

**SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE
CITY OF SAN JOSÉ**
(A Component Unit of the
City of San José, California)

Independent Auditor's Reports
and Basic Financial Statements

For the Year Ended June 30, 2020



Certified
Public
Accountants

**SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**
For the Year Ended June 30, 2020

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Independent Auditor's Report

Board of Directors
Successor Agency of the
Redevelopment Agency of the City of San José
San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Successor Agency of the Redevelopment Agency of the City of San José (SARA), a component unit of the City of San José (City), California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the SARA'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 an opinion on these financial statements based on our audit. We conducted our audit 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 fiduciary financial position of the SARA as of June 30, 2020, and the changes in its fiduciary financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Management has omitted the management's discussion and analysis that 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 opinion on the basic financial statements is 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 November 23, 2020 on our consideration of the SARA'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 solely 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 effectiveness of the SARA's 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 SARA's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California

November 23, 2020

**SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**
(A Component Unit of the City of San José, California)
Statement of Fiduciary Net Position
June 30, 2020

Assets:

Cash and investments	\$	6,210,791
Receivables, net of allowance of \$133,664		117,475
Restricted cash and investments		118,993,728
Advances to the City of San José		732,875
Loans receivable, net of allowance of \$13,727,175		4,107,699
Accrued interest receivable		1,151,914
Deposits		5,000
Prepaid bond insurance		1,674,830
Capital assets:		
Nondepreciable		2,077,460
Depreciable, net		695,782
		135,767,554
Total assets		135,767,554

Deferred outflows of resources:

Loss on deferred amount on refunding		34,171,589
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Liabilities:

Accounts payable		173,991
Accrued interest payable		21,269,720
Unearned revenues		7,476
Noncurrent liabilities:		
Due within one year		97,454,387
Due in more than one year		1,419,981,190
		1,538,886,764
Total liabilities		1,538,886,764

Net deficit held in trust		\$ (1,368,947,621)
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See accompanying notes to basic financial statements.

**SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**
(A Component Unit of the City of San José, California)
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2020

Additions:

Redevelopment property tax trust fund revenues	\$ 181,999,439
Investment income	1,005,205
Rent	10,052
Gain on sale of revenue participation	866,696
Development fees	97,123
Other	<u>78,137</u>
Total additions	<u>184,056,652</u>

Deductions:

Administrative expenses:	
Reimbursement of personnel expenses	6,156
Materials, supplies and other services	881,963
Project expenses	405,621
Pass-through amount to the County of Santa Clara	42,491,675
Transfer of properties to the City of San José, net	50,598,746
Depreciation	118,467
Interest on debt	<u>51,218,049</u>
Total deductions	<u>145,720,677</u>
Change in net position	38,335,975

Net deficit, beginning of year	<u>(1,407,283,596)</u>
Net deficit, end of year	<u><u>\$ (1,368,947,621)</u></u>

See accompanying notes to basic financial statements.

**SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**
(A Component Unit of the City of San José, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1 – REPORTING ENTITY

The former Redevelopment Agency of the City of José (“Agency”) was established in 1956 by the San José City Council as a public entity legally separate from the City of San José (“City”). In January 1975, the City Council declared itself the Agency Board, replacing a separate board. Until June 28, 2011, the Agency had the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property in a “Redevelopment Area”. Redevelopment projects were developed in cooperation with private developers. Public redevelopment projects were also developed under cooperation agreements between the Agency and the City or other public entity that would own the project.

On June 29, 2011, Assembly Bill X1 26 (“AB X1 26”) was enacted. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26, and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. AB X1 26 was subsequently amended on June 27, 2012 by Assembly Bill 1484 and on September 22, 2015 by Senate Bill 107, AB X1 26, as so amended, is referred to herein as the Redevelopment Dissolution Law. The legislation provides for successor agencies and oversight boards to be responsible for overseeing the dissolution process and the wind down of redevelopment activity. On January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency to the Redevelopment Agency of the City of San José (“SARA” or “Successor Agency”), effective February 1, 2012. The SARA is a fiduciary component unit of the City. Also upon dissolution, the City Council elected to retain the housing assets as well as the functions and powers previously performed by the Agency.

The SARA is a separate public entity from the City, subject to the direction and oversight of a Board consisting of the Mayor and the other members of the City Council (“SARA Board”). The SARA is also, pursuant to the Redevelopment Dissolution Law, subject to the direction and oversight of an oversight board.

Beginning July 1, 2018, pursuant to Health and Safety Code section 34179(j), the individual oversight boards within Santa Clara County were combined into one county-wide oversight board (“Oversight Board”). The Oversight Board is comprised of seven member representatives with one member appointed by each of the following: County Board of Supervisors, the city selection committee established pursuant to Section 50270 of the Government Code, the independent special district selection committee established pursuant to Section 56332 of the Government Code, the County Superintendent of Education, the Chancellor of the California Community Colleges, a public appointment made by the County Board of Supervisors, and the recognized employee organization representing the largest number of successor agency employees in the County. The Oversight Board is staffed by the County of Santa Clara Auditor-Controller (“County Auditor-Controller”) and tasks have been delegated among the County Finance Agency, the Office of the County Executive, the Clerk of the Board of Supervisors, and Office of the County Counsel.

In general, the SARA’s assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In general, the SARA is allocating revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the Agency until all enforceable obligations of the Agency have been paid in full and all assets have been liquidated. Based upon the nature of the SARA’s custodial role, the SARA is reported in a fiduciary fund (private-purpose trust fund).

**SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**
(A Component Unit of the City of San José, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Basis of Accounting

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

New Pronouncements

During the year ended June 30, 2020, the SARA implemented the following Governmental Accounting Standards Board (“GASB”) Statements:

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. This Statement amends Statement No. 83, *Certain Asset Retirement Obligations*, paragraph 30; Statement No. 84, *Fiduciary Activities*, paragraph 27; Statement No. 87, *Leases*, paragraph 92; Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, paragraph 7; Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, paragraph 6; Statement No. 90, *Majority Equity Interests*, paragraph 10; Statement No. 91, *Conduit Debt Obligations*, paragraph 27; Statement No. 92, *Omnibus 2020*, paragraphs 4, 5, and 14; Statement No. 93, *Replacement of Interbank Offered Rates*, paragraph 15; Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*, paragraphs 7 and 8; Implementation Guide No. 2018-1, *Implementation Guidance Update – 2018*, paragraph 6; Implementation Guide No. 2019-1, *Implementation Guidance Update – 2019*, paragraph 6; Implementation Guide No. 2019-2, *Fiduciary Activities*, paragraph 6; and Implementation Guide No. 2019-3, *Leases*, paragraph 5.

The SARA applied GASB Statement No. 95, except for GASB Statement No. 83, *Certain Asset Retirement Obligations*, paragraph 30 and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, paragraph 7, which were implemented in 2018-2019.

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Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements, continued

The SARA is currently analyzing its accounting practices to determine the potential impact on the financial statements for the upcoming GASB Statements:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments and describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Application of Statement No. 84 is effective for the SARA's fiscal year ending June 30, 2021 due to the implementation of GASB Statement No. 95.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of Statement No. 87 is effective for the SARA's fiscal year ending June 30, 2022 due to the implementation of GASB Statement No. 95.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund, and fiduciary fund. Application of Statement No. 89 is effective for the SARA's fiscal year ending June 30, 2022 due to the implementation of GASB Statement No. 95 and will be applied to all remaining funds.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Application of Statement No. 90 is effective for the SARA's fiscal year ending June 30, 2021 due to the implementation of GASB Statement No. 95.

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Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements, continued

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Application of Statement No. 91 is effective for the SARA's fiscal year ending June 30, 2023 due to the implementation on GASB Statement No. 95.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, *Leases*, and *Implementation Guide No. 2019-3, Leases*, for interim financial reports; Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit ("OPEB") plan; The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; Measurement of liabilities (and assets, if any) related to asset retirement obligations ("AROs") in a government acquisition; Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and Terminology used to refer to derivative instruments. The requirements of this statement are effective as follows: The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021. The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021; The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

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Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements, continued

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (“IBOR”) – most notably, the London Interbank Offered Rate (“LIBOR”). This statement achieves that objective by: Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument’s variable payment; Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The removal of LIBOR as an appropriate benchmark interest rate is effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (“PPPs”). As used in this statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (“SCA”), which the Board defines in this statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This statement also provides guidance for accounting and financial reporting for availability payment arrangements (“APAs”). As defined in this statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. Application of Statement No. 94 is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

**SUCCESSOR AGENCY TO THE
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Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements, continued

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in statement No. 87, *Leases*, as amended. A SBITA is defined as a contract that conveys control of the right to use another party’s (a SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option). Under this statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government’s incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods. The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term. Application of Statement No. 96 is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

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Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements, continued

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (“OPEB”) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (“IRC”) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Application of Statement No. 97 is effective as follows: The requirements of this statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this statement. The Board considered the effective dates for the requirements of this statement in light of the COVID-19 pandemic and in concert with statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

Investments

The SARA records investment transactions on the trade date. Investments are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income, including unrealized gains and losses, is recognized as revenue.

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Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments, continued

In accordance with GASB Statement No. 72, the SARA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 - Investments whose values are based on inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 - Investments whose values are based on unobservable inputs for an asset and may require a degree of professional judgment.

Redevelopment Property Tax Trust Fund Revenues

The Redevelopment Dissolution Law requires the County Auditor-Controller to collect funds formerly received by the Agency as tax increment and currently referred to herein as redevelopment property tax revenues. After deducting its administration costs, the County Auditor-Controller must distribute the collected redevelopment property tax revenues into the SARA’s Redevelopment Property Tax Trust Fund (“RPTTF”) to the extent necessary to pay the SARA’s enforceable obligations, subject to the review and approval of the State Department of Finance. The Redevelopment Dissolution Law requires the County Auditor-Controller to distribute funds from the RPTTF twice each year as follows:

Distribution Date	Covers Recognized Obligation Payment Schedules to be Paid*
January 2	January 1 through June 30
June 1	July 1 through December 31

* The amounts distributed for Recognized Obligation Payment Schedules (“ROPS”) are forward looking to the next six month period.

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Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Redevelopment Property Tax Trust Fund Revenues, continued

On December 21, 2017, the SARA issued the 2017 Senior Tax Allocation Refunding Bonds and the 2017 Subordinate Tax Allocation Refunding Bonds (“2017 Refunding Bonds”) to refund certain bonds and other enforceable obligations of the former Agency. The payment of debt service on the 2017 Refunding Bonds and the other obligations under the related indenture are payable from certain tax revenues on a basis senior to the payment (i) of all AB1290 statutory pass-through payments except AB1290 payments to the San José Unified School District and (ii) the negotiated pass-through payments to Santa Clara County. Under the distribution provisions of the Redevelopment Dissolution Law, AB1290 statutory pass-through payments and negotiated pass-through payments are made with funds on deposit in the RPTTF before funds are transferred to the SARA for the payment of enforceable obligations (including payment debt service on the 2017 Refunding Bonds) unless there are insufficient funds to pay such debt service and certain other conditions are satisfied. Such conditions include the timely filing of a Notice of Insufficiency by the SARA in accordance with the Redevelopment Dissolution Law and the concurrence by the State Controller that there are insufficient funds for such purpose.

All funds remaining in the RPTTF after payment of items (1) through (6) below, would be paid to the applicable taxing entities. In the event there are insufficient tax revenues from the RPTTF to pay debt service on the 2017 Refunding Bonds, a Notice of Insufficiency is filed timely by the SARA, certain other conditions under the Redevelopment Dissolution Law are satisfied, and tax revenues from the RPTTF would be distributed as follows: (1) administrative fees of the County Auditor-Controller; (2) San José Unified AB1290 pass-through; (3) debt service on the 2017 Refunding Bonds; (4) all other AB1290 and negotiated pass-through payments due to Santa Clara County; (5) all other enforceable obligations; and (6) the SARA’s administrative cost allowance. See Note 6 for additional information regarding the 2017 Refunding Bonds.

Restricted Assets

Assets are restricted for specified uses by bonded debt requirements, grant provisions or other requirements and their use is limited by applicable bond covenants or agreements.

Capital Assets

The SARA defines capital assets as assets with an initial individual cost of at least \$5,000 and an estimated useful life in excess of one year. The capital assets consist of both depreciable and non-depreciable assets. Capital assets are recorded in the financial statements at historical cost and are being depreciated using the straight-line method over the estimated useful life of 40 years for parking structures and buildings, 25 years for leasehold improvements, and 5 years for equipment.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Original Issue Discounts, Premiums, and Refundings

Original issue discounts and premiums are amortized using the straight-line method over the life of the bonds. Bonds payable are reported net of the applicable bond discounts and/or premiums. Gains or losses occurring from refunding of debt are reported as deferred inflows of resources or deferred outflows of resources, respectively; and amortized over the shorter of the life of the refunded debt or refunding debt. Amortization of these balances is recorded as a component of interest expense.

Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 – CASH AND INVESTMENTS

The SARA’s cash and investments consist of the following at June 30, 2020:

Cash & Investments	Amount
Cash and Investments	\$ 6,210,791
Restricted Cash and Investments	118,993,728
Total Cash and Investments	<u>\$ 125,204,519</u>

Investments

The SARA follows provisions of the California Government Code, as set forth in the City’s investment policy. The City Council adopted an investment policy (“Policy”) on April 2, 1985, related to the City’s cash and investment pool, which is subject to annual review. The Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Policy. The Policy was last reviewed and amended on March 10, 2020.

The Policy permits the City Director of Finance acting as Chief Financial Officer for the SARA to authorize investments that depart from the Policy’s limits if such an action is in the best interest of the SARA and is otherwise consistent with the Policy and applicable City, state and federal laws.

The SARA also has investments subject to provisions of the bond indentures of the former Agency’s various bond issues until December 21, 2017 when the former Agency’s bond issues were refunded by the SARA’s 2017 Tax Allocation Refunding Bonds (see Note 6) and as of December 21, 2017 the indenture for the 2017 Tax Allocation Refunding Bonds. According to the bond indentures, the SARA is permitted to invest in the City’s cash and investment pool, Local Agency Investment Fund (“LAIF”), obligations of the U.S. Treasury or U.S. Government agencies, time deposits, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

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NOTE 3 – CASH AND INVESTMENTS – Continued

Investments, continued

At June 30, 2020, the SARA invested an amount of \$5,745,685 with LAIF, which is restricted for enforceable obligations. The weighted average maturity of LAIF was 191 days at June 30, 2020.

Government Code Section 16429.1 authorizes each local government agency to invest funds in the LAIF administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2020 was approximately \$32 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA"). The PMIA is not registered with the SEC, but is required to invest according to California Government Code. The total amount recorded by all public agencies in PMIA at June 30, 2020 was approximately \$101 billion and of that amount, 73.16% was invested in U.S. Treasuries and agencies, 18.61% in depository securities, 7.64% in commercial paper, and 0.57% in loans.

The LAIF is part of the State's Pooled Money Investment Account that allows cities, counties and special districts to place money into the fund. LAIF operating accounts allow a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than \$5,000 and in increments of a thousand. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit, but are limited to one withdrawal every 30 days.

Fair Value Measurement Categorization

The SARA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The Money Market Mutual Funds and LAIF are valued by net asset value. The inputs and techniques used for securities are not necessarily an indication of risk associated with investing in these securities. The SARA's investments in Money Market Mutual Funds and LAIF are not subject to the fair value hierarchy.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the SARA will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker - dealer) to a transaction, the SARA, where the SARA's funds are invested, will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of the SARA's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the SARA's name.

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NOTE 3 – CASH AND INVESTMENTS - Continued

Custodial Credit Risk, continued

As of June 30, 2020, \$215,106 of the SARA's bank balance was exposed to custodial credit risk because it was uninsured beyond the FDIC insurance coverage limit of \$250,000. However, all uninsured balances are collateralized by the pledging financial institutions as required by Section 52652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent, in the SARA's name. The actual book balance of bank deposits amounted to \$465,106 at June 30, 2020.

The SARA invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the SARA employs the trust department of a bank or trustee as the custodian of certain SARA investments, regardless of their form.

Interest Rate Risk

The fair value of fixed income investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. One of the ways that the SARA manages its exposure to interest rate risk is by purchasing shorter-term investments and by timing the cash flows from the maturities as necessary to provide the cash flow and liquidity needs for operations.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The SARA's investment policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures.

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NOTE 3 – CASH AND INVESTMENTS - Continued

Credit Risk, continued

The following schedule indicates the interest rate and credit risk of the SARA's investments at June 30, 2020:

	Moody's Credit Rating	Maturity (in Days)			Balance
		Under 30	31-180	181-365	
Investments:					
LAIF	Not rated	\$ -	\$ -	\$ 5,745,685	\$ 5,745,685
Money Market Mutual Fund	Aaa	118,993,728	-	-	118,993,728
Subtotal Investments					<u>124,739,413</u>
Bank Deposits					465,106
Total Cash & Investments					<u>\$ 125,204,519</u>

Concentration of Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the SARA. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves.

Restricted Cash and Investments:

Held with Fiscal Agents

Under the provisions of the bond indenture, certain accounts with the trustees were established for repayment of debt and reserve requirements. At June 30, 2020, the amounts held by the trustee for the 2017 Tax Allocation Refunding Bonds aggregated to \$118,993,728. All restricted investments held by the trustee at June 30, 2020 were in compliance with the bond indentures.

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NOTE 4 – LOANS RECEIVABLE

Composition of loans receivable at June 30, 2020 is as follows:

Description	Loan Receivable	Accrued Interest Receivable	Allowance	Net
1 Parcels of land sold to developers	\$ 1,728,360	\$ -	\$ (1,728,360)	\$ -
2 HUD Section 108 loans	909,752	32,933	(942,685)	-
3 Historic home relocation loans	1,654,339	-	(1,654,339)	-
4 Rehabilitation of residential units	100,000	31,512	(131,512)	-
5 Commercial building loans	8,177,423	1,087,469	(4,005,279)	5,259,613
6 Rehabilitation of historic hotel building	5,265,000	-	(5,265,000)	-
Total	<u>\$ 17,834,874</u>	<u>\$ 1,151,914</u>	<u>\$ (13,727,175)</u>	<u>\$ 5,259,613</u>

- Over the years, parcels of land had been sold to commercial real estate developers in various mixed-use projects. In one downtown residential condominium project located at 360 South Market Street in San Jose, the original developer entered into a Disposition and Development Agreement (“DDA”) with the Agency in 2005 to develop a mixed-use project on the property (“360 Residences Project”). The 360 Residences Project was acquired by a new owner at a foreclosure sale on March 25, 2011 subject to the original DDA. On April 26, 2011, the DDA was amended to give the new owner the right to convert the project from for-sale to rental. The DDA was also amended to give the new owner the authority to subsequently convert any units back to for-sale units. Under the amended DDA, the new owner also executed a new promissory note payable to the Agency in the principal amount of \$1,728,360. The principal under the promissory note is due and payable when all proceeds of sold condominium units exceed an invested capital threshold. At June 30, 2020, the amount due from the new owner was \$1,728,360. A provision for doubtful accounts was recorded for the entire balance due under the promissory note because the likelihood of the payment criteria being met is questionable in the foreseeable future.
- In 1997 and 2007, the Agency extended loans to developers using funds obtained from the U.S. Department of Housing and Urban Development Section 108 loan proceeds. These loans have a 20-year repayment schedule and bear interest at an annual rate of 3%. At June 30, 2020, the amount due from the developers was \$942,685. A provision for the doubtful accounts was recorded for the entire balance as a conservative measure.
- The Agency relocated historic single-family homes to vacant lots in downtown San José. These homes were sold to families and a non-profit agency. The owners made interior and exterior improvements using loans provided by the Agency. The loans are to be paid only in the event of non-compliance with the terms and conditions of the agreements. At the time residential occupancy of the house ceases or the property is transferred to anyone other than the owner by any method other than inheritance, the unamortized portion of the loan shall become due and payable in full. Unpaid principal shall bear an interest rate of 8% per annum. As long as the owners are compliant with the terms and conditions of the agreement, each year a portion of the loan is amortized and forgiven. The total loans of \$1,654,339 have been offset with a provision for doubtful accounts as it is anticipated that these loans will be fully amortized over the period of the loans.

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NOTE 4 – LOANS RECEIVABLE - Continued

4. The Agency extended various bank-assisted loans to aid first-time homebuyers and to aid with the rehabilitation of homes. The loans accrue interest at various interest rates and are due when the related properties are sold. At June 30, 2020, the total amount due from such loans was \$131,512. A provision for doubtful accounts was provided for the entire loan balance due to the extended timeline before payments commence.
5. The Agency extended and amended various loans to property owners for the rehabilitation and improvements of commercial buildings. The loans are due within 10 to 25 years. The principal amount of the loans vary and they bear different interest rates. At June 30, 2020, the total amount due from these loans was \$9,264,892. An allowance for doubtful accounts in the amount of \$4,005,278 was made for potential write-offs.
6. In May 2005, the Agency amended and restated a Disposition and Development Agreement with a developer recognizing a loan for the rehabilitation of a historic hotel building. The loan has a 60-year repayment schedule, bears no interest, and requires principal payments on a semi-annual basis starting in FY 2021. At June 30, 2020, the amount due from the developer was \$5,265,000. A provision for doubtful accounts was provided for the entire loan balance due to the extended timeline before payments commence.

NOTE 5 – CAPITAL ASSETS

A summary of changes in the SARA's capital assets for the year ended June 30, 2020 is as follows:

	<u>July 1, 2019</u>	<u>Addition</u>	<u>Disposal</u>	<u>Transfer</u>	<u>June 30, 2020</u>
Capital Assets, Not Being Depreciated:					
Land	\$ 2,892,350	\$ -	\$ -	\$ (814,890)	\$ 2,077,460
Total Capital Assets, Not Being Depreciated	<u>2,892,350</u>	<u>-</u>	<u>-</u>	<u>(814,890)</u>	<u>2,077,460</u>
Capital Assets, Being Depreciated:					
Buildings	75,454,638	-	-	(74,384,203)	1,070,435
Less Accumulated Depreciation:					
Buildings	24,856,533	118,467	-	(24,600,347)	374,653
Total Capital Assets, Being Depreciated, net	<u>50,598,105</u>	<u>(118,467)</u>	<u>-</u>	<u>(49,783,856)</u>	<u>695,782</u>
Total Capital Assets, net	<u>\$ 53,490,455</u>	<u>\$ (118,467)</u>	<u>\$ -</u>	<u>\$ (50,598,746)</u>	<u>\$ 2,773,242</u>

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NOTE 5 – CAPITAL ASSETS - Continued

On August 27, 2015, the Oversight Board approved a revised Asset Disposition Schedule for the non-governmental purpose properties listed on the Long Range Property Management Plan (“LRPMP”), and approved the Disposition Process For Sale of Properties, which requires the sale of assets either through an open and competitive solicitation process or through a direct sale to the affected taxing entities or a non-profit organization. Additional amendments to the Asset Disposition Schedule were approved by the Oversight Board on January 14, 2016, April 28, 2016, October 27, 2016, and April 13, 2017.

In FY 2020, the SARA disposed the following properties:

- On July 18, 2019, the SARA transferred one property, California Theater, to the City with a net book value of \$50,598,746. The transfer was pursuant to the compensation agreement entered into by and among the SARA, the City, and certain taxing entities (local agencies and school districts) as prescribed under the Health and Safety Code, on January 1, 2018.

NOTE 6 – DEBT

The following is a summary of long-term debt of the SARA at June 30, 2020 (in thousands):

<u>Type of Indebtedness</u>	<u>Purpose</u>	<u>Original Issue Amount</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate Range</u>	<u>Annual Principal Installments</u>	<u>June 30, 2020 Balance</u>
Senior Tax Allocation Bonds:							
2017 Refunding Bonds Series A	Refunding - merged area projects	\$ 79,825	12/21/2017	8/1/2035	5.00%	\$0 - 53,810	\$ 79,825
2017 Refunding Bonds Series A-T	Refunding - merged area projects	1,333,325	12/21/2017	8/1/2034	1.90-3.38%	\$32,910 - 93,735	1,177,030
Total Senior Tax Allocation Bonds							<u>1,256,855</u>
Subordinate Tax Allocation Bonds:							
2017 Refunding Bonds Series B	Refunding - merged area projects	264,390	12/21/2017	8/1/2029	2.00-5.00%	\$7,820 - 29,835	219,965
Total Subordinate Tax Allocation Bonds							<u>219,965</u>
Total Long-Term Debt							<u>\$ 1,476,820</u>

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NOTE 6 – DEBT- Continued

The following summarizes the changes in long-term debt and other obligations for the year ended June 30, 2020 (in thousands):

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>Amount Due Within One</u>
Senior Tax Allocation Bonds:					
2017 Refunding Bonds Series A	\$ 79,825	\$ -	\$ -	\$ 79,825	\$ -
2017 Refunding Bonds Series A-T	1,247,600	-	(70,570)	1,177,030	72,050
Subtotal Senior Tax Allocation Bonds	<u>1,327,425</u>	<u>-</u>	<u>(70,570)</u>	<u>1,256,855</u>	<u>72,050</u>
Subordinate Tax Allocation Bonds:					
2017 Refunding Bonds Series B	240,155	-	(20,190)	219,965	21,200
Subtotal Subordinate Tax Allocation Bonds	<u>240,155</u>	<u>-</u>	<u>(20,190)</u>	<u>219,965</u>	<u>21,200</u>
Other Long -Term Debt:					
City of San José - SERAF Loans (Principal)	22,816	-	(22,816)	-	-
City of San José - SERAF Loans (Interest)	5,871	-	(5,871)	-	-
City of San José - Parking Fund Loans (Principal)	13,528	-	(13,528)	-	-
City of San José - Parking Fund Loans (Interest)	4,334	-	(4,334)	-	-
Subtotal Other Long-Term Debt	<u>46,549</u>	<u>-</u>	<u>(46,549)</u>	<u>-</u>	<u>-</u>
Subtotal Long-Term Debt before Unamortized	1,614,129	-	(137,309)	1,476,820	93,250
Issuance Premium (Discount), Net	44,821	-	(4,205)	40,616	4,204
Total Long-Term Obligations	<u>\$ 1,658,950</u>	<u>\$ -</u>	<u>\$ (141,514)</u>	<u>\$ 1,517,436</u>	<u>\$ 97,454</u>

Total RPTTF revenue distributed by the County to the SARA in the FY 2020 was \$139,507,764 which was assigned to pay debt service and debt related expenses on the Successor Agency Senior and Subordinate Tax Allocation Refunding Bonds and enforceable obligations. During the year ended June 30, 2020, the County withheld \$42,491,675 in RPTTF for payments of its current year's pass-through payments. The RPTTF revenue excludes the San José Unified School District senior pass-through (\$8,072,839), Basic Aid subordinate pass-through (\$409,236), AB1290 subordinate pass-through (\$27,953,479), and residual balance (\$118,184,394) distributed to taxing entities.

All summaries of documents related to debt contained in this Note are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. Each reference in this Note is qualified in its entirety by reference to such document, which is on file with the SARA's Chief Financial Officer.

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NOTE 6 – DEBT- Continued

2017 Tax Allocation Refunding Bonds

On December 21, 2017, the SARA issued the 2017 Refunding Bonds pursuant to an Indenture of Trust dated as of December 1, 2017 (“2017 Indenture”), by and between the SARA and Wilmington Trust, National Association, as trustee (“Trustee”). The 2017 Refunding Bonds were issued in the aggregate principal amount of \$1,677,540,000, in two senior series and one subordinate series. The senior series bonds, collectively known as 2017 Senior Tax Allocation Refunding Bonds, consist of \$79,825,000 of the tax-exempt senior lien 2017 Series A Bonds (“2017A Bonds”) and \$1,333,325,000 of taxable senior lien 2017 Series A-T Bonds (“2017A-T Bonds”). The subordinate series bonds, described as 2017 Subordinate Tax Allocation Refunding Bonds, consist of \$264,390,000 of tax-exempt subordinate lien 2017 Series B Bonds.

Proceeds of the 2017 Refunding Bonds were used to (i) redeem and defease or prepay 23 series of Successor Agency Senior and Subordinate Tax Allocation Refunding Bonds, the 4th and San Fernando Parking Facility Pledge Agreement entered into in connection with the Financing Authority’s Series 2001A Bonds and the Second Amended and Restated Reimbursement Agreement entered into in connection with the Financing Authority’s Series 2001F and 2001G Bonds (paid in full in September 2018), and (ii) pay the costs of issuing the 2017 Refunding Bonds, including the cost of debt service reserve insurance policies. The refunding resulted in a difference between the reacquisition price (the amount required to repay previously issued debt in a refunding transaction) and the net carrying amount of the Refunded Obligations. This difference was reported as deferred outflows of resources in the Statement of Fiduciary Net Position and is being amortized over the next 17 years.

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NOTE 6 – DEBT- Continued

2017 Tax Allocation Refunding Bonds, continued

The 2017 Refunding Bonds are secured and payable from Tax Revenues and certain funds and accounts held by the Trustee. Tax Revenues are generally defined in the 2017 Indenture as the portion of property tax revenues collected in the Merged Project Area derived from incremental growth in assessed property values over the initial base year values in each of 17 component areas, less certain County administrative fees and the AB1290 statutory pass-through payment to the San José Unified School District and excluding the amounts collected pursuant to the pension override or State Water Project override provisions of the Redevelopment Dissolution Law. All other AB1290 statutory pass-through payments and the negotiated pass-through payments to Santa Clara County are subordinate to the payment of debt service on the 2017 Refunding Bonds and other debt service related obligations under the 2017 Indenture. Under the distribution provisions of the Redevelopment Dissolution Law, AB1290 statutory pass-through payments and negotiated pass-through payments are made from funds on deposit in the RPTTF before funds are transferred to the SARA for the payment of enforceable obligations (including payment of debt service on the 2017 Refunding Bonds unless there are insufficient funds to pay such debt service and other payment obligations under the 2017 Indenture and certain other conditions are satisfied). Such conditions include the timely filing of a Notice of Insufficiency by the SARA in accordance with the Redevelopment Dissolution Law and the concurrence by the State Controller that there are insufficient funds for such purpose. The SARA has covenanted in the 2017 Indenture to comply with the provisions of the Redevelopment Dissolution Law related to placing its obligations under the 2017 Indenture on the recognized obligations under the 2017 Indenture throughout the term of the 2017 Refunding Bonds and, if applicable, file a Notice of Insufficiency in the event that are insufficient Tax Revenue to make payment of debt service or other payment obligations under the 2017 Indenture. See Note 2 for a general description of the provisions of the Redevelopment Dissolution Law regarding distributions from the RPTTF and order of priority of payments therefrom.

The SARA has covenanted in the 2017 Indenture to take such actions as required under the Redevelopment Dissolution Law to include in each annual Recognized Obligation Payment Schedule the amount of debt service on the 2017 Refunding Bonds so as to enable the County Auditor-Controller to distribute from the RPTTF to SARA on each January 2 and June 1 the amounts required for the SARA to pay principal of, and interest on, the 2017 Refunding Bonds coming due in the respective six-month period. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and DOF the amounts to be held by the SARA as a reserve until the next six-month period, as contemplated by the Redevelopment Dissolution Law, that are necessary to comply with the 2017 Indenture.

A separate municipal bond debt service reserve policy issued by Build America Mutual Assurance Company (“BAM”) was deposited in the Senior Bonds Reserve Account of the Bond Reserve Fund for the 2017 Senior Tax Allocation Refunding Bonds (“2017 Senior Bonds Reserve Policy”) and in the Subordinate Bonds Reserve account of the Bond Reserve Fund for the 2017 Subordinate Tax Allocation Bonds (“2017 Subordinate Bonds Reserve Policy”). The 2017 Senior Bonds Reserve Policy is in the amount of \$112,102,119, which is equal to the Senior Bonds Reserve Requirement under the 2017 Indenture. The 2017 Subordinate Bonds Reserve Policy is in the amount of \$30,978,128, which is equal to the Subordinate Bonds Reserve Requirement under the 2017 Indenture.

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NOTE 6 – DEBT- Continued

2017 Tax Allocation Refunding Bonds, continued

The 2017 Senior Bonds Reserve Policy will terminate the earlier to occur of (i) the date on which the 2017 Senior Tax Allocation Refunding Bonds are no longer outstanding under the 2017 Indenture and (ii) August 1, 2035. The 2017 Subordinate Bonds Reserve Policy will terminate the earlier to occur of (i) the date on which the 2017 Subordinate Tax Allocation Refunding Bonds are no longer outstanding under the Indenture and (ii) August 1, 2029. Per the terms of the 2017 Indenture, the SARA is not obligated to replace either reserve policy or to fund either reserve account with cash if, at any time that the 2017 Senior Tax Allocation Refunding Bonds or 2017 Subordinate Tax Allocation Refunding Bonds are outstanding, amounts are not available under such policy or if the rating of the claims-paying ability of BAM is downgraded, suspended or withdrawn.

The 2017 Senior Tax Allocation Refunding Bonds are rated “AA” by Standard & Poor’s and Fitch and the 2017 Subordinate Tax Allocation Refunding Bonds were rated “AA-” by Standard & Poor’s and Fitch.

2017 Senior Tax Allocation Refunding Bonds - The 2017 Senior Tax Allocation Refunding Bonds were issued in two series – the tax-exempt 2017A Bonds and the taxable 2017A-T Bonds, with a parity senior lien on Tax Revenues. The 2017A Bonds are structured as two serial maturities in 2034 and 2035; both maturities bear interest at 5% per annum. The 2017A-T Bonds are structured as serial maturities in 2018 through and including 2029, and a term bond of \$361,845,000 maturing in 2034 with mandatory payment of principal beginning on August 1, 2030 through final maturity on August 1, 2034. The 2017A-T Bonds bear interest at rates ranging from 1.898% to 3.375% per annum. The 2017A Bonds maturing on and after August 1, 2034 and the 2017A-T Bonds maturing on and after August 1, 2028 are subject to call on or after August 1, 2027 at par. The 2017A Bonds have \$79,825,000 in principal subject to call and the 2017A-T Bonds have approximately \$544,790,000 in principal subject to call. The total debt service payments on the 2017 Senior Tax Allocation Refunding Bonds was \$111,359,358 for the year ended June 30, 2020. The principal and interest remaining on the 2017 Senior Tax Allocation Refunding Bonds as of June 30, 2020 is \$1,597,079,353.

2017 Subordinate Tax Allocation Refunding Bonds - The 2017 Subordinate Tax Allocation Refunding Bonds are structured as serial tax-exempt bonds with maturities in 2018 through 2029; and bear interest at rates ranging from 2% to 5% per annum. The 2017 Subordinate Tax Allocation Refunding Bonds maturing on and after August 1, 2028 are callable on or after August 1, 2027 at par. In total, \$17,490,000 in principal is subject to this ten-year par call. The 2017 Subordinate Tax Allocation Refunding Bonds are payable from Tax Revenues on a subordinate basis to the 2017 Senior Tax Allocation Refunding Bonds. The debt service payment on the 2017 Subordinate Tax Allocation Refunding Bonds was \$31,693,000 for the year ended June 30, 2020. The principal and interest remaining on the 2017 Subordinate Tax Allocation Refunding Bonds as of June 30, 2020 is \$270,964,125.

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NOTE 6 – DEBT- Continued

2017 Tax Allocation Refunding Bonds, continued

2017 Refunding Bonds - Events of Default - The events of default under the 2017 Indenture for the 2017 Refunding Bonds are: (i) failure to pay debt service when due; (ii) failure to comply with covenants and conditions of the 2017 Indenture or the 2017 Refunding Bonds or any Senior Parity Debt Instrument or Subordinate Parity Debt Instrument (as those terms are defined in the 2017 Indenture) and such default shall have continued for a period of 30 days following SARA’s receipt from the Trustee or any bond owner of written notice of the occurrence of such default, provided that if in SARA’s reasonable opinion the failure stated in the notice can be corrected, but not within such 30 day period, such failure will not constitute an event of default if corrective action is instituted by the SARA within such 30 day period and SARA thereafter diligently and in good faith cures such failure in a reasonable period of time; or (iii) bankruptcy or similar debtor relief proceedings. In the event of default, the Trustee may or if requested by the owners of a majority of the principal amount of the outstanding 2017 Senior Tax Allocation Refunding Bonds or the 2017 Subordinate Tax Allocation Refunding Bonds, as applicable, shall, subject to the provisions of the 2017 Indenture, exercise any remedies available to the Trustee in law or at equity. The 2017 Indenture does not provide for acceleration of payment of the 2017 Refunding Bonds. The 2017 Indenture, however, provides for application of Tax Revenues upon an event of default in the order of priority set forth in the 2017 Indenture.

As of June 30, 2020, the amounts to be paid from the escrow funds established for the Refunded Obligations are as follows (in thousands):

Redevelopment Agency Bonds Refunded in 2017 Escrow Accounts (December 21, 2017)	Amount	Redemption Date
RDA Housing Set-Aside Tax Allocation Bonds Series 2010A-1	\$ 52,820	8/1/2020

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan

On July 24, 2009, the State Legislature passed AB 26 X4, which required redevelopment agencies statewide to deposit a total of \$2,050,000,000 of property tax increment in a Supplemental Educational Revenue Augmentation Funds (“SERAF”) to be distributed to meet the State’s Proposition 98 obligations to schools. The Agency’s SERAF obligation was \$62 million in FY 2010 (“2010 SERAF Obligation”) and \$12.8 million in FY 2011 (“2011 SERAF Obligation”). Payments were made by May 10th of each respective fiscal year.

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NOTE 6 – DEBT- Continued

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan, continued

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) a combined amount of \$75 million to pay the 2010 SERAF Obligation and the 2011 SERAF Obligation (“SERAF Loan”). The sources of the SERAF Loan to pay the 2010 SERAF Obligation (\$62 million) were \$40 million from the City’s Low and Moderate Income Housing Fund that had been made available following the issuance of the 2010 Housing Series C Bonds, which was specifically authorized by the legislation, and idle moneys from the City special funds (\$10 million) and funds from the Financing Authority’s Commercial Paper Program (\$12 million). The source of the SERAF Loan to pay the 2011 SERAF Obligation was \$12.8 million from the City’s Low and Moderate Income Housing Fund. The Low and Moderate Income Housing Fund was subsequently renamed as the Low and Moderate Income Housing Asset Fund.

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Asset Fund for payment of SERAF, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA as more particularly discussed below in the Parking Fund Loans section. As such, the \$10 million used to pay a portion of the 2010 SERAF Obligation and its related accumulated interest in the amount \$160,143 from the City special funds other than the Low and Moderate Income Housing Asset Fund was invalidated under this provision and was recorded as part of the SARA’s extraordinary items in 2012. In addition, interest accrued in excess of the LAIF rates pursuant to the Redevelopment Dissolution Law in the amount of \$2.9 million were also invalidated in 2012.

The remaining source of the SERAF Loan used to pay the 2010 SERAF Obligation (\$40 million of 2010 Series C Housing Bonds and \$12 million from the Financing Authority’s Commercial Paper program) were assumed by the SARA and were listed in the ROPS as enforceable obligations. The source of funds used to pay the 2011 SERAF Obligation was determined to be a housing asset and was transferred to the City as the Successor Housing Agency and was also listed on the ROPS as an enforceable obligation.

On February 15, 2013, the DOF determined that a significant portion of the SERAF Loan used to pay a portion of the 2010 SERAF Obligation (\$40 million of 2010 Housing Series C Bonds and \$12 million from the Financing Authority’s Commercial Paper program) should not be reported in the ROPS as an enforceable obligation since the sources of the SERAF Loan were already listed on the ROPS.

On May 26, 2016, the Oversight Board approved a partial reinstatement of the SERAF Loan used to pay the 2010 SERAF Obligation to restore the moneys originally loaned from the City’s special funds in the amount of \$10 million and also approved the repayment schedule for the source of funds used to pay the 2011 SERAF Obligation in the amount of \$12.8 million plus accrued interest. The Oversight Board determined that the remaining portion of the SERAF Loan used to pay the 2010 SERAF Obligation in the amount of \$52 million plus accrued interest in the amount of \$905,351 is not an enforceable obligation and directed the SARA to remove that portion of the loan from its financial statements. These actions were subsequently approved by the Successor Agency Board on June 28, 2016.

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NOTE 6 – DEBT- Continued

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan, continued

On May 17, 2017, the DOF approved the ROPS 17-18, which included the SERAF loans from the City in the principal amount of \$22,815,668.

As of June 30, 2020, the total outstanding principal and accumulated accrued interest balance of \$22,815,668 and \$5,871,400, respectively, were paid in full.

The terms and repayment schedule of the SERAF Loan, as reinstated, were revised to conform to the Redevelopment Dissolution Law.

Parking Fund Loans

Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB XI 26, and with narrow exceptions, loans between cities and their redevelopment agencies were invalidated by AB XI 26, which was subsequently amended by AB 1484 and SB 107. However, with the approval of AB 1484 in June 2012, certain loans may be reinstated as enforceable obligations of the SARA contingent upon the following: 1) a finding by the DOF that certain specified audits of the SARA have been completed (evidenced by a Finding of Completion), and 2) a finding by the Oversight Board of the Successor Agency that these loans were for legitimate redevelopment purposes. If a loan is reinstated pursuant to these provisions of AB 1484, the loan terms need to be revised to conform to statutory criteria for interest calculations and repayment priorities.

The Parking Fund Loans were reinstated as enforceable obligations on ROPS 17-18 in accordance with Health and Safety Code Section 34191.4 (b) with Oversight Board approval on January 12, 2017. The DOF approved the Parking Fund Loans on March 28, 2017. Because the loans are reinstated City loans, the principal outstanding will accrue 3% simple interest and be paid on ROPS 19-20. As of June 30, 2020, the total outstanding principal and accumulated accrued interest balance of \$13,528,293 and \$4,334,313, respectively, were paid in full.

The terms and repayment schedule of the Parking Fund Loan, as reinstated, were revised to conform to the Redevelopment Dissolution Law.

Tax Sharing Agreement with the County of Santa Clara

Prior to 1994, the Redevelopment Law authorized redevelopment agencies to enter into tax sharing agreements with school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. In 1983, the Agency and County entered into a tax sharing agreement (“Original Agreement”) under which the Agency would pay a portion of tax increment revenue generated in the Merged Area (“County Pass-Through Payment”). On December 16, 1993, the Agency, the County, and the City entered into a settlement agreement, which continued the County Pass-Through Payment.

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NOTE 6 – DEBT- Continued

Tax Sharing Agreement with the County of Santa Clara, continued

On May 22, 2001, the County, the City and the Agency approved an Amended and Restated Agreement (“Amended Agreement”), which amended and restated the Original Agreement in its entirety. In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and required the Agency to transfer funds to the County to pay for such projects (“Delegated Payment”). Until June 30, 2004, the Delegated Payment was equal to the County Pass-Through Payment. After January 1, 2004, 20% of the proceeds of any debt secured by the Agency’s Tax Increment Revenues (excluding bonds payable from Housing Set-Aside and refunding bonds) was required to be paid to the County as the Delegated Payment.

Debt Service Requirements

The debt service requirements for all debt are based upon a fixed rate of interest.

The annual requirements to amortize outstanding tax allocation bonds at June 30, 2020, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending		
June 30	Principal	Interest
2021	\$ 93,250	\$ 49,704
2022	95,940	46,890
2023	98,880	43,842
2024	102,035	40,555
2025	105,455	37,023
2026-2030	539,590	126,860
2031-2035	387,860	45,004
2036	53,810	1,345
Total	\$ 1,476,820	\$ 391,223

NOTE 7 –TRANSACTIONS WITH THE CITY OF SAN JOSE

Advances to the City

The Agency advanced a portion of a loan made by the City’s Housing Department to a third party for a transitional housing project. The SARA is entitled to 24.5% of the total loan repayment and therefore has recorded a long-term receivable in the amount of \$732,875 at June 30, 2020.

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Notes to Basic Financial Statements
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NOTE 8 – COMMITMENTS AND CONTINGENCIES

Risk Management

The SARA is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, general liabilities for which the SARA carries a property and casualty insurance policy, or is self-insured. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated using actuarial methods or other estimating techniques. The technique to estimate claims is based on many complex factors, such as inflation, changes in legal doctrines, past settlements, and damages awarded. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimated claims liability will include amounts of incremental claims adjustment expense related to specific claims.

The SARA does not have any claims liabilities outstanding at June 30, 2020.

Contractual Commitments

At June 30, 2020, the SARA had \$2,766,283 for contractual obligations and commitments. In addition, the SARA has unpaid contractual obligations in the amount of \$25,949.

Leases

A schedule by years of future minimum rental payments required under the SARA’s non-cancelable operating leases for office facilities, business equipment, and land at June 30, 2020 is as follows (in thousands):

<u>Year Ending June 30th</u>	<u>Minimum Payments</u>
2021	\$ 60

The total rent expense for operating leases during the year ended June 30, 2020 was \$825,021.

NOTE 9 – SUBSEQUENT EVENTS

On July 8, 2019, the SARA received two letters from the Internal Revenue Service the (“IRS”) notifying SARA that three series of Agency Bonds had been selected for audit: \$59,000,000 Merged Area Redevelopment Project Revenue Bonds consisting of the \$29,500,000 1996 Series A and the \$29,500,000 1996 Series B (“Series 1996 Bonds”) and the \$240,000,000 Merged Area Redevelopment Project Tax Allocation Bonds, Series 1999 (“Series 1999 Bonds”). The Agency Bonds under audit were refunded by SARA’s taxable 2017 Series A-T Senior Taxable Tax Allocation Refunding Bonds. Subsequently, on October 26, 2019 the IRS notified the SARA that it had closed the audit on the 1996 Bonds without change to the status of the 1996 Bonds.

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Notes to Basic Financial Statements
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NOTE 9 – SUBSEQUENT EVENTS – Continued

On November 12, 2019, the SARA received a Form 5701-B, Notice of Proposed Issue, and Form 886-A, Explanation of Items, from the IRS asserting a rebate liability with respect to the 1999 Bonds as of December 21, 2017, in the amount of \$274,240 (inclusive of interest and penalties through December 21, 2019).

On July 16, 2020, SARA made payment to the IRS in the amount of \$193,478 pursuant to a closing agreement with the IRS to close out the arbitrage rebate audit on the Series 1999. The amount paid included interest but no penalties. The IRS considers the matter closed with no change in the status of the 1999 Bonds.



**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
Successor Agency of the
Redevelopment Agency of the City of San José
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 Successor Agency of the Redevelopment Agency of the City of San José (SARA), a component unit of the City of San José (City), California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the SARA’S basic financial statements, and have issued our report thereon dated November 23, 2020.

Internal Control Over Financial Reporting

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

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SARA’s financial statements are free of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, 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*.

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 & O'Connell LLP

Walnut Creek, California
November 23, 2020