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# **City of San José**

## **Fiscal Year 2020-2021**

**Item 3.4: Annual Comprehensive Financial Report**

**Item 9.1: SARA Audited Financial Statements**

**Item 3.5: Report to Those Charged with Governance**

***Prepared by the Finance Department***

***Presenters:***

***Julia H. Cooper, Director***

***Rick Bruneau, Deputy Director***

***David Bullock, MGO Partner***

# Presentation Overview

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1. Annual Comprehensive Financial Report
  - Audited Financial Statements Overview
2. Successor Agency to the Redevelopment Agency (SARA)
  - Audited Financial Statements Overview
3. Report to those Charged with Governance
  - Independent Auditor's Report
  - Accounting Standards Implemented
  - Audit Results
  - Management Response

# Audits and Engagements

- ✓ City of San José Annual Comprehensive Financial Report (“ACFR”)
  - ❑ GANN Appropriation Limitation – Agreed-Upon Procedures
- ✓ Norman Y. Mineta San José International Airport ACFR
- ✓ San José-Santa Clara Clean Water Financing Authority Financials and Related Fund Compliance
- ✓ Successor Agency to the Redevelopment Agency (“SARA”) Financials
- ✓ San José Clean Energy Financials and Agreed-Upon Procedures
- ✓ 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 T (2018) – Public Safety and Infrastructure Projects
- ✓ Library Parcel Tax Measure S (2004)
- ✓ 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
- ❑ Single Audit (including Airport Compliance)
- ❑ South Bay Water Recycling Program
- ❑ Bicycle/Pedestrian Facilities Grant
- ❖ Government Accounting Standards Board (“GASB”) 87, Leases – Implementation 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>

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***Item 3.4***

***Annual Comprehensive Financial  
Report  
(ACFR)***

***Fiscal Year 2020-2021***

# Major Sections of the ACFR

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

# Audited Financial Statements

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## Government-wide Financial Statements

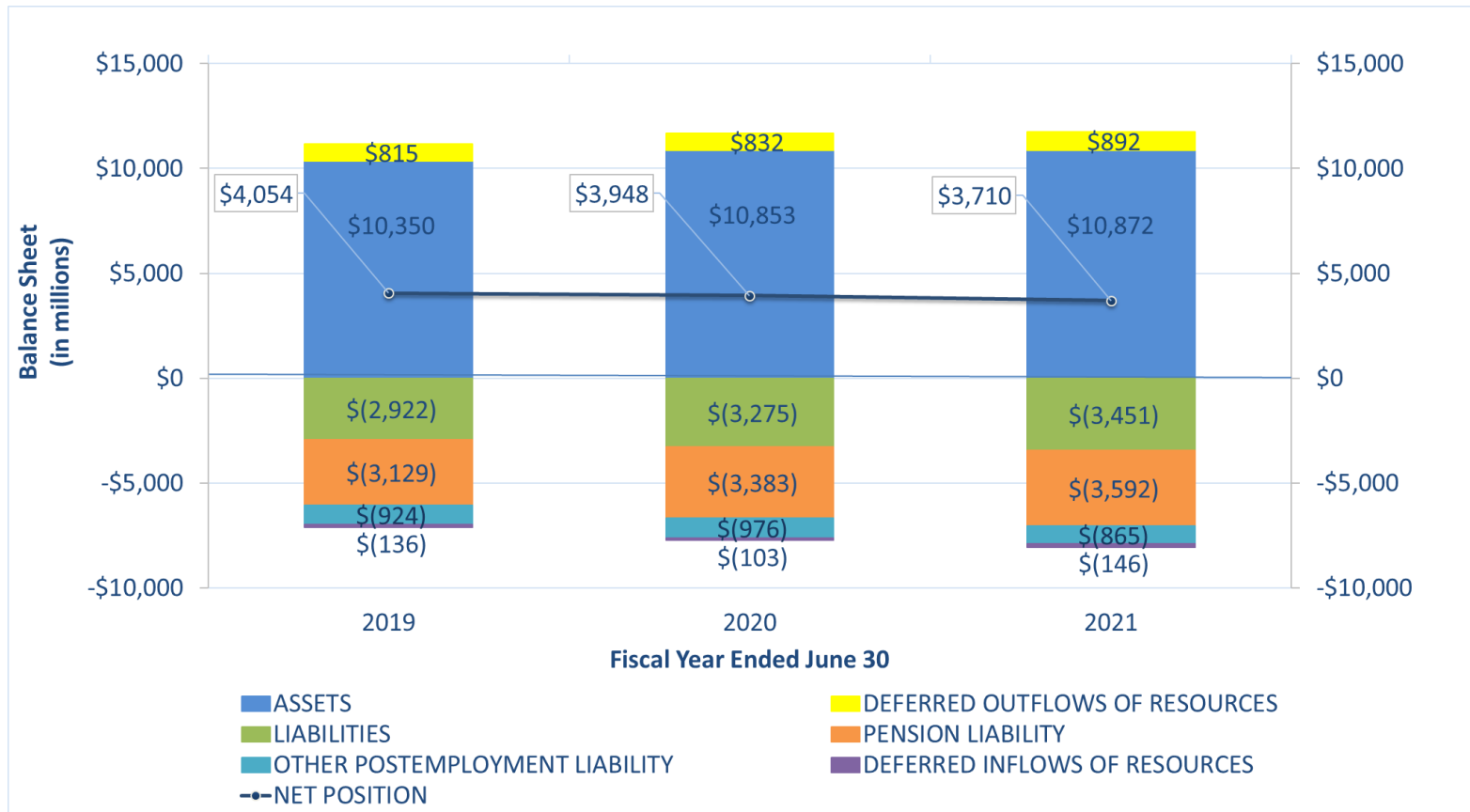
- Statement of Net Position
- Statement of Activities

## Fund Financial Statements

- Governmental
  - Statement of Fund Net Position,
  - Statement of Revenues, Expenditures, and Changes in Fund Balances
- Proprietary
  - Statement of Fund Net Position,
  - Statement of Revenues, Expenditures, and Changes in Fund Balances
  - Statement of Cash Flows
- Fiduciary
  - Statement of Fiduciary Net Position,
  - Statement of Changes in Fiduciary Net Position

# Statement of Net Position

As of June 30, 2019-2021



# Statement of Activities

## As of June 30, 2021 and June 30, 2020

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(in millions of dollars)

	Governmental Activities		Business-type Activities		Totals	
	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2021</u>
Total Revenues	\$ 1,891	\$ 1,925	\$ 978	\$ 802	\$ 2,868	\$ 2,727
Total Expenses and Transfers	2,109	2,188	866	777	2,975	2,965
Change in Net Position	<u>(218)</u>	<u>(263)</u>	<u>112</u>	<u>25</u>	<u>(106)</u>	<u>(238)</u>
Net Position at beginning of year	<u>2,710</u>	<u>2,491</u>	<u>1,345</u>	<u>1,457</u>	<u>4,055</u>	<u>3,948</u>
Net Position at end of year	<u><u>\$ 2,491</u></u>	<u><u>\$ 2,228</u></u>	<u><u>\$ 1,457</u></u>	<u><u>\$ 1,482</u></u>	<u><u>\$ 3,948</u></u>	<u><u>\$ 3,710</u></u>



# General Fund Comparison

(in millions of dollars)

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	FY 2020	FY 2021	% Change
Total revenues	\$ 1,190	\$ 1,222	2.7%
Total expenditures	1,145	1,269	10.8%
Net change in fund balance	45	(47)	
GAAP Fund balance - beginning	415	460	10.8%
<u>GAAP Fund balance - ending</u>	460	413	-10.2%
Budgetary Fund Balance	399	351	-12.0%
Budgetary to GAAP Difference*	\$ (61)	\$ (62)	

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

# Upcoming GASB Pronouncements

<b>GASB No.</b>	<b>GASB Title</b>	<b>Implementation in Fiscal Year Ending</b>
87	Leases	June 30, 2022
89	Accounting for Interest Cost Incurred before the End of a Construction Period	June 30, 2022
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

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***Item 9.1***

***Successor Agency to the  
Redevelopment Agency of the  
City of San Jose (SARA)  
Audited Financial Statements***

***Fiscal Year 2020-2021***

# Statement of Fiduciary Net Position

	(In millions)		Change
	FY 2020	FY 2021	%
Assets	\$ 136	\$ 135	-0.7%
Deferred outflows of resources	34	30	-11.8%
Liabilities	(1,539)	(1,440)	-6.4%
Net position held in trust	<u>\$ (1,369)</u>	<u>\$ (1,275)</u>	-6.9%

- Ending net position was \$-1.275 billion or 6.9% improvement from prior year; net position will keep improving with the repayment of the outstanding bonds until it reaches \$0 when the bonds are fully repaid on 8/1/2035.

# Statement of Changes in Fiduciary Net Position

	(In millions)		Change
	FY 2020	FY 2021	%
Additions	\$ 184	\$ 190	3.3%
Deductions	(146)	(96)	-34.2%
Change in net position	38	94	59.6%
Net position, beginning of year	(1,407)	(1,369)	-2.7%
Net position, end of year	\$ (1,369)	\$ (1,275)	-6.9%

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***Item 3.5***

***Report to Those Charged with  
Governance***

***Fiscal Year 2020-2021***

# Independent Auditor's Report

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

# Accounting Standards Implemented

- ***GASB Statement No. 84, Fiduciary Activities, and Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue code Section 457 Deferred Compensation Plans***
  - A complete definition of fiduciary activities and types of funds, including a new fund type (Custodial Funds) and removal of Agency Funds
  - Custodial Funds present a statement of changes in fiduciary net position
  - Impact for Section 457 deferred comp plans was offset by early implementation of GASB Statement No. 97




# Accounting Standards Implemented

- ***GASB Statement No. 90, Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61***
  - Did not have any effect on the City’s financial statements
  
- ***GASB Statement No. 98, The Annual Comprehensive Financial Report***
  - Did not have any effect on the City’s financial statements

Report to Those Charged with  
Governance – Current Year Comment



Certified  
Public  
Accountants

Reference Number and Comment	Material Weakness	Significant Deficiency	Control Deficiency
2021-001 – Internal Controls Over the Financial Reporting Process (General)			

# Management Response

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- **Finding 2021-001 – Material Weakness**

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

Management:

- Agrees with the comment
- Acknowledges the need for continuous training and development of accounting professional staff in the Finance Department and within the departments
- Taking steps towards corrections, including:
  - Coordinating with the City Manager’s Office to commence a new procedure requiring departments to coordinate with the Finance Department prior to acceptance of grants

# Prior Year Findings - Status

Finding #	Title	Material Weakness	Significant Deficiency	Control Deficiency	Status
2020-001	Internal Controls Over the Financial Reporting Process	X			Partially Corrected
2020-002	Application of the Availability Criterion for Revenue Recognition			X	Corrected

# Recommendation

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Acceptance of FY 2020-2021 reports:

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