

# *City of San José*

## *Fiscal Year 2019-2020*

*Comprehensive Annual Financial Report*

*Item 3.4*

*SARA Audited Financial Statements*

*Item 9.1*

*Report to Those Charged with Governance*

*Item 3.5*

*City Council*  
*December 15, 2020*

**Presenters:**

**Julia H. Cooper, Director of Finance**

**Luz Cofresí-Howe, Assistant Director of Finance**

**David Bullock, Managing Partner, MGO**

# Audits and Engagements

- ✓ City of San José Comprehensive Annual Financial Report (“CAFR”)
    - ✓ GANN Appropriation Limitation – Agreed-Upon Procedures
  - ❑ Single Audit (including Airport Compliance)
    - ✓ Norman Y. Mineta San José International Airport CAFR
    - ✓ San José-Santa Clara Clean Water Financing Authority Financials and Related Fund Compliance
    - ✓ South Bay Water Recycling Program
    - ✓ Successor Agency to the Redevelopment Agency (“SARA”) Financials
  - ❑ San José Clean Energy Financials and Agreed-Upon Procedures
    - ✓ Bicycle/Pedestrian Facilities Grant
    - ✓ San José Convention Center and Cultural Facilities
  - ✓ Bond Funds Financial Statements and Compliance Reports
    - ✓ Measure O (2000) – Branch Library Projects
    - ✓ Measure P (2000) – Parks Projects
    - ✓ Measure O (2002) – 911, Fire, Police, Paramedic and Neighborhood Security Act Projects
    - ✓ Measure S (2004) – Library Parcel Tax
    - ✓ Measure T (2018) – Public Safety and Infrastructure Projects
  - ✓ San José Semi-Annual Investment Program Compliance – Agreed-Upon Procedures
  - ✓ Deferred Compensation Plan
  - ✓ Executive Management and Professional Employees Tier 3 Defined Contribution 401(a) Plan
  - ✓ City of San José Voluntary Employee Beneficiary Association (“VEBA”) Plans
  - ❖ Government Accounting Standards Board (“GASB”) 87, *Leases* – Implementation and Compliance Support
- ❑ *In Progress*                      ❖ *Multi-Year Engagement*

*These reports are available on the City Auditor website under External Financial Audits.*

<https://www.sanjoseca.gov/your-government/appointees/city-auditor/external-financial-audits>

# Independent Auditor's Report

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

# Accounting Standards Implemented

- ***GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance***

Two noteworthy effective dates:

- GASB Statement No. 84, *Fiduciary Activities*, will be implemented next year in the FY 2020-21 CAFR.
- GASB Statement No. 87, *Leases*, will be implemented in the FY 2021-22 CAFR.

- ***GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period***

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*Comprehensive Annual Financial Report  
(CAFR)*

*Fiscal Year 2019-2020*

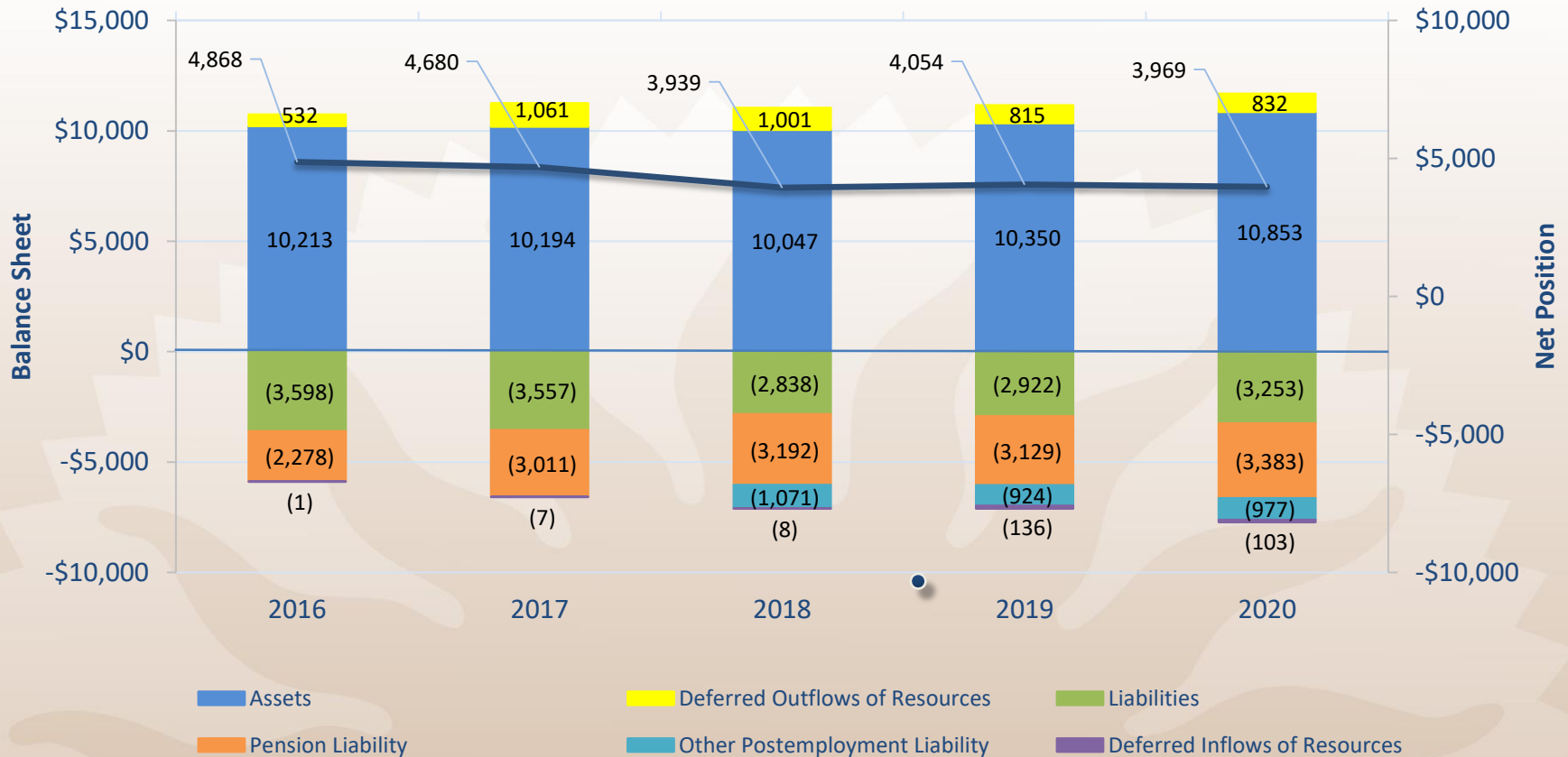
# Major Sections of the CAFR

- Introductory Section
- Financial Section
- Required Supplemental Information (Unaudited)
- Supplemental Information
- Statistical Section (Unaudited)

# Statement of Net Position

## As of June 30, 2020 and June 30, 2019

(in millions)

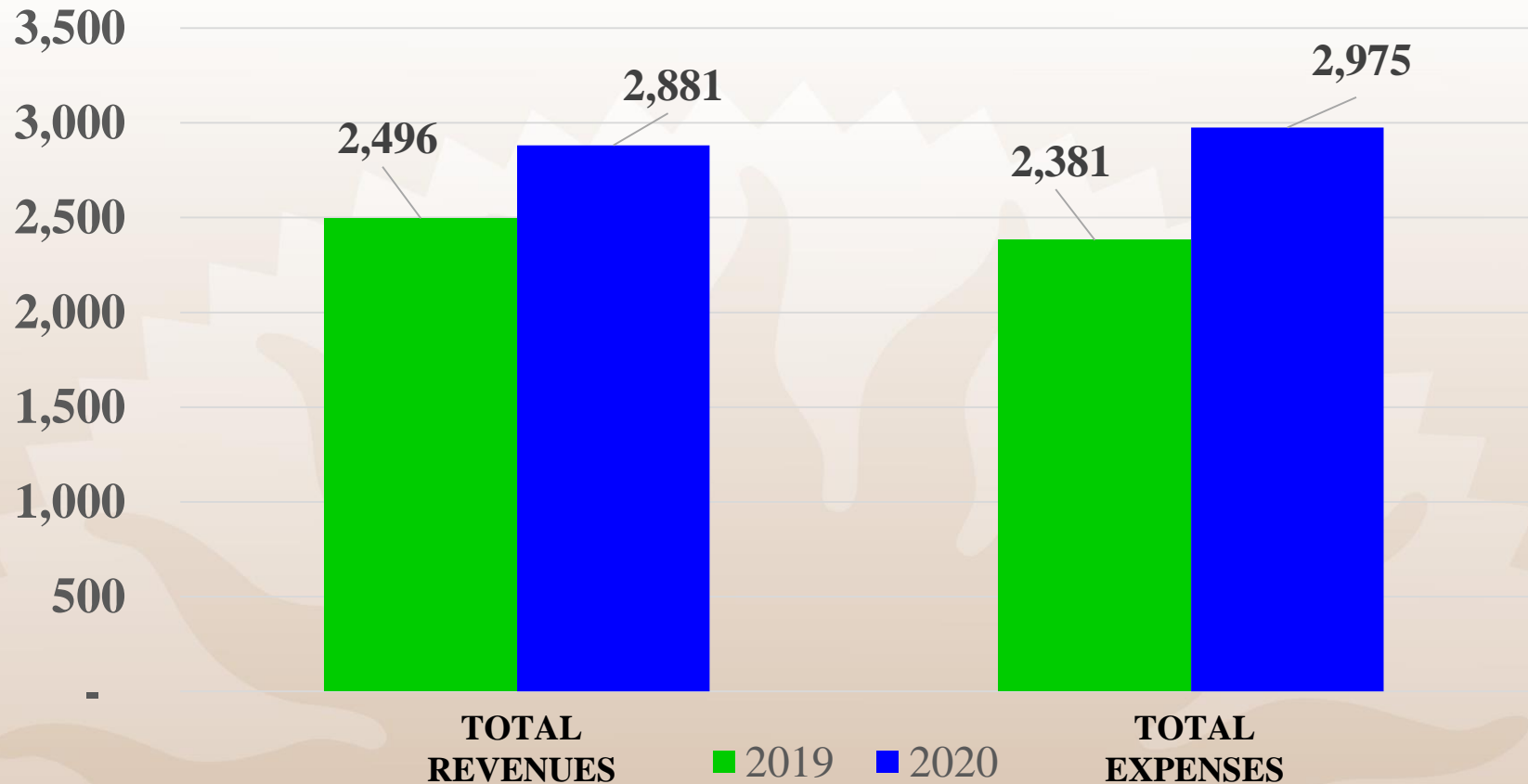


(1) GASB 68 was implemented in FY15

(2) GASB 75 was implemented in FY18

# Revenues and Expenses

As of June 30, 2020 and June 30, 2019  
*(in millions of dollars)*





# General Fund Comparison

*(in millions of dollars)*

			%
	2019	2020	Change
<b>Total revenues</b>	\$ 1,220	1,190	-2.5%
<b>Total expenditures</b>	1,098	1,145	4.3%
<b>Net change in fund balance</b>	122	45	
<b>GAAP Fund balance - beginning</b>	293	415	41.6%
<b><u>GAAP Fund balance - ending</u></b>	415	460	10.8%
<b>Budgetary Fund Balance</b>	365	399	9.3%
<b>Budgetary to GAAP Difference*</b>	\$ (50)	(61)	

\* *Budgetary to GAAP differences are primarily attributed to encumbrances and gain/loss in fair value of investments.*

# FY 2019-2020 GASB Pronouncements

## Impact on City's Financial Statements

- **GASB 89** – Accounting for Interest Cost Incurred before the End of a Construction Period
- **GASB 95** – Postponement of the Effective Dates of Certain Authoritative Guidance

# Pending GASB Pronouncements

GASB	Title	Implementation in Fiscal Year Ending
84	Fiduciary Activities	June 30, 2021
87	Leases	June 30, 2022
90	Majority Equity Interests	June 30, 2021
91	Conduit Debt Obligations	June 30, 2023
92	Omnibus 2020	June 30, 2022
93	Replacement of Interbank Offered Rates	June 30, 2022
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	June 30, 2023
96	Subscription-Based Information Technology Arrangements	June 30, 2023
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	June 30, 2022

## *Item 9.1*

# *Successor Agency to the Redevelopment Agency of the City of San José (“SARA”) Audited Financial Statements*

*Fiscal Year 2019-2020*

# Statement of Changes in Fiduciary Net Position

	(In millions)		<u>Change</u>
	<u>2019</u>	<u>2020</u>	<u>%</u>
<b>Additions</b>	\$ 243	\$ 184	-24.3%
<b>Deductions</b>	(176)	(146)	-17.0%
<b>Change in net position</b>	67	38	-76.3%
<b>Net position, beginning of year</b>	<u>(1,474)</u>	<u>(1,407)</u>	<u>-4.5%</u>
<b>Net position, end of year</b>	<u>\$ (1,407)</u>	<u>\$ (1,369)</u>	<u>-2.7%</u>

**Report of Independent Certified Public Accountants  
on Internal Control over Financial Reporting and on  
Compliance and Other Matters for SARA**

**Current Year Findings: None**

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*Report to Those Charged with  
Governance*

*Fiscal Year 2019-2020*

Report to Those Charged with Governance –  
Current Year Comments



Certified  
Public  
Accountants

Reference Number and Comment	Material Weakness	Significant Deficiency	Control Deficiency
2020-001 – Internal Controls Over the Financial Reporting Process (General)			
2020-002 – Application of the Availability Criterion for Revenue Recognition			
2019-001 – Internal Controls Over the Financial Reporting Process (Clean Energy)			
2019-002 – Completeness of the Schedule of Expenditures of Federal Awards			



# Management Response

- **Finding 2020-001 – Material Weakness**

## **Internal Controls Over the Financial Reporting Process**

- Management agrees with the comment
- Financial Reporting staff turnover (resignations, retirements, and extended leaves) contributed negatively to the completion of the FY2019-2020 audit process
- Management taking steps towards corrections

- **Finding 2020-002 – Control Deficiency**

## **Application of the Availability Criterion for Revenue Recognition**

- Management concurs with the finding as related to financial accounting
- Finance Department will establish a post-close review process to compare significant year-end revenue accruals with remittances/documentation received and adjust financials as needed

# Prior Year Findings - Status

Finding #	Title	Material Weakness	Significant Deficiency	Control Deficiency	Status
2019-001	Internal Controls Over the Financial Reporting Process	X			Corrected
2019-002	Completeness of the Schedule of Expenditures of Federal Award		X		Pending MGO Response at Single Audit Completion

# Recommendation

Acceptance of FY 2019-2020 reports:

- Item 3.4 - Comprehensive Annual Financial Report
- Item 9.1 - SARA Audited Financial Statements
- Item 3.5 - Report to Those Charged with Governance

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