

**SAN JOSE DIRIDON
DEVELOPMENT AUTHORITY**
(A Component Unit of the
City of San José, California)

Independent Auditor's Reports
and Basic Financial Statements

For the Period from Inception
(March 8, 2011) through June 30, 2012 and
For the Year Ended June 30, 2013

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
For the Period From Inception (March 8, 2011) through June 30, 2012 and
For the Year Ended June 30, 2013

Table of Contents

	<i>Page</i>
Independent Auditor’s Report	1
Basic Financial Statements:	
Governmental Fund Balance Sheets and Statements of Net Position	3
Governmental Fund Statements of Revenues, Expenditures, and Changes in Fund Balance and Statements of Activities	5
Notes to the Financial Statements	7
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13
Schedule of Finding and Response	15

Independent Auditor's Report

Board of Directors
San José Diridon Development Authority
San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the San José Diridon Development Authority (Authority), a component unit of the City of San José (City), California as of June 30, 2013 and 2012 and for the period from inception (March 8, 2011) through June 30, 2012 and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Authority as of June 30, 2013 and 2012, and the changes in their financial position for the period from inception (March 8, 2011) through June 30, 2012 and for the year ended June 30, 2013 in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Macias Gini & C'Connell LLP

Walnut Creek, California

April 3, 2014

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
Governmental Fund Balance Sheet and Statement of Net Position

	June 30, 2013		
	Capital Projects Fund	Adjustments (Note 3)	Statement of Net Position
Assets			
Current assets:			
Cash and investments	\$ 406,630	\$ -	\$ 406,630
Accounts receivable	10,543	-	10,543
Total assets	417,173	-	417,173
Liabilities			
Current liabilities:			
Due to Successor Agency	417,173	-	417,173
Fund Balance/Net Position			
Unrestricted net position	-	-	-
Unassigned fund balance	-	-	-
Total fund balance/net position	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
Governmental Fund Balance Sheet and Statement of Net Position

	June 30, 2012		
	Capital Projects Fund	Adjustments (Note 3)	Statement of Net Position
Assets			
Current assets:			
Cash and investments	\$ 177,625	\$ -	\$ 177,625
Accrued interest receivable	151	-	151
Due from the City	-	-	-
Total current assets	<u>177,776</u>	<u>-</u>	<u>177,776</u>
Capital assets:			
Nondepreciable land	-	29,197,410	29,197,410
Total assets	<u>177,776</u>	<u>29,197,410</u>	<u>29,375,186</u>
Liabilities			
Current liabilities:			
Accrued liabilities	463	-	463
Total liabilities	<u>463</u>	<u>-</u>	<u>463</u>
Fund Balance/Net Position			
Net investment in capital assets	-	29,197,410	29,197,410
Assigned fund balance	<u>177,313</u>	<u>-</u>	<u>177,313</u>
Total fund balance/net position	<u>\$ 177,313</u>	<u>\$ 29,197,410</u>	<u>\$ 29,374,723</u>

See accompanying notes to financial statements.

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance
and Statement of Activities

	For the Year Ended June 30, 2013		
	Capital Projects Fund	Adjustments (Note 4)	Statement of Activities
Program Expenditures/Expenses			
Salaries and benefits	\$ 182,508	\$ -	\$ 182,508
Professional and consulting services	12,234	-	12,234
Intergovernmental	2,001	-	2,001
Other	5,570	-	5,570
Total current expenditures/expenses	202,313	-	202,313
General Revenues			
Intergovernmental	25,000	-	25,000
Extraordinary Item			
Return of properties to the Successor Agency	-	(29,197,410)	(29,197,410)
Change in fund balance/net position	(177,313)	(29,197,410)	(29,374,723)
Fund balance/Net position, beginning of period	177,313	29,197,410	29,374,723
Fund balance/Net position, end of period	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance
and Statement of Activities

	For the Period from Inception (March 8, 2011) through June 30, 2012		
	Capital Projects Fund	Adjustments (Note 4)	Statement of Activities
Program Expenditures/Expenses			
Salaries and benefits	\$ 6,250	\$ -	\$ 6,250
Professional and consulting services	19,355	-	19,355
Total current expenditures/expenses	25,605	-	25,605
General Revenues			
Rent	202,326	-	202,326
Investment income	592	-	592
Other revenues	-	-	-
Total general revenues	202,918	-	202,918
Special Item			
Contribution of capital assets from the Redevelopment Agency of the City of San José	-	29,197,410	29,197,410
Change in fund balance/net position	177,313	29,197,410	29,374,723
Fund balance/Net position, beginning of period	-	-	-
Fund balance/Net position, end of period	\$ 177,313	\$ 29,197,410	\$ 29,374,723

See accompanying notes to financial statements.

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
Notes to the Financial Statements
For the Period From Inception (March 8, 2011) through June 30, 2012 and
For the Year Ended June 30, 2013

NOTE 1 – REPORTING ENTITY

The San José Diridon Development Authority (“Authority”), a component unit of the City of San José, California, was created pursuant to the Joint Powers Agreement on March 8, 2011 between the City of San José (“City”) and the former Redevelopment Agency of the City of San José (“Agency”) pursuant to the Joint Exercise of Powers Act of the California Government Code. The purpose of the Authority is to finance, refinance, develop, redevelop, implement, and operate future projects in or serving the Diridon Area. The Authority has designated the City as the Member for determination of the restrictions upon the Authority in exercising the common powers under this Joint Powers Agreement and shall be governed by a Board of Directors (“Board”). The Board shall at all times be comprised of the members of the City Council of the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority prepares its government-wide statements using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority’s fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when “susceptible to accrual” (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Revenues not considered available are recorded as deferred revenues. Expenditures are generally recorded when the fund liability is incurred. Liabilities expected to be paid after one year are recorded in the government-wide column as a noncurrent liability due more than one year.

Fund Accounting

The Authority uses a capital projects fund (governmental fund) to account for its activities. Capital projects funds are used to account for financial resources (e.g., bond proceeds and investment income) that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition of land or acquisition and construction of major governmental facilities.

Capital Assets

The Authority defines capital assets as assets used in redevelopment operations with an initial individual cost of at least \$5,000 and an estimated useful life in excess of one year. At June 30, 2012, capital assets consist of only nondepreciable assets. Capital assets are recorded in the financial statements at historical cost.

During the year ended June 30, 2013, the Authority returned its capital assets to the Successor Agency to the Redevelopment Agency of the City of San José (“Successor Agency”). These capital assets were determined to be a disallowed transfer to the Authority from the Successor Agency by the State Controller (see Note 6).

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
Notes to the Financial Statements
For the Period From Inception (March 8, 2011) through June 30, 2012 and
For the Year Ended June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

Under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the balance sheets of governmental funds classify fund balances based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which those funds can be spent. The Fund has no fund balance at June 30, 2013 and only has assigned fund balance at June 30, 2012. Assigned fund balances are amounts that are intended to be used by the Authority for specific purposes through the Board’s budgetary actions. Intent is expressed by the Board of Directors to assign amounts to be used for specific purposes.

If applicable, the Authority will spend the most restricted dollars in accordance with restrictions imposed before less restricted in the following order: (a) committed and (b) assigned.

Net Position

Net investment in capital assets – This component of net position consists of capital assets of the Authority.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. At June 30, 2013 and 2012, the Authority did not have net position that is classified as restricted.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”.

Special Item

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. The Authority’s receipt of various properties from the former Agency was characterized as a special item (see Note 6).

Extraordinary Item

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 (Redevelopment Dissolution Law), and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The dissolution of all redevelopment agencies in the State of California qualified as an extraordinary item since this state-wide dissolution was both unusual in nature and infrequent in occurrence. Due to uncertainties with the Redevelopment Dissolution Law, the ultimate outcome of the issues could not be determined as of June 30, 2012, accordingly, no provision for any liability that may result has been recorded in the financial statements at June 30, 2012.

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
Notes to the Financial Statements
For the Period From Inception (March 8, 2011) through June 30, 2012 and
For the Year Ended June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2013, the Successor Agency received the final Asset Transfer Review Report (“Report”) from the State Controller regarding various properties that the Agency transferred to the Authority. In the Report, the State Controller identified and disallowed various properties that the Successor Agency transferred to the Authority prior to June 28, 2011, the effective date of the Redevelopment Dissolution Law. In June 2013, the Authority’s Board adopted a resolution authorizing the return to the Successor Agency various properties identified in the Report (see Note 7). Accordingly, the asset transfer from the Authority to Successor Agency was recorded as an extraordinary item.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

New Accounting Standards Implemented

Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and renames the resulting measure as net position rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of March 8, 2011, the Authority adopted the above GASB standards, which did not have a significant impact on its financial statements.

**NOTE 3 - EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND
BALANCE SHEETS AND THE STATEMENTS OF NET POSITION**

Total fund balance of the Authority’s governmental fund differs from the net position of governmental activities reported in the statements of net position primarily as a result of the long-term economic focus of the statements of net position versus the current financial resources focus of the governmental fund balance sheets. When capital assets (land, building, and equipment) that are used in governmental activities are purchased or constructed, the costs of those assets are reported as capital outlay expenditures in the governmental fund. Also, when capital assets were contributed to the Authority they were reported as a special item (generally they are reported as a capital contribution) on the statement of activities because they do not represent current financial resources. As of June 30, 2012, the statement of net position includes contributed capital assets in the amount of \$29,197,410 among the assets of the Authority.

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
Notes to the Financial Statements
For the Period From Inception (March 8, 2011) through June 30, 2012 and
For the Year Ended June 30, 2013

**NOTE 4 - EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND
OPERATING STATEMENTS AND THE STATEMENTS OF ACTIVITIES**

The change in fund balance for the Authority's governmental fund differs from the change in net position as a result of the long-term economic focus of the statement of activities versus the current financial resources focus of the capital projects fund. When transfers of capital assets to and from other public entities and organizations that are to be used in governmental activities are provided, these assets are not financial resources and are not reported in the capital projects fund. As a result, the net position increased in the statement of activities by the capital assets contributed in the amount of \$29,197,410 during the period from inception (March 8, 2011) through June 30, 2012 and decreased in the statement of activities by the capital assets returned in the amount of \$29,197,410 during the year ended June 30, 2013.

NOTE 5 – CASH AND INVESTMENTS

The Authority maintains its investments in the City's cash and investment pool. It is not possible to disclose relevant information about the Authority's separate portion of the cash and investment pool, as there are no specific investments belonging to the Authority itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2013 and 2012, basic financial statements. A copy of those reports may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department Web Site at <http://www.sanjoseca.gov/>.

Investment in the City's investment pool reflects a balance of \$406,630 and \$177,776 at June 30, 2013 and 2012, respectively. The amounts held in the City's investment pool can be withdrawn upon demand. The weighted average maturity of the City's investment pool is 560 days and 387 days at June 30, 2013 and 2012, respectively. Income earned or losses arising from investments in the City's cash and investment pool are allocated by the City on a monthly basis to the appropriate funds based on the average weekly cash balance of such funds.

NOTE 6 – INTERGOVERNMENTAL REVENUES

The State Controller's final Asset Transfer Review Report requires the City to return all its capital assets to the Successor Agency. In accordance with this, any revenues generated by these assets, as recorded in the Authority, must be returned to the Successor Agency, net of operating and maintenance costs associated with the management of the properties themselves. During the year ended June 30, 2013, the Authority received \$25,000 from the City's General Fund as reimbursement of certain expenditures related to operating and maintenance costs of the returned capital assets.

The State Controller's final Asset Transfer Review also requires the City to return to the Successor Agency the net revenues earned from parking and rents from properties transferred to the Authority. As of June 30, 2013, the Authority has a payable in the amount of \$417,173 related to the net revenues earned from parking and rents from the properties transferred from the former Agency.

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
Notes to the Financial Statements
For the Period From Inception (March 8, 2011) through June 30, 2012 and
For the Year Ended June 30, 2013

NOTE 7 – CAPITAL ASSETS

On March 8, 2011, the former Agency transferred eight parcels of land with a book value aggregating to \$29.2 million to the Authority to allow for future development and infrastructure in the Diridon station area such as high speed rail (BART) and potential sports stadium. At June 30, 2012, the Authority held the following parcels of property prior to their return to the Successor Agency during the year ended June 30, 2013:

<u>Property Description</u>	<u>Historical Cost</u>
105 S. Montgomery Street	\$ 6,356,158
102 S. Montgomery Street	1,293,256
510 W. San Fernando Street/115 South Autumn Street	6,345,391
150 S. Montgomery Street	6,250,860
645 Park Avenue	6,000,000
92 S. Montgomery Street	1,363,658
8 S. Montgomery Street	1,588,087
Total	<u>\$ 29,197,410</u>

Option Agreement for the Sale of Property

In November 2011, the Authority entered into an option agreement for the sale of property located at 105 S. Montgomery Street, 102 S. Montgomery Street, 510 West San Fernando Street, 115 South Autumn Street, 150 S. Montgomery Street and 645 Park Avenue (collectively, “Property”) from the Authority to the Athletics Investment Group LLC (“Optionee”). For consideration in the amount of \$50,000, payable by the Optionee to the Authority upon execution of the agreement, the Authority grants to the Optionee an irrevocable, exclusive option to purchase the Property for the amount of \$6,975,227 provided the use of the Property is restricted for use as a Major League Baseball park and uses incidental to the Major League Baseball park, including hosting other ticketed events and use. The option to purchase the Property is subject to certain conditions including: potential voter approval requirements and agreement on the terms to a purchase and sale agreement. The term of the option to purchase the Property is effective on the execution of the option agreement and will expire two years thereafter if not exercised by the Optionee prior to the one year anniversary. With the consent of the Authority, the Optionee may extend the option period for one additional year with the payment of \$25,000. The Authority’s return of the Property to the Successor Agency will be subject to the terms and conditions of the Option Agreement and the Arena Management Agreement.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Commitments

At June 30, 2013 and 2012, the Authority has outstanding encumbrances in the amount of \$0 and \$3,645, respectively.

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
(A Component Unit of the City of San José, California)
Notes to the Financial Statements
For the Period From Inception (March 8, 2011) through June 30, 2012 and
For the Year Ended June 30, 2013

NOTE 9 – SUBSEQUENT EVENT

In September 2013, Athletics Investment Group LLC exercised its option of extending the Option Agreement for one additional year period with the payment of \$25,000. The properties included in the Option Agreement for potential sale were returned by the Authority to the Successor Agency. Therefore, the payment amount issued in the name of the Successor Agency was received and recorded in the Successor Agency financial records.

**Independent Auditor’s Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
San José Diridon Development Authority
San José, California

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the San José Diridon Development Authority (Authority), a component unit of the City of San José (City), California, as of June 30, 2013 and 2012 and for the period from inception (March 8, 2011) through June 30, 2012 and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated April 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Finding and Response, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Finding and Response Finding 2012-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Finding and Response. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & C'Connell LLP

Walnut Creek, California
April 3, 2014

SAN JOSE DIRIDON DEVELOPMENT AUTHORITY

Schedule of Finding and Response

June 30, 2013

Material Weakness - Finding 2012-1 –

Internal Control Over Financial Reporting - Preparation of Financial Statements

On March 8, 2011, the San José Diridon Development Authority (Authority) was created pursuant to the Joint Powers Agreement on March 8, 2011 between the City of San José (City) and the former Redevelopment Agency of the City of San José (Agency) to finance, refinance, develop, redevelop, implement, and operate future projects in or serving the Diridon Area. However, as of February 1, 2012, the Agency was dissolved, which severely impacted the Authority's internal control over financial reporting in that it was unclear who would assume the responsibility of the Authority's financial reporting responsibilities. As such, the financial statements for the period from inception (March 8, 2011) through June 30, 2012 and for the year ended June 30, 2013, were not given the attention required to timely and accurately complete the Authority's financial reporting responsibilities.

We recommend that the Authority assign dedicated personnel who are responsible for the accounting and financial reporting of this entity.

Management Response:

The economic recession took a considerable toll on tax increment revenues and as early as 2010 the Agency began a significant reduction in workforce. At the beginning of fiscal year 2010-11, staffing levels were 92 with 9 devoted to financial operations and affairs of the Agency. By the time dissolution was final on February 1, 2012, the total staffing was 10 with only 4 devoted to the financial operations and affairs of the former Agency, now the Successor Agency to the Redevelopment Agency (SARA). It would not have been possible for the existing staff to successfully operate without the considerable staffing support received from City staff.

Management acknowledges the considerable stress and resource challenges associated with the financial reporting requirements of the former Redevelopment Agency and the current Successor Agency to the Redevelopment Agency (SARA). During the transition period, the SARA staff has been assisted with resources from both the City Finance and Housing Departments to complete the necessary financial statements for the reporting periods ending January 31, 2012 and June 30, 2012.

Since February 2012, the City has worked to develop proper staffing levels and staffing expertise to ensure the orderly "wind-down" of the former Agency's financial affairs. Management will continue the transition process to ensure appropriate internal controls are met with respect to the financial reporting obligations of SARA and to interface with the various outside agencies. It is Management's expectation that most or all of the financial operations, including financial reporting will be transferred to the City's Finance Department by the end of the current fiscal year. The transfer to the Finance Department allows the financial operations to be reviewed and managed by a larger organization, creates more cross-training and knowledge sharing, and ensures the appropriate level of management reviews.

Transition of the accounting and financial reporting functions of SARA are either completed or in the process of being transferred to the Finance Department. The Finance staff worked with the staff of Office of Economic Development, the City Manager's Office, and SARA for completion of the Authority's accounting and financial reporting activities for fiscal year 2013. In March 2013, the State Controller issued its Final Asset Transfer Review Report ("Report") after reviewing the asset transfer transactions between the SARA, the City, and the Authority. As indicated in the Report issued, the State Controller disallowed the properties transferred between the Authority and the former Agency. Therefore, the Authority transferred all properties identified in the Report to SARA and reported no outstanding fund balance at June 30, 2013 and the City has not budgeted any financial transactions in FY 2013-14 for the Authority.