



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT:** SEE BELOW

**DATE:** December 1, 2017

Approved

Date

12/1/17

**SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL  
YEAR ENDED JUNE 30, 2017**

## RECOMMENDATION

Accept the Fiscal Year 2016-17 Comprehensive Annual Financial Report for the City of San José.

## OUTCOME

To provide an overview of the fiscal year 2016-17 Comprehensive Annual Financial Report ("CAFR") to the City Council. The CAFR provides relevant financial information to the City Council, residents of San José, creditors, investors, and other interested parties. The CAFR serves to help meet the Strategic Support City Service Area Strategic Goal: "Customers have the financial information they need to make informed decisions".

## BACKGROUND

The fiscal year 2016-17 CAFR provides a detailed description of the City's financial activities for the period of July 1, 2016 through June 30, 2017, and is generally divided into the following sections:

- An Introductory Section intended to familiarize the reader with the organizational structure of the City, the scope of City services, and the specifics of the City's legal operating environment;
- A Financial Section which contains the City's audited financial statements including the independent auditor's report; and

- A Statistical Section which contains up to ten years of statistical data on the City's financial trends, revenue and debt capacity, operating information, and demographic and economic information.

## **ANALYSIS**

The fiscal year 2016-17 CAFR provides a comprehensive review of the City's financial operations and can be viewed at the following link:

<http://www.sanjoseca.gov/index.aspx?NID=759>

The City Charter requires the preparation of annual financial statements that are audited by an independent auditor and then are submitted to the City Council. The independent auditor is retained by the City Council and works under the direction of the City Auditor. Additionally, annual audited financial statements are required by the continuing disclosure agreements for the outstanding bonds issued by the City, the City of San José Financing Authority, the San José-Santa Clara Clean Water Financing Authority, and the former Redevelopment Agency. In many cases, the continuing disclosure agreements specify December 31 of each year as the deadline for providing audited financial statements to investors via the Electronic Municipal Market Access (EMMA) website of the Municipal Standards Rulemaking Board.

The CAFR is prepared by the Accounting Division of the Finance Department and represents the culmination of a concerted team effort by Finance Department staff along with significant involvement of other City departments and the City Auditor. The CAFR is submitted to the City Council for consideration and acceptance and to give staff the opportunity to provide an overview of the relevant financial information contained in the CAFR to the residents of San José, creditors, investors, taxpayers, and other interested parties.

The City contracted with Grant Thornton, LLP ("Grant Thornton"), a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. Grant Thornton was selected through a competitive request for proposal process facilitated by the City Auditor in February, 2016. This is the second year that Grant Thornton provided independent audit services for the City. The auditors expressed an opinion that the City's financial statements for fiscal year 2016-17 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is commonly known as an "unqualified" or "clean" opinion. The independent auditor's report is included in the Financial Section of the CAFR.

For the fiscal year ended June 30, 2017, the following are the key financial results:

- Total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources at June 30, 2017 by \$4.679 billion (net position) for all reporting entities, a \$189.0 million decrease (3.88 percent) from the net position of \$4.868 billion at June 30, 2016. The decrease in the City's net position was mainly due to an increase

of \$174.3 million in pension expenses pursuant to GASB 68 pension actuarial studies. Expenses exceeded revenues by \$189.0 million although tax revenues were increased by \$48.1 million. These amounts exclude Trust and Agency Funds which include pension trust funds, private purpose trust funds, and agency funds as assets of these fiduciary funds are held in a trustee or agency capacity for others and therefore cannot be used to support the City's own programs.

- Total net pension liability increased by \$732.8 million to \$3.011 billion as of June 30, 2017, of which \$2.679 billion was for governmental activities and \$332.0 million was for business-type activities. The increases were mainly due to a net difference of \$414.5 million between projected and actual investment earnings on plan assets, and an increase of \$327.1 million to the total pension liability resulting from changes of assumptions and differences between expected and actual actuarial experience.
- Total long-term liabilities (excluding net pension liability) decreased by \$67.3 million to \$3.263 billion at June 30, 2017, which represents a decrease of 2.0 percent compared to \$3.331 billion at June 30, 2016. The primary factors leading to the decrease in long-term liabilities for governmental activities of \$41.2 million were due to the scheduled debt service payments of \$56.4 million, offset by net increases in compensated absences liability of \$4.3 million and other post-employment benefit liability of \$10.9 million. The primary factors leading to the decrease in long-term liabilities for business-type activities of \$26.1 million were due to the scheduled debt service payments of \$25.5 million.
- Governmental funds reported combined ending fund balance of \$1.415 billion at June 30, 2017, which is \$48.0 million or 3.5 percent more than the June 30, 2016 balance. Of the combined ending fund balances, \$960.8 million is reported as restricted fund balance that includes restrictions imposed by external parties or enabling legislation, including unspent bond proceeds, unspent grant revenues, and restricted tax revenues.

### **EVALUATION & FOLLOW-UP**

There is no evaluation or follow-up needed.

### **PUBLIC OUTREACH**

This memorandum will be posted to the City Council Agenda Website for the December 12, 2017 Council Meeting.

### **COORDINATION**

The Finance Department has coordinated this memorandum with the City Attorney's Office.

HONORABLE MAYOR AND CITY COUNCIL

December 1, 2017

**Subject: Fiscal Year 2016-17 Comprehensive Annual Financial Report**

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**COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

**CEQA**

Not a Project, File No. PP17-010, City Organizational & Administrative Activities resulting in no changes to the physical environment.

/s/

JULIA H. COOPER

Director of Finance

For questions, please contact Grace Martinez, Deputy Director of Finance, Accounting, at (408) 535-7034.

Attachment