

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)

Fiscal Year 2018-2019

CAFR – Table of Contents

- **Introductory Section**
 - Letter of Transmittal, Awards, Mayor and Council, Organization Chart
- **Financial Section**
 - Independent Auditor's Opinion
 - 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**

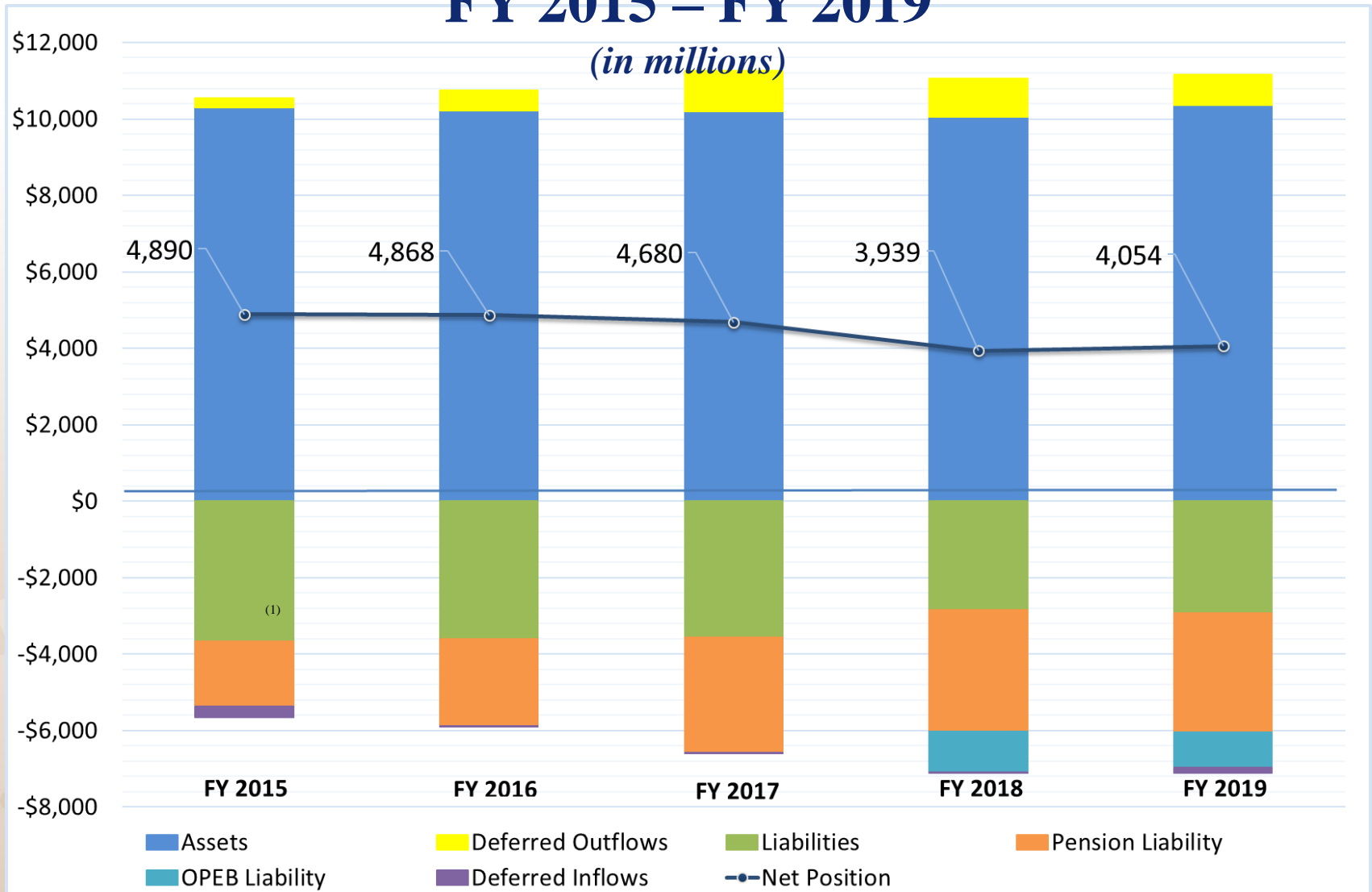
Accounting Standards Implemented

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

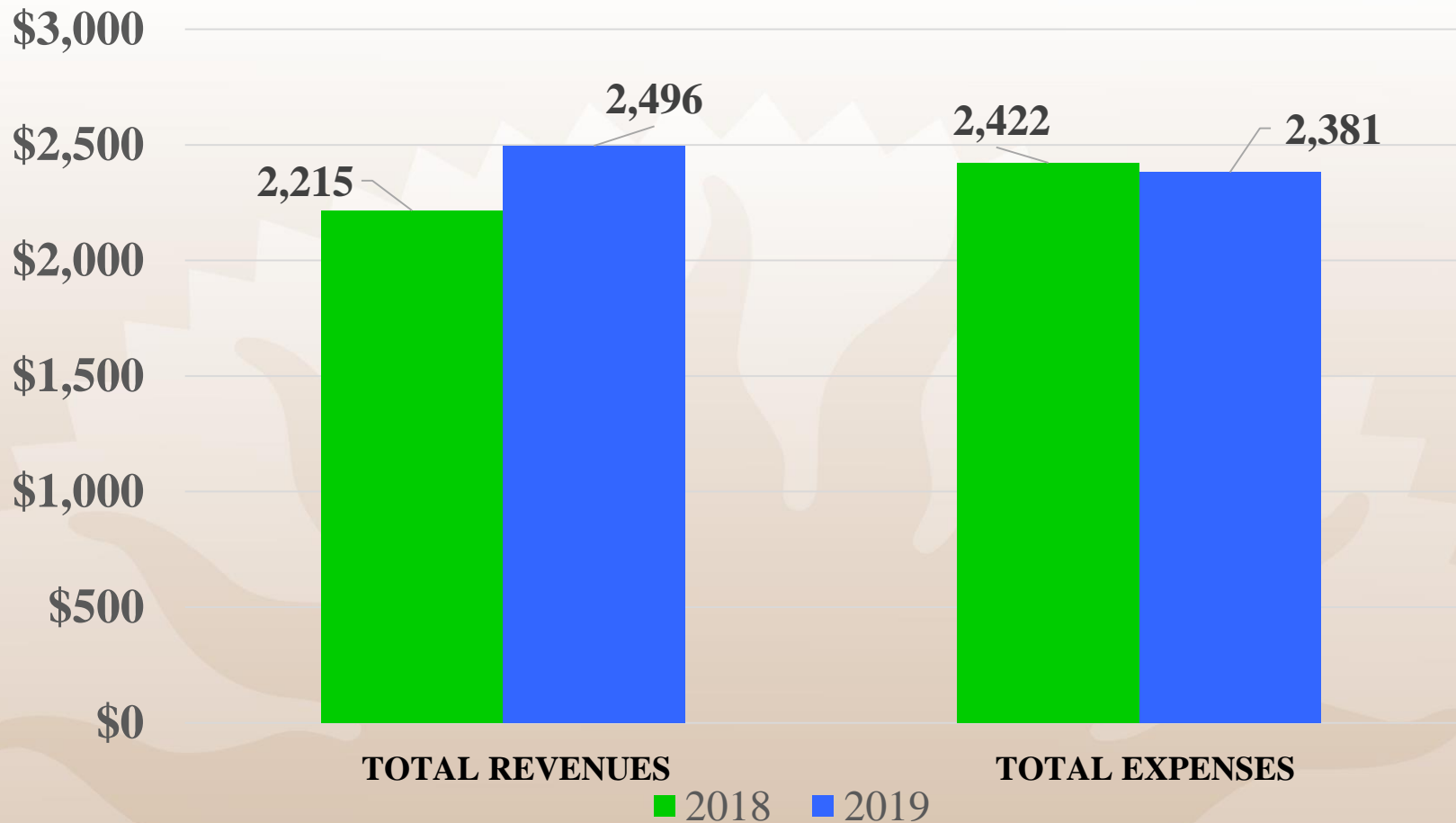


(1) GASB 68 (Pension) was implemented in FY15

(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>	<u>293</u>	<u>415</u>	<u>41.6%</u>
Budgetary Fund Balance	251	365	45.4%
Budgetary to GAAP Difference* \$	<u>(42)</u>	<u>(50)</u>	

* 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 to the Redevelopment Agency of the City of San Jose Audited Financial Statements

Fiscal Year 2018-2019

Successor Agency -- Statement of Fiduciary Net Position

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

Successor Agency -- Statement of Changes in Fiduciary Net Position

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

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Report to Those Charged with Governance

Fiscal Year 2018-2019

Report to Those Charged with Governance – Current Year Comments








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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



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Reference Number and Comment	Material Weakness	Significant Deficiency	Control Deficiency
2018-001 – Risk Assessment of Internal Controls Over the Financial Reporting Process (Corrected)			
2019-002 – Completeness of the Schedule of Expenditures of Federal Award (Partially Corrected)			
2018-003 – Information Technology: City-Wide Information Security Program (Corrected)			
2018-004 – Information Technology: Account Management, Password Configuration, Broad Privileged Access, Password Configuration, Shared Accounts, and Audit Logging/Monitoring (Corrected)			
2018-005 – Information Technology: Change Management (Corrected)			

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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