City of San José
Fiscal Year 2017-2018

Comprehensive Annual Financial Report

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SARA Audited Financial Statements

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Report to Those Charged with Governance

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City Council

December 11, 2018

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Audits and Engagements

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

** Still in progress*

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

MGO Certified Public Accountants

Independent Auditor's Report

- Management's Responsibility
- Auditor's Responsibility
- Opinion
- Emphasis of Matter
- Other Matters

Accounting Standards Implemented

- **GASB Statement No. 75 -**
  - Changes the Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)
  - Net OPEB Liability Reported in the Government-Wide Financial Statements and the Enterprise Funds
  - No Change in Accounting for Governmental Funds
  - Changes in the OPEB Disclosures and Required Supplementary Information
    - Descriptions of the Plans
    - OPEB Liabilities, Expenses, Deferred Outflows/Inflows of Resources
    - Actuarial Assumptions
    - Trend Information

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Comprehensive Annual Financial Report (CAFR)

Fiscal Year 2017-2018

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

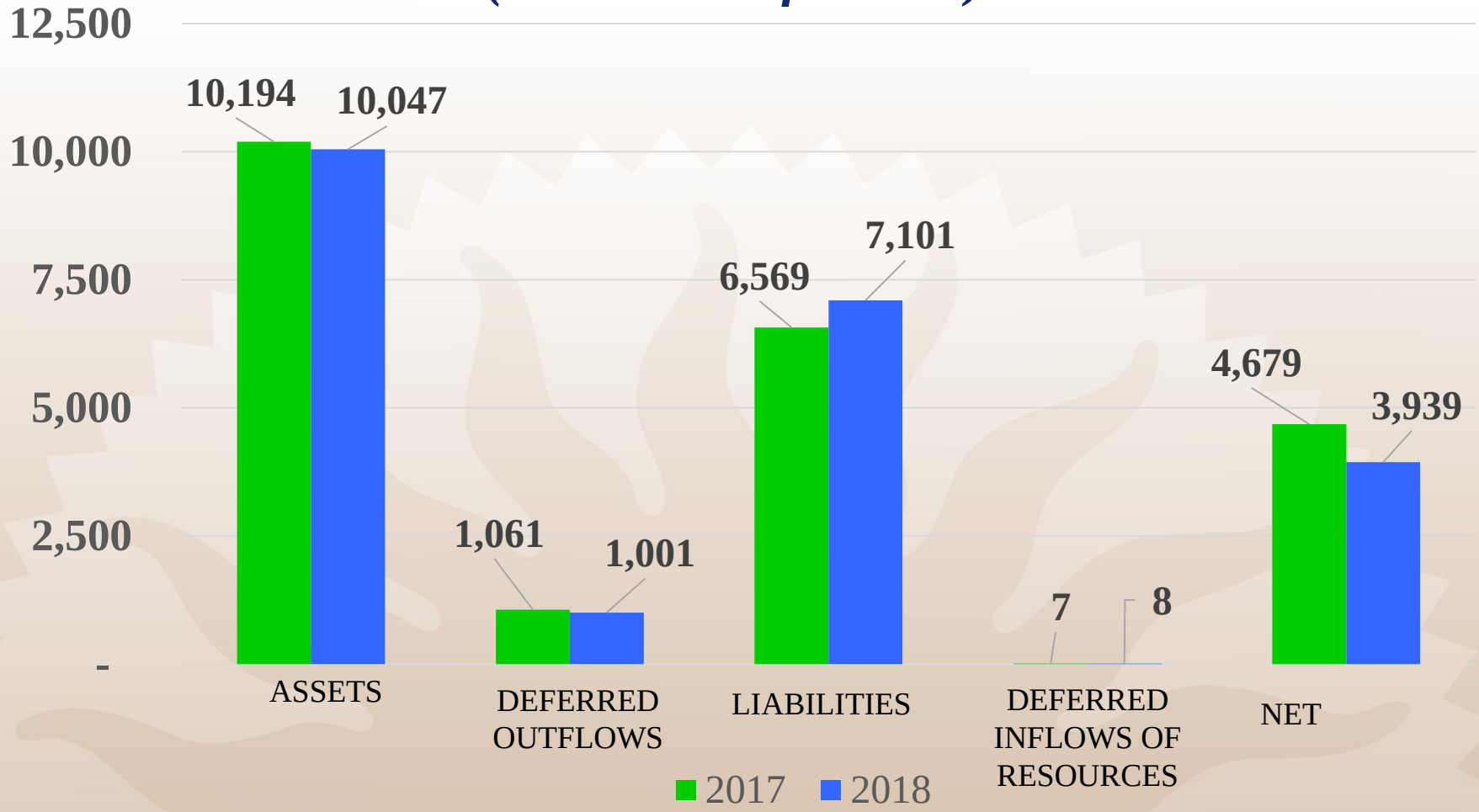
Major Sections of the CAFR

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

Statement of Net Position

As of June 30, 2018 and June 30, 2017

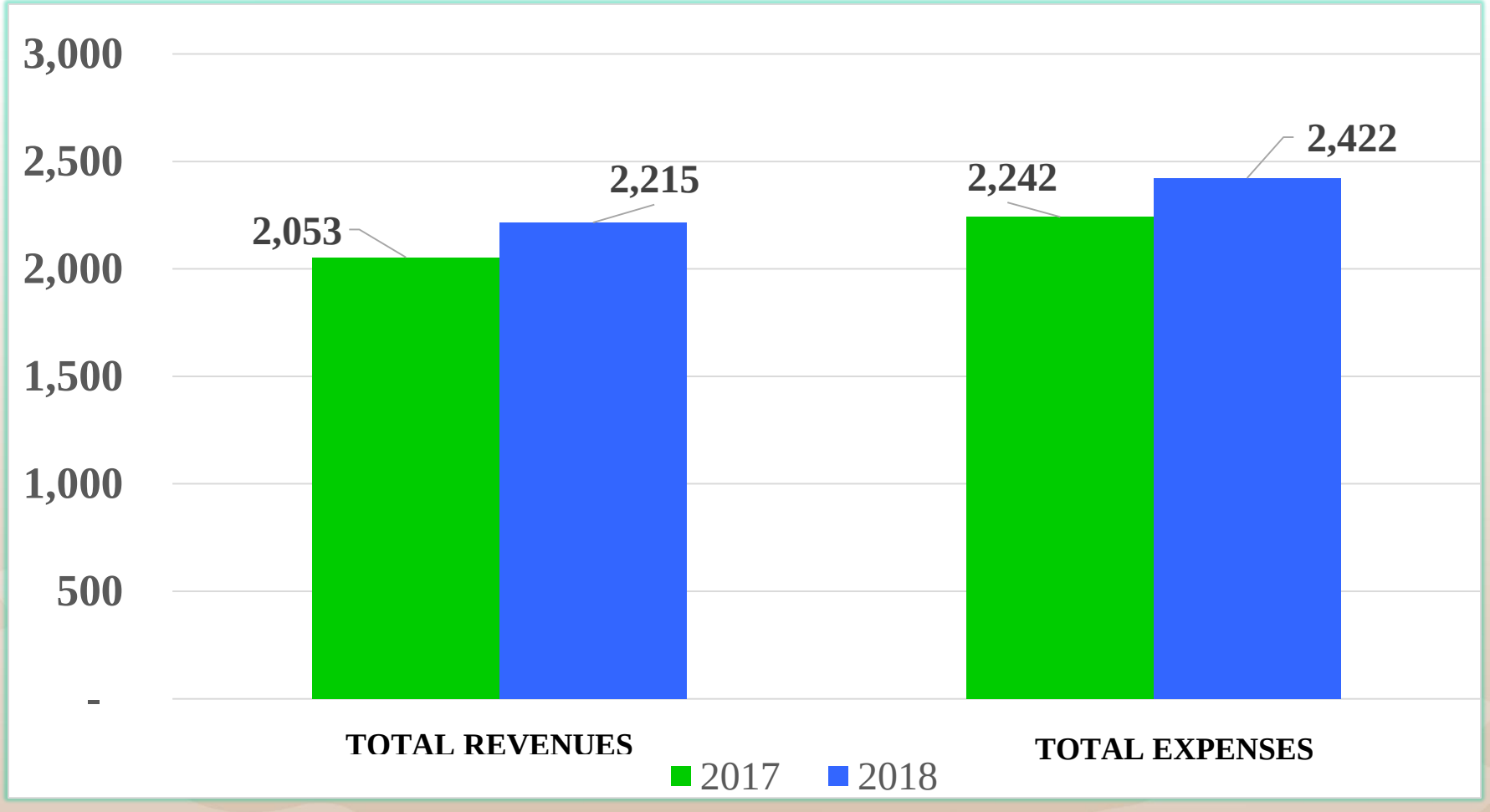
(in millions of dollars)



Revenues and Expenses

As of June 30, 2018 and June 30, 2017

(in millions of dollars)



General Fund Comparison

(in millions of dollars)

		2017	2018	% Change
Total revenues	$	922	1,029	11.6%
Total expenditures		928	1,049	13.0%
Net change in fund balance		(6)	(20)	
GAAP Fund balance - beginning		319	313	(1.9%)
GAAP Fund balance - ending		313	293	(6.4%)
Budgetary Fund Balance		243	251	3.3%
Budgetary to GAAP Difference*	$	(70)	(42)	

* *Budgetary to GAAP differences are primarily attributed to encumbrances and repayment of long-term receivables from SARA.*

FY 2017-2018 GASB Pronouncements Impact on City's Financial Statements

- **GASB 75** – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (other postemployment benefits or OPEB)
  - Increased net OPEB liabilities by $593 million on City's Financial Statements.
- **GASB 81** – Irrevocable Split-Interest Agreements
- **GASB 85** – Omnibus 2017
- **GASB 86** – Certain Debt Extinguishment Issues

GASB Pronouncements Effective for FY 2018-2019

Staff commencing development of implementation plans

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

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

Fiscal Year 2017-2018

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Statement of Fiduciary Net Position

	(In millions)		Change
	2017	2018	%
Assets	$ 352	$ 299	(15.1%)
Deferred outflows of resources	24	45	87.5%
Liabilities	(1,984)	(1,819)	(8.3%)
Net position held in trust	$ (1,608)	$ (1,475)	8.3%

Statement of Changes in Fiduciary Net Position

	(In millions)		Change
	2017	2018	%
Additions	$ 310	$ 235	(24.4%)
Deductions	(157)	(101)	(35.7%)
Net position, beginning of year	(1,761)	(1,608)	8.7%
Net position, end of year	$ (1,608)	$ (1,475)	8.3%

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

Current Year Finding: None

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Report to Those Charged with Governance

Fiscal Year 2017-2018

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Report to Those Charged with Governance – Current Year Comments

Reference Number and Comment	Material Weakness	Significant Deficiency	Control Deficiency
2018-001 – Risk Assessment of Internal Controls Over the Financial Reporting Process		X	
2018-002 – Completeness of the Schedule of Expenditures of Federal Award		X	
2018-003 – Informational Technology: City-Wide Information Security Program		X	

Report to Those Charged with Governance – Current Year Comments

Reference Number and Comment	Material Weakness	Significant Deficiency	Control Deficiency
2018-004 Information Technology: Account Management, Password Configuration, Broad Privileged Access, Password Configuration, Shared Accounts, and Audit Logging/Monitoring		X	
2018-005 Information Technology: Change Management		X	

Management Response

- 2018-001: Risk Assessment of Internal Controls Over the Financial Reporting Process
  - Management agrees with the comment
  - Management taking steps towards corrections

- 2018-002: Completeness of the Schedule of Expenditures for Federal Awards
  - Management concurs with the finding as related to financial reporting
  - Finding is not a violation of federal grant covenants
  - Staff will introduce new reconciliation procedures for grant expenses

Management Response (Continued)

- 2018-003: IT Related Findings
  - Repeat of Prior Year Finding 2017-003
  - In Progress of implementation
  - City approved funding for cyber security program and in process of being implemented

- 2018-004: IT Related Findings
  - Repeat of Prior Year Finding 2017-004
  - In Process of implementation

- 2018-005: IT Related Findings
  - Repeat of Prior Year Finding 2017-005
  - In Progress of implementation

Prior Year Findings

Reference Number and Comment ***Financial Statement Findings:***	**Status**
2017-001 Control Over Estimating Loan Loss Reserves	Remediated
2017-002 Untimely Identification of Errors and Lack of or Inaccuracies in Account Reconciliations	Partially Remediated See Finding 2018-001

Prior Year Findings (Continued)

Reference Number and Comment ***Financial Statement Findings:***	**Status**
2017-003 Information Technology: Citywide Information Security System.	In-Progress See Finding 2018-003
2017-004 Information Technology: Account Management, Password Configuration, Broad Privileged Access, Password Configuration, Shared Accounts, and Audit Logging/Monitoring.	In-Progress See Finding 2018-004
2017-005 Information Technology: Change Management	In-Progress See Finding 2018-005

Recommendation

Acceptance of FY 2017-2018 reports:

- Item 3.5 - Comprehensive Annual Financial Report
- Item 3.6 - Report to Those Charged with Governance
- Item 9.1 - SARA Audited Financial Statements