

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

MEMORANDUM

TO: REDEVELOPMENT AGENCY BOARD	FROM: RICHARD A. KEIT MANAGING DIRECTOR
SUBJECT: SEE BELOW	DATE: DECEMBER 2, 2011

SUBJECT: FISCAL YEAR 2010-11 COMPREHENSIVE ANNUAL  
FINANCIAL REPORT AND INDEPENDENT AUDITOR'S  
REPORT ON INTERNAL CONTROL AND COMPLIANCE OF  
CALIFORNIA HEALTH AND SAFETY CODE

RECOMMENDATION

It is recommended that the Redevelopment Agency Board

- a. Approve the Comprehensive Annual Financial Report of the Redevelopment Agency of the City of San Jose for the Fiscal Year ending June 30, 2011.
- b. Approve the Independent Auditor's Report on Internal Control and Compliance with the California Health and Safety Code.

OUTCOME

Approval allows use of the approved CAFR to provide a clear depiction of the Agency's financial status to the public and investors in Agency bonds, rating agencies, insurers, and other parties interested in the Agency's financial status. Acceptance of the auditor's report on Internal Control and Compliance of California Health and Safety Code will complete the External Auditors' audit engagement with the Agency for Fiscal Year 2010-11.

BACKGROUND

The Redevelopment Agency submits the Comprehensive Annual Financial Report (CAFR) to the Agency's Board under the financial reporting model required by Governmental Accounting Standards Board (GASB). GASB establishes the

financial reporting structure for state and local governments, including redevelopment agencies.

In conformance with the governmental accounting standards and generally accepted accounting practices in the United States of America, the CAFR is presented in four major sections: (1) Introductory, (2) Financial, which contains the basic financial statements, (3) Statistical, and (4) Compliance.

The Financial section includes four major components:

1. Independent Auditor's Report: auditor's report on the financial statements.
2. Management's Discussion and Analysis: an analysis of the Agency's financial activities.
3. Basic Financial Statements:
  - a. Government-wide Financial Statements: accounting data of the Agency's government-wide activities in a manner similar to a private-sector business that is based on accrual accounting.
  - b. Fund Financial Statements: accounting data of the Agency's fund activities that are based on modified accrual accounting. This is similar to traditional governmental reporting.
  - c. Notes to the Financial Statements: disclosures supporting the government-wide financial statements and the fund financial statements.
4. Required Supplementary Information: a comparison of budget to actual data on general fund, special revenue fund, debt service funds and the capital projects fund.

Beginning Fiscal Year 2010-11, the Agency implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 provides clearer classifications that can be more consistently applied in the fund financial statements - governmental funds to enhance the usefulness of fund balance information. The fund balance classifications are primarily based on the extent to which the Agency is bound to observe constraints imposed upon the use of the resources or on specific purposes for which the funds can be spent. Detailed discussions of the new fund balance classifications are presented in Notes II.I of the CAFR.

The basic financial statements and compliance sections reflect the unqualified audit reports of the Agency of the independent accounting firm of Macias Gini & O'Connell LLP, CPAs.

### ANALYSIS

The Agency's auditors provided an "unqualified or clean opinion" whereby they disclosed no instances of noncompliance with California Redevelopment Law and accounting principles generally accepted in the United States of America. This year's CAFR was prepared with the same high standards as in prior years to meet the Government Finance Officers Association's (GFOA) criteria for the Certificate of Achievement for Excellence in Financial Reporting Program. The Agency has received GFOA's Certificate of Achievement Award for ten (10) consecutive years and is also submitting this year's CAFR for consideration.

Because of the timing of recognition of accounting data (revenues and expenses/expenditures), Government-wide Financial Statements' data differs greatly from Fund Financial Statements. Under Government-wide Financial Statements, revenues are recognized when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Fund Financial Statements recognize revenues as soon as they are measurable and available and expenditures are generally recorded when a liability is incurred. Revenues are measurable and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

As of June 30, 2011, the Agency's Government-wide Financial Statements reflect a deficit of \$2.1 billion. Bonds and other long-term debt are recognized as a liability in Government-wide Financial Statements. Under State law, all redevelopment agencies show the debt that they incur through bond sales as deficits in their financial statements. The Agency's debt service payment requirements will be paid from future tax increment revenues. The Fund Financial Statements reflected a positive total fund balance of \$158 million.

The CAFR also discussed the effects of the new California legislation AB X1 26 and AB X1 27 on the Agency, which can be found in Note III. E, such as potential dissolution, creation of successor agency, transfer of housing functions and creation of oversight board. The effects of this legislation are uncertain pending the result of the lawsuits that have been initiated challenging the constitutionality of this legislation. However, based on the Agency's current financial condition, the effects of this legislation raise substantial doubt about the Agency's ability to continue as a going concern.

CAFRs are circulated to investors in Agency bonds, rating agencies, insurers, and other parties interested in the Agency's financial status. The CAFR is available on the Agency's website at - <http://www.sjredevelopment.org/Finance/financialinfo.htm>).

Related to the audit of the financial statements of the Agency for FY 2010-11, the External Auditor indicated that it doesn't have any audit findings for FY 2010-11.

#### EVALUATION AND FOLLOW-UP

No special follow-up is required for this action

#### PUBLIC OUTREACH/INTEREST

The proposed action does not meet any of the criteria noted below for added outreach efforts. This staff report will be posted on the Agency's website and made available for public review in the agency's public lobby area.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.
- Criterion 3:** Consideration of proposed changes to service delivery, programs, or staffing that may have impacts to community services and have been identified by staff, the Board or Council, or a community group that requires special outreach.

#### COORDINATION

The 2011 CAFR has been coordinated with the Agency's independent auditor, the City's Finance Department and the Agency's General Counsel.



RICHARD A. KEIT  
Managing Director