

*City of San José*  
*Fiscal Year 2018-2019*

*Comprehensive Annual Financial Report*

*Item 3.7*

*Report to Those Charged with Governance*

*Item 3.8*

*Successor Agency to the Redevelopment Agency*

*Item 9.1*

*City Council Meeting*  
*December 10, 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.*

# Governmental Accounting Standards Board (GASB)

- GASB was established in 1984
- Establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).
- Objectives of GASB
  - GASB standards are recognized by state and local governments, state Boards of Accountancy, and the American Institute of CPAs (AICPA).
  - GASB develops and issues accounting standards through a transparent and inclusive process
  - Promote financial reporting

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*Comprehensive Annual Financial Report  
(CAFR)*

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# CAFR – Table of Contents

- **Introductory Section**
  - Letter of Transmittal, Awards, Mayor and Council, Organization Chart
- **Financial Section**
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  - 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**

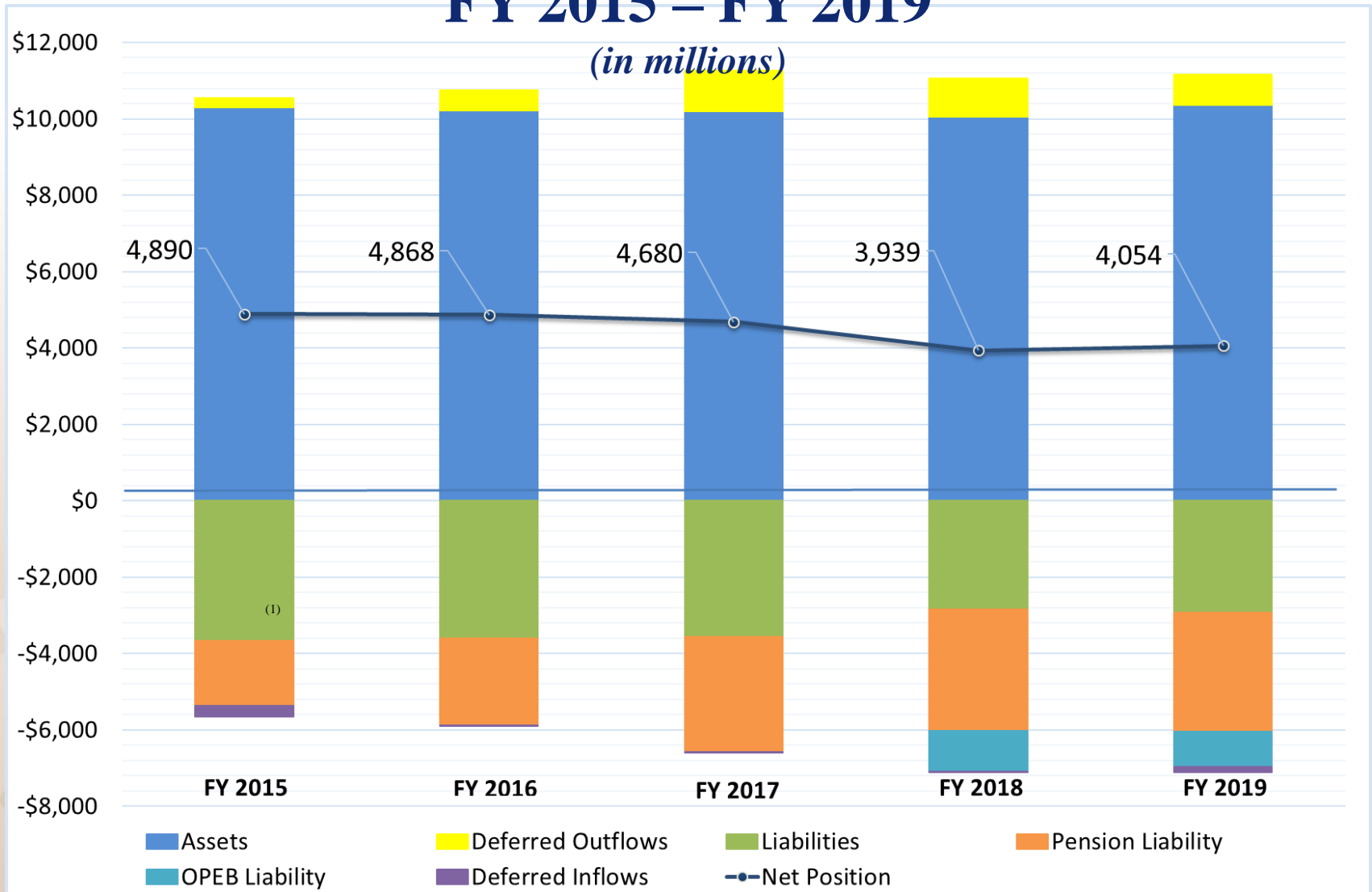
# Accounting Standards Implemented

## 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

## FY 2015 – FY 2019



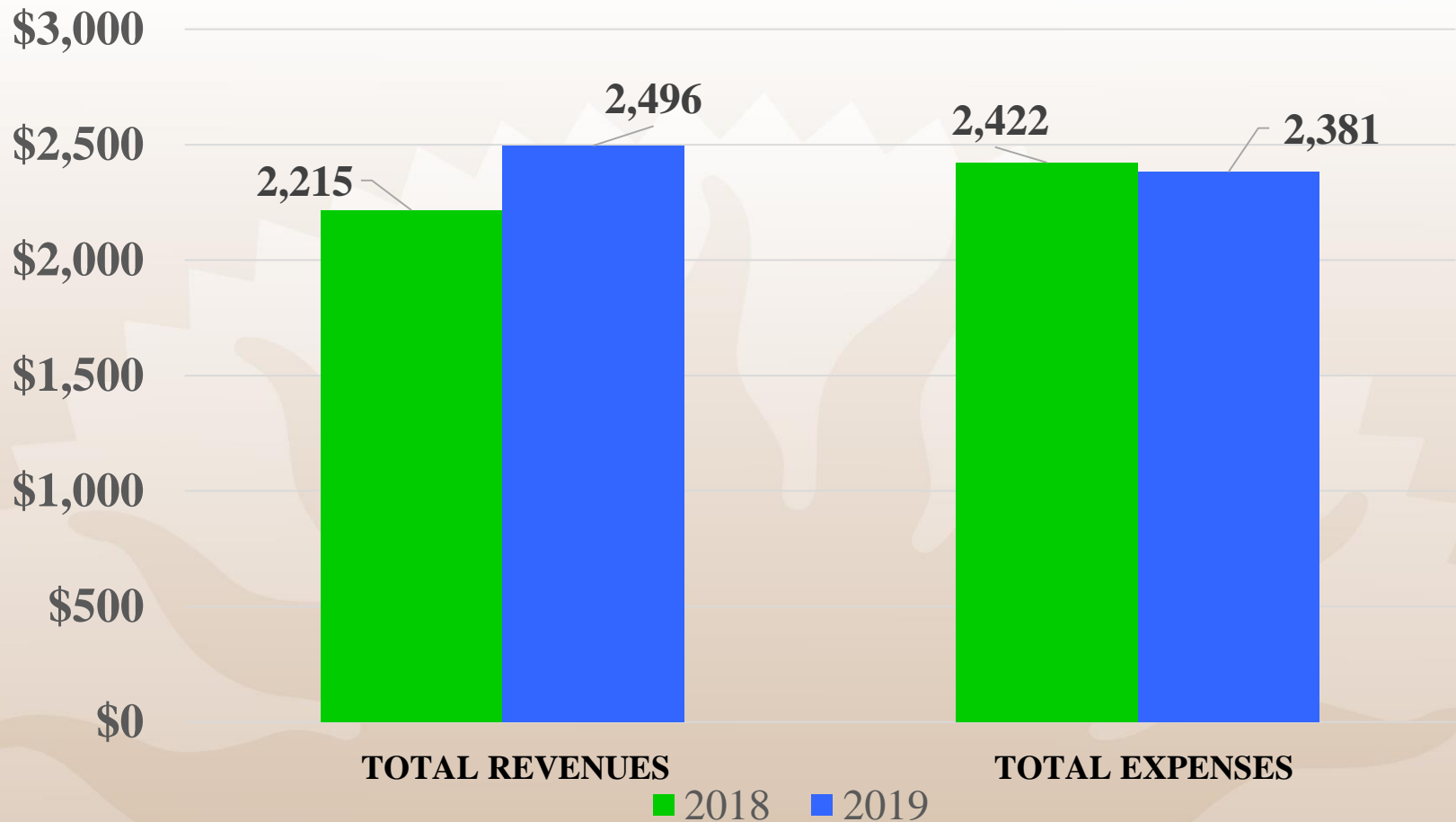
(1) GASB 68 (Pension) was implemented in FY15

(2) GASB 75 (Other Post Employment Benefits) was implemented in FY18



# 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.

# GASB Pronouncements

## **FY 2019 - Implemented**

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

## **FY 2020 - Upcoming**

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

## **FY 2021 - Upcoming**

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

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# Successor Agency -- Statement of Fiduciary Net Position

	(In millions)		<u>Change</u>
	<u>2018</u>	<u>2019</u>	<u>%</u>
<b>Assets</b>	\$ 299	\$ 236	-21.1%
<b>Deferred outflows of resources</b>	45	38	-15.6%
<b>Liabilities</b>	<u>(1,819)</u>	<u>(1,681)</u>	<u>-7.6%</u>
<b>Net position held in trust</b>	<u>\$ (1,475)</u>	<u>\$ (1,407)</u>	<u>-4.6%</u>

# Successor Agency -- Statement of Changes in Fiduciary Net Position

	(In millions)		<u>Change</u>
	<u>2018</u>	<u>2019</u>	<u>%</u>
<b>Additions</b>	\$ 235	\$ 243	3.6%
<b>Deductions</b>	(101)	(176)	74.3%
<b>Net position, beginning of year</b>	<u>(1,608)</u>	<u>(1,475)</u>	<u>-8.3%</u>
<b>Net position, end of year</b>	<u><u>\$ (1,475)</u></u>	<u><u>\$ (1,408)</u></u>	<u><u>-4.5%</u></u>

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Governance*

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# 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.

# Recommendations

## Acceptance of FY 2018-2019 reports:

- Item 3.7 - Comprehensive Annual Financial Report
- Item 3.8 - Report to Those Charged with Governance
- Item 9.1 – Successor Agency Audited Financial Statements

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