal Controls Over the Financial Reporting Process <b>(Corrected)</b>			
2019-002 – Completeness of the Schedule of Expenditures of Federal Award <b>(Partially Corrected)</b>			
2018-003 – Information Technology: City-Wide Information Security Program <b>(Corrected)</b>			
2018-004 – Information Technology: Account Management, Password Configuration, Broad Privileged Access, Password Configuration, Shared Accounts, and Audit Logging/Monitoring <b>(Corrected)</b>			
2018-005 – Information Technology: Change Management <b>(Corrected)</b>			

# Management Response

- **2019-001: Risk Assessment of Internal Controls Over the Financial Reporting Process**
  - Management agrees with the finding
  - Management taking steps towards corrections
- **2019-002: Completeness of the Schedule of Expenditures for Federal Awards**
  - Management concurs with finding as related to financial reporting
  - Finding is not a violation of federal grant covenants
  - Staff will introduce new reconciliation procedures for grant expenses with departments.

# Recommendation

1. Acceptance of FY 2018-2019 draft reports:  
Item 3 - Comprehensive Annual Financial Report  
Item 4 - Report to Those Charged with Governance
2. Agendize the final Reports for Council review and acceptance on December 10, 2019.

## **Presenters:**

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