SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

(A Component Unit of the City of San José, California)

Independent Auditor's Reports and Basic Financial Statements

For the Year Ended June 30, 2013

MGO Certified Public Accountants.

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
(A Component Unit of the City of San José, California)
For the Year Ended June 30, 2013

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MGO Certified Public Accountants.

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Sacramento

Oakland

LA/Century City

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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, a component unit of the City of San José (City), California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Successor Agency of the Redevelopment Agency of the City of San José'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 financial position of the Successor Agency of the Redevelopment Agency of the City of San José as of June 30, 2013, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Changes in Accounting Principles

As discussed in Note 2 to the financial statements, effective July 1, 2012, the Successor Agency of the Redevelopment Agency of the City of San José adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 GASB 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 12, 2013 on our consideration of the City's internal control over the Successor Agency of the Redevelopment Agency of the City of San José's 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 City's internal control over the Successor Agency of the Redevelopment Agency of the City of San José's financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 12, 2013

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
(A Component Unit of the City of San José, California)
Statement of Fiduciary Net Position
June 30, 2013

Assets:	
Current assets:	
Cash and cash investments	$ 32,849,875
Receivables:	
Due from the City of San José	853,267
Other	376,183
Restricted cash and investments	137,756,511
Total current assets	171,835,836
Noncurrent assets:	
Advances to the City of San José	467,019
Accrued interest	5,339,341
Loans receivable, net	25,055,960
Deposits	155,315
Property held for resale	22,473,641
Capital assets:	
Nondepreciable	87,839,523
Depreciable, net	153,956,574
Total noncurrent assets	295,287,373
Total assets	467,123,208
Deferred outflows of resources:	
Loss on deferred amount on refunding	36,654,836
Liabilities:	
Current liabilities:	
Accounts payable	2,263,603
Accrued salaries and benefits	59,642
Accrued interest payable	40,957,452
Pass-through payable to the County of Santa Clara	31,792,369
Unearned revenues	1,889,441
Deposits	9,400
Total current liabilities	76,971,907
Noncurrent liabilities:	
Due within one year	212,441,535
Due in more than one year	2,151,666,333
Total noncurrent liabilities	2,364,107,868
Total liabilities	2,441,079,775
Net position held in trust	$ (1,937,301,731)

See accompanying notes to the basic finanical 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, 2013

Additions:	
Redevelopment property tax revenues	$ 168,704,475
Investment income	530,141
Rent	538,597
Charges for current services	1,049,508
Development fees	805,385
Other	187,232
Total additions	171,815,338
Deductions:	
General and administrative:	
Salaries, wages and benefits	1,103,025
Materials, supplies and other services	3,784,907
Project expenses	1,803,700
Pass-through amount to the County of Santa Clara	16,073,211
Depreciation	3,784,763
Interest on debt	102,708,701
Total deductions	129,258,307
Extraordinary item from Redevelopment Agency Dissolution	114,598,782
Change in net position	157,155,813
Net position, beginning of year, as previously reported	(2,063,382,603)
Change in accounting principle	(31,074,941)
Net position, beginning of year, as restated	(2,094,457,544)
Net position, end of year	$ (1,937,301,731)

See accompanying notes to the basic financial statements.

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 28, 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. On June 28, 2012, AB 1484, which amended AB X1 26, was enacted. 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"), effective February 1, 2012 as a component unit of the City. Also upon dissolution the City Council elected to retain the housing assets, functions and powers previously performed by the Agency.

The SARA was created to serve as a custodian for the assets and to wind down the affairs of the Agency. The SARA is a separate public entity from the City, subject to the direction of an Oversight Board. The Oversight Board is comprised of seven-member representatives from local government bodies: two City representatives appointed by the Mayor; two County of Santa Clara ("County") representatives; the County Superintendent of Education; the Chancellor of California Community Colleges; and the largest special district taxing entity in the Merged Project Area.

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 future fiscal years, the SARA will only be allocated 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).

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 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 July 1, 2012, the SARA adopted the above GASB standards, which did not have a significant impact on its financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As of July 1, 2012, the SARA adopted the provisions of GASB Statement No. 65 and restated the beginning net position in the amount of $31,074,941 to write off $30,939,554 of unamortized bond issuance costs previously reported as an asset and $135,387 of bond issuance costs included in the unamortized loss on refunding previously reported as a contra liability. In addition, the remaining unamortized loss on refunding in the amount of $40,178,613 was reclassified from a contra liability to deferred outflows of resources.

Investments

The SARA records investment transactions on the trade date. Investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is defined as the amount that the SARA could reasonably expect to receive for an investment in a current sale between a willing buyer and seller and is generally measured by quoted market prices. Investment income, including unrealized gains and losses, is recognized as revenue.

Redevelopment Property Tax Trust Revenues

Funds that would have been distributed to the Agency as tax increment are deposited into the SARA's Redevelopment Property Tax Trust Fund ("RPTTF") administered by the Santa Clara County ("County") Auditor-Controller for the benefit of holders of the Agency's enforceable obligations and the taxing entities that receive pass-through payments. Any remaining funds in the RPTTF to the extent not necessary to pay enforceable obligations of SARA - plus any unencumbered redevelopment cash and funds from asset sales—are distributed by the County to the local agencies in the project area.

The Redevelopment Dissolution Law provides that distributions from the RPTTF are to be performed twice each year on the following cycles:

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.

According to the Redevelopment Dissolution Law, the first payment from the RPTTF is made to the County Auditor-Controller to recover the cost of administering the Redevelopment Dissolution Law; this payment is not subordinated to the Agency's outstanding bonds. The second tier of payments is pass-through payments to taxing entities. The third payment tier is to the successor agency for the obligations on the ROPS for the payment period. A hierarchy of payments within the ROPS obligations is specified in the law, with debt service on tax allocation bonds first, revenue bonds second, and all other obligations third. The fourth payment is an administrative cost allowance for the successor agency, specified in the legislation as the greater of $250,000 or three percent of the property tax revenue allocated to the successor agency. The fifth and final payment is a distribution of all remaining property tax increment revenue in the RPTTF to the local taxing entities. No funds are retained in the RPTTF.

In the event that there are insufficient funds available in the RPTTF to meet the successor agency's obligations for a given period, the legislation requires the controller to, first, reduce or eliminate the residual payments to taxing entities; second, reduce or eliminate the administrative cost allowance to the successor agency; and third, deduct from any subordinated pass-through payments the debt service obligations to which they were made subordinate. If there is still an insufficiency, the legislation permits, but does not require, a loan to be made from the County treasury to the successor agency.

The priority of payment of the Tax Sharing Agreement with the County of Santa Clara is subject to litigation as described in Note 10.

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.

Property Held for Resale

Property held for resale is recorded as an asset at the lower of cost or net realizable value. The SARA recorded certain capital assets originally received from the Agency as property held for resale. The SARA plans on selling these properties upon the State Department of Finance approval of a Long-Range Property Management Plan.

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.

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 premium. Gains or losses occurring from refunding of debt are reported as deferred outflows of resources or deferred inflows 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.

Extraordinary Item

Extraordinary items are both 1) unusual in nature (possessing a high degree of abnormality and clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity) and 2) infrequent in occurrence (not reasonably expected to recur in the foreseeable future, taking into account the environment in which the entity operates).

The dissolution of all redevelopment agencies in the State of California qualifies as an extraordinary item since this state-wide dissolution was both unusual and infrequent. Accordingly, the subsequent determinations from the State Controller's Office ("SCO") and the Department of Finance ("DOF") prior to DOF's Finding of Completion (see Note 11) were recorded as an extraordinary item in the SARA's financial statements.

In March 2013, the SARA received the final Asset Transfer Review Report ("Report") from the State Controller regarding various properties that the Agency transferred to the City and the San José Diridon Area Development Authority ("Diridon Authority"). The Diridon Authority is a Joint Powers Authority authorized pursuant to a Joint Exercise of Powers Agreement between the City and the Agency for the purpose of developing the area surrounding the Diridon Train Station in a redevelopment project area just west of downtown San José. In the Report, the State Controller identified and disallowed various properties that the Agency transferred to the City and Diridon Authority prior to June 28, 2011, the effective date of the Redevelopment Dissolution Law. In June 2013, the City Council and the Diridon Authority Board, each adopted a resolution authorizing the return to the SARA of various properties identified in the Report. Accordingly, the return of these capital assets was recorded as an extraordinary gain in the SARA's financial statements. In addition to the capital assets transfer, the Report also identified other disallowed asset transfers. The City returned the cash from its Low and Moderate Income Housing Asset Fund as required. In addition, the Oversight Board approved the inclusion of $14,091,000 from commercial paper proceeds, used for the Agency's housing programs, as an enforceable obligation. The repayment of the commercial paper proceeds is currently reported in the Recognized Obligation Payment Schedule (ROPS).

The components of the extraordinary gain recognized are as follows:

Description	Amount
Capital assets from the City:	
Autumn 456 Street Extension*	$ 5,046,682
Autumn 456 Extension (435 W. Julian)*	400,753
California Theater*	61,033,192
California Theater - Land*	814,890
Balbach Parking Lot*	14,557,943
Block 1 Fairmont Hotel Plaza	2,240,965
Convention Center Expansion*	3,812,904
Capital assets from the Diridon Authority:	
1050 South Montgomery Street	6,356,158
115 S. Autumn Street (510 W. San Fernando St.)*	6,345,391
150 South Montgomery Street	6,250,860
Arena Parking Lot - 8 South Montgomery Street	1,588,087
102 South Montgomery Street	1,293,256
92 South Montgomery Street	1,363,658
475 Park Ave*	6,000,000
Cash from the City:	
Low and Moderate Income Housing Fund	10,155,043
Housing asset transfer	1,430,000
Total asset transfers	128,689,782
Recognition of housing obligations funded by commercial paper proceeds	(14,091,000)
Extraordinary gain	$ 114,598,782

* On October 10, 2013, the Oversight Board adopted a resolution approving the transfer of these governmental purpose properties from the SARA back to the City (see Note 11).

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, 2013:

Cash and Investments	Amount
Cash and investments	$ 32,849,875
Restricted cash and investments	137,756,511
Total cash and investments	$ 170,606,386

Investments

The SARA follows provisions of the California Government Code and the City's Municipal Code. The SARA also has investments subject to provisions of the bond indentures of the Agency's various bond issues. According to the bond indentures, the SARA is permitted to invest in the City's cash and investment pool, 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.

At June 30, 2013, the SARA invested an amount of $26,078,815 with LAIF, which is comprised of $906,419 from its restricted account, $12,598,617 from the 2003 Tax Allocation Bonds reserve account, $2,535,764 from the 2008 Tax Allocation Bond's reserve accounts, $26,183 from 2008 Tax Allocation Bonds project reserve account, and $10,011,832 from the 2010 Housing Set-Aside Bonds reserve account. The amounts invested in LAIF can be withdrawn on demand subject to LAIF provisions upon request of the trustee. The weighted average maturity of LAIF was 278 days at June 30, 2013.

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, 2013 was approximately $21.2 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA".) The total amount recorded by all public agencies in PMIA at June 30, 2013 was approximately $58.8 billion and of that amount, 98.04% was invested in non-derivative financial products and 1.96% in structured notes and asset backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the SARA's position in the pool.

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 and the City, where the SARA's excess funds are invested, will not be able to recover the value of the 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.

As of June 30, 2013, $39,195,573 of the SARA's bank balance, of which $7,205,963 is held in certificates of deposits, was exposed to custodial credit risk because it was uninsured beyond the Federal Deposit Insurance Corporation ("FDIC") insurance coverage limit of $250,000, but 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 amounted to $39,148,619 at June 30, 2013.

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

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the time of maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the SARA manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing the cash flows from the maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

Credit Quality 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.

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.

A summary of the SARA's cash and investments at June 30, 2013 is as follows:

	Credit	Maturity (in days)				Fair
	Rating	Under 30	31 - 180	181 - 365	366 to 3 years	Value
Investments:						
State of California Local						
Agency Investment Fund	Not Rated	$ -	$ -	$ 26,078,815	$ -	$ 26,078,815
U.S. Treasury Bills	Exempt	65,426,346	-	-	-	65,426,346
U.S. Treasury Notes	Exempt	-	26,791,161	2,260,446	6,012,026	35,063,633
Money Market Mutual Fund	Aaa	13,489	93,206	-	-	106,695
Commercial Paper	A1/P1/F1	1,338,960	3,442,518	-	-	4,781,478
Subtotal investments		$ 66,778,795	$ 30,326,885	$ 28,339,261	$ 6,012,026	131,456,967
Certificates of Deposit						7,205,963
Bank deposits						31,942,656
Petty cash						800
Total cash and investments						$ 170,606,386

Restricted Cash and Investments with Fiscal Agents

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and temporary investments for unexpended bond proceeds. At June 30, 2013, the amounts held by the trustees aggregated to $130,550,548. All restricted investments held by trustees at June 30, 2013 were invested in U.S. treasury notes and bills, money market mutual funds, LAIF and commercial paper, and were in compliance with the bond indentures.

Restricted Investments Held in Escrow Accounts

Pursuant to contracts and agreements made by the SARA, certain funds are required to be held in escrow accounts that remain the property of the SARA; however, their use is restricted for a particular purpose, which at June 30, 2013, are as follows:

Project/Program	Amount
JPMorgan Liquidity Reserve	$ 5,000,000
Dr. Martin Luther King, Jr. Library	1,828,457
HUD Section 108 Loans Debt Service Accounts	355,014
Center for Employment Training Toxic Fund	22,492
Total other restricted deposits	$ 7,205,963

NOTE 4 – LOANS RECEIVABLE

Composition of loans receivable at June 30, 2013 is as follows:

	Description	Loan Balance
1.	Parcels of land sold to developers	$ 1,728,360
2.	HUD Section 108 loans	2,767,750
3.	Rehabilitation of apartment complex	331,860
4.	Historic homes relocation loans	2,905,202
5.	Rehabilitation of residential units	163,581
6.	Commercial building loans	9,516,876
7.	Residential housing projects	16,543,506
8.	Rehabilitation of historic hotel building	5,265,000
9.	Small business loan program	214,863
	Total loans	39,436,998
	Accrued interest receivable	5,339,341
	Total loans and interest receivable	44,776,339
	Less allowance for doubtful accounts	(14,381,038)
	Loans and interest receivable, net	$ 30,395,301

1. 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, a non-interest bearing promissory note was recorded in 2007 whereby the Agency deferred a portion of the land sale until the first residential unit closed escrow. On April 26, 2011, the loan agreement was amended giving right to the developer to convert the project from for-sale to rental. The amended agreement also gave the developer the authority to subsequently convert any units back to for-sale units. The principal loan and interest are due and payable when all proceeds of sold condominium units exceed the invested capital threshold. At June 30, 2013, the amount due from the developer was $1,728,360. A provision for doubtful accounts was recorded for the entire loan balance because the likelihood of the payment criteria being met is questionable in the foreseeable future.

2. 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, bear interest at an annual rate of 3%, and require principal and interest payments to the SARA on a monthly basis. At June 30, 2013, the amount due from the developers was $2,767,750. An allowance for doubtful accounts in the amount of $1,343,183 was made to account for the principal balance of a loan due to amounts in arrears.

3. In 1999, the Agency extended a loan to a developer for rehabilitation of an apartment complex. The loan to the developer has a 19-year repayment schedule, bears interest at an annual rate of 3%, and requires principal and interest payments to the SARA on a monthly basis. At June 30, 2013, the amount due from the developer was $331,860.

4. The Agency relocated historic single-family homes to vacant lots in downtown San José. These homes were provided to families and a non-profit agency, which provided the interior and exterior improvements. 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. The total loans of $2,905,202 have been offset with a provision for doubtful accounts as it is anticipated that these loans will be forgiven or fully amortized over the period of the loan.

5. 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, 2013, the net amount due from such loans was $163,581. This amount has been offset with a provision for doubtful accounts as it is anticipated that these loans will be forgiven or fully amortized over the period of the loan.

6. The Agency extended various loans to property owners for the rehabilitation and improvements of commercial buildings. The loans are due within 10 to 25 years. Except for the Genesis Group, these loans do not accrue interest. At June 30, 2013, the total amount due from such loans was $9,516,876. An allowance for doubtful accounts in the amount of $2,839,889 was made for anticipated write-offs.

7. The Agency entered into Disposition and Development Agreements with various developers for the construction of residential housing units in redevelopment project areas. The funding assistance extended by the Agency was converted to loans bearing an interest rate ranging from 2% to 4%. The loans are expected to be repaid upon the sale of the residential housing units. At June 30, 2013, the amount due from the developers was $16,543,506.

8. 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 fiscal year 2020-2021. At June 30, 2013, 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.

9. In June 2002, the Agency Board approved the creation of the Small Business Loan Program to be administered by the City's Office of Economic Development ("OED") and to be funded by the Agency with non-tax increment funds. The program offered reduced-rate loans to small businesses located in Downtown and Neighborhood Business Districts. In July 2008, administration of the program was transferred from OED to the Agency. The Agency has not funded the program since then. At June 30, 2013, the outstanding loans totaled $214,863. An allowance for doubtful accounts in the amount of $135,823 was made for anticipated write-offs.

NOTE 5 – PROPERTY HELD FOR RESALE

Composition of the property held for resale as of June 30, 2013 is as follows:

Property Description	Amount
N. San Pedro Housing site	$ 18,272,701
East Santa Clara Street Development site	3,500,940
Hoffman Via Monte	400,000
Central Place Garage	300,000
Property held for resale	$ 22,473,641

NOTE 6 – CAPITAL ASSETS

A summary of changes in the SARA's capital assets for the year ended June 30, 2013, is as follows:

	July 1, 2012	Addition	Transfer from City of San Jose	Transfer from Diridon Authority	June 30, 2013
Capital assets, not being depreciated:					
Land	$ 34,604,185	-	$ 23,061,233	$ 29,197,410	$ 86,862,828
Construction in progress	976,695	-	-	-	976,695
Total capital assets, not being depreciated	35,580,880	-	23,061,233	29,197,410	87,839,523
Capital assets, being depreciated:					
Buildings	88,587,625	-	61,033,192	-	149,620,817
Building and other improvements	19,398,909	-	3,812,904	-	23,211,813
Equipment	1,144,956	-	-	-	1,144,956
Total capital assets, being depreciated	109,131,490	-	64,846,096	-	173,977,586
Less accumulated depreciation:					
Buildings	12,266,828	1,871,403	-	-	14,138,231
Building and other improvements	2,944,274	1,793,551	-	-	4,737,825
Equipment	1,025,147	119,809	-	-	1,144,956
Total accumulated depreciation	16,236,249	3,784,763	-	-	20,021,012
Total capital assets, being depreciated, net	92,895,241	3,784,763	64,846,096	-	153,956,574
Total capital assets, net	$ 128,476,121	$ 3,784,763	$ 87,907,329	$ 29,197,410	$ 241,796,097

Parcels of the Agency-owned land with an aggregate book value of $19,231,000 were used to secure the Letters of Credit obtained from JPMorgan Chase Bank ("JPMorgan") supporting the Agency's 1996 and 2003 Revenue Variable Bonds. As additional security for the Letters of Credit, the City executed and recorded for the benefit of the JPMorgan a Deed of Trust against the California Theatre. At June 30, 2013, the City has returned the California Theatre with a book value of $61,846,082 back to the SARA. As security for payments due to the County of Santa Clara under the Settlement Agreement executed in March 2011, the Agency also (i) executed and recorded for the benefit of the County Deeds of Trust subordinate to JPMorgan on those same parcels of Agency-owned land (except for the California Theatre), (ii) assigned to the County one-half (1/2) of the Agency sales proceeds from the sale of the North San Pedro properties under two separate Disposition and Development Agreements with private developers, and (iii) executed and recorded for the benefit of the County a Deed of Trust against the North San Pedro properties, with an aggregate book value of $18,074,000.

In addition, the Convention Center – South Hall, José Theatre, and Arena Lot D were used to secure HUD Section 108 loans obtained from the U.S. Department of Housing and Urban Development.

NOTE 7 – DEBT

Long-term Debt

The following is a summary of bonds and loans payable of the SARA at June 30, 2013 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2013 Balance
Senior tax Allocation Bonds (TAB):							
1993 Merged Refunding	Advance refunding	$ 692,075	12/1/1993	8/1/2015	6.00%	$0-18,195	$ 18,195
1997 Merged	Merged area project	106,000	3/27/1997	8/1/2028	5.38- 5.63%	$10-715	5,490
1999 Merged	Merged area project	240,000	1/6/1999	8/1/2019	4.75%	$0-7,165	12,920
2002 Merged	Merged area project	350,000	1/24/2002	8/1/2015	4.50%	$0- 11,290	13,165
2003 Merged	Merged area project	135,000	12/22/2003	8/1/2033	4.00- 5.00%	$25- 34,100	127,545
2004 A Merged Refunding	Refunding TABs	281,985	5/27/2004	8/1/2019	4.23- 5.25%	$8,775- 31,900	168,575
2005 A/B Merged Refunding	Refunding TABs	220,080	7/26/2005	8/1/2028	4.20- 5.00%	$0- 26,210	177,570
2006 A/B Merged	Merged area project	81,300	11/14/2006	8/1/2035	4.50- 5.65%	$0- 21,000	80,300
2006 C/D Merged Refunding	Refunding TABs	701,185	12/15/2006	8/1/2032	3.75- 5.00%	$0- 74,280	698,360
2007 A-T/B Merged	Merged area project	212,930	11/7/2007	8/1/2036	0- 5.10%	$0- 23,970	203,635
2008 A/B Merged	Merged area project	117,295	11/13/2008	8/1/2035	0- 7.00%	$0- 6,700	104,455
1997 Housing, Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75- 5.85%	$365- 3,670	16,705
2003 Housing, Series J/K	Low-moderate income housing	69,000	7/10/2003	8/1/2029	3.50- 5.25%	$240- 3,505	38,270
2005 Housing, Series A/B	Low-moderate income housing	129,720	6/30/2005	8/1/2035	0- 5.46%	$0- 8,300	117,195
2010 Housing, Series A/B	Low-moderate income housing	67,405	4/15/2010	8/1/2035	0- 5.5%	$0- 6,305	60,790
Total Senior Tax Allocation Bonds							1,843,170
Subordinate Tax Allocation Bonds (TAB):							
1996 Merged Area Revenue, Series A/B	Merged area projects	59,000	6/27/1996	7/1/2026	Variable	$2,400- 4,000	44,000
2003 Merged Area Revenue, Series A/B	Merged area projects	60,000	8/27/2003	8/1/2032	Variable	$1,500- 3,900	46,355
2010 Housing, Series C	Low-moderate income housing	93,000	4/29/2010	8/1/2035	Variable	$2,535- 5,210	86,175
Total Subordinate Tax Allocation Bonds							176,530
Other Long-term Debt:							
Pledge Agreement - Revenue Bonds 2001A	4th/ San Fernando parking facility	48,675	4/10/2001	9/1/2026	4.13- 5.25%	$1,815- 3,205	31,695
Reimbursement Agreement - Refunding Revenue Bonds 2001F	Convention Center project	190,730	7/1/2001	9/1/2022	4.45- 5.00%	$9,570- 14,730	119,870
CSCDA 2005 ERAF Loan	Fund the State's ERAF Program	19,085	4/27/2005	8/1/2015	4.77- 5.01%	$2,240- 2,355	4,595
CSCDA 2006 ERAF Loan	Fund the State's ERAF Program	14,920	5/3/2006	8/1/2016	5.58- 5.67%	$1,705- 1,905	5,410
HUD Section 108 Loans	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	$375- 465	1,682
HUD Section 108 Loans (CIM)	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	$630- 1,135	11,230
HUD Section 108 Loans (Story & King)	Merged area projects	18,000	6/30/2006	8/1/2027	Variable	$825- 1,570	15,095
City of San José (SERAF) Loan	Fund the State's SERAF Payment	64,816	2010-2011	6/30/2015	Variable	$12,873- 52,499	65,555
City of San José - Commercial paper program	Fund the housing projects	14,227	2010-2012	6/30/2014	0.27%	$14,227	14,227
Other Long-term Obligation - County Pass Through	Pass-through payment	23,562	6/30/2011	6/30/2017	Variable	$4,712	23,562
2012-2013 Reimbursement Advance	Reimbursement	17,175	N/A	6/30/2014	N/A	$17,175	17,175
Total Other Long-Term Debt							310,096
Total Long-Term Debt							$ 2,329,796

The following summarizes the changes in long-term debt for the year ended June 30, 2013 (in thousands):

	July 1, 2012	Additions	Reductions	June 30, 2013	Amount Due One Year
Senior tax allocation bonds:					
1993 Merged Refunding	$ 18,195	$ -	$ -	$ 18,195	$ -
1997 Merged	5,810	-	(320)	5,490	335
1999 Merged	12,920	-	-	12,920	-
2002 Merged	13,165	-	-	13,165	-
2003 Merged	127,545	-	-	127,545	-
2004 A Merged Refunding	193,215	-	(24,640)	168,575	25,935
2005 A/B Merged Refunding	198,115	-	(20,545)	177,570	21,560
2006 A/B Merged	80,300	-	-	80,300	-
2006 C/D Merged Refunding	698,990	-	(630)	698,360	655
2007 A-T/B Merged	205,685	-	(2,050)	203,635	2,160
2008 A/B Merged	107,860	-	(3,405)	104,455	3,565
1997 Housing, Series E	17,045	-	(340)	16,705	365
2003 Housing, Series J/K	40,815	-	(2,545)	38,270	2,655
2005 Housing, Series A/B	120,300	-	(3,105)	117,195	3,235
2010 Housing, Series A/B	62,220	-	(1,430)	60,790	1,470
Subtotal senior tax allocation bonds	1,902,180	-	(59,010)	1,843,170	61,935
Subordinate tax allocation bonds:					
1996 Merged Area Revenue, Series A/B	46,000	-	(2,000)	44,000	44,000
2003 Merged Area Revenue, Series A/B	47,655	-	(1,300)	46,355	46,355
2010 Housing, Series C	88,600	-	(2,425)	86,175	2,585
Subtotal subordinate tax allocation bonds	182,255	-	(5,725)	176,530	92,940
Other long-term debt:					
Pledge Agreement - 2001A 4th & San Fernando parking revenue bonds	33,435	-	(1,740)	31,695	1,815
Reimbursement Agreement - 2001F Convention Center refunding revenue bonds	129,020	-	(9,150)	119,870	9,570
CSCDA ERAF Loans	13,760	-	(3,755)	10,005	3,945
HUD Section 108 Loans, variable	29,745	-	(1,738)	28,007	1,830
City of San José - SERAF Loans (principal)	64,816	-	-	64,816	-
City of San José - SERAF Loans (interest)	555	184	-	739	269
City of San José - Commercial paper program (principal)	-	14,091	-	14,091	14,091
City of San José - Commercial paper program (interest)	-	136	-	136	136
County Pass-through Obligation	23,562	-	-	23,562	4,712
2012-2013 Reimbursement Advance (see note 8)	-	17,175	-	17,175	17,175
Subtotal other long-term debt	294,893	31,586	(16,383)	310,096	53,543
Subtotal long-term debt before unamoritized	2,379,328	31,586	(81,118)	2,329,796	208,418
Issuance premium (discount), net	37,903	-	(3,928)	33,975	3,927
Total long-term debt payable	2,417,231	31,586	(85,046)	2,363,771	212,345
Environmental remediation obligation	337	-	-	337	97
Total long-term obligations	$ 2,417,568	$ 31,586	$ (85,046)	$ 2,364,108	$ 212,442

Historically, upon receipt of property tax increment, the Agency calculated 80% and 20% amounts of tax increment and would then transfer the 20% portion to the Low and Moderate Income Housing Fund held by the City, as required by the California Health and Safety Code. The previous requirement to bifurcate the tax increment into the 80% and 20% portions was eliminated in the Redevelopment Dissolution Law. However, in order to maintain compliance with bond indentures secured by both 80% and 20% tax increment, the SARA continues bifurcating tax increment into 80% and 20% portions on an ongoing basis and segregating the funds accordingly until all annual senior debt service obligations have been satisfied.

Senior Merged Area Tax Allocation Bonds

The Merged Area Tax Allocation Bonds ("TABs"), which are comprised of Series 1993, Series 1997, Series 1999, Series 2002, Series 2003, Series 2004 A, Series 2005 A/B, Series 2006 A/B, Series 2006 C/D, Series 2007 A-T/B and Series 2008 A/B, are all secured primarily by a pledge of tax redevelopment property tax revenues (i.e., former tax increment), consisting of a portion of all taxes levied upon all taxable properties within each of the tax generating redevelopment project areas constituting the Merged Area Redevelopment Project, and are equally and ratably secured on a parity with each TAB series.

As of June 30, 2013, assuming no growth in assessed value throughout the term of each constituent project area and excluding debt service override levies, the total accumulated 80% redevelopment property tax revenue through the period of the bonds would be approximately $2,760,738,000 (Urban Analytics, April 2013). These revenues have been pledged until the year 2036, the final maturity date of the bonds. The total principal and interest remaining on these Tax Allocation Bonds as of June 30, 2013 is approximately $2,499,405,000. The 80% redevelopment property tax revenue recognized during the year ended June 30, 2013 in the amount of $134,963,580 was transferred to the fiscal agent to cover the annual debt service. The total debt service payments on the Senior TABs amounted to $131,685,340 for the year ended June 30, 2013.

Senior Housing Set-Aside Tax Allocation Bonds

Housing Set-Aside Tax Allocation Bonds (comprised of Series 1997 E, Series 2003 J/K, Series 2005 A/B, and Series 2010 A-1, A-2 & B, collectively the "Senior Housing TABs") are issued to finance affordable housing projects and are secured by a pledge of and lien upon the 20% redevelopment property tax revenue (i.e., former tax increment) set-aside for the low and moderate income housing fund.

As of June 30, 2013, assuming no growth in assessed value throughout the term of each constituent project area, the total accumulated 20% tax increment revenue through the period of the bonds would be approximately $717,732,000 (Urban Analytics, April 2013). These revenues have been pledged until the year 2035, the final maturity date of the bonds. The total principal and interest remaining on these Senior Housing Set-Aside Tax Allocation Bonds and Subordinate Tax Allocation Bonds (see below) as of June 30, 2013 is approximately $493,158,000. The 20% redevelopment property tax revenue recognized during the year ended June 30, 2013 was $33,740,895. The total debt service payments on senior and subordinate housing bonds amounted to $24,652,219 for the subject reporting period.

Subordinate Tax Allocation Bonds - Variable-Rate Demand Bonds

1996 Merged Area Revenue Bonds - In June 1996, the Agency issued the 1996 Merged Area Redevelopment Project Revenue Bonds, Series A and B, for $29,500,000 each, to provide additional proceeds to finance various redevelopment projects in the Merged Project Area. The 1996 Bonds are subordinate to the 1993 Merged Area Refunding Tax Allocation Bonds. The 1996 Bonds have a variable rate of interest and Series A bears interest at a weekly rate while Series B bears interest at a daily rate. The rate modes (daily, weekly, monthly) may be changed at the SARA's option.

The daily and weekly rates are the rates that result in the market value of the bonds being equal to 100% of the principal amount outstanding. The total interest on 1996 Bonds amounted to $40,174 for the fiscal year ended June 30, 2013. In June 2013, the interest rates on the variable rate demand bonds were converted from Weekly Rate to a Flexible Rate in callable commercial paper mode. At June 30, 2013, the interest rate was 0.17% for the 1996 Series A and 0.18% for the 1996 Series B.

2003 Merged Area Revenue Bonds - In August 2003, the Agency issued Merged Area Revenue Bonds Series A and Series B aggregating $60,000,000. The proceeds of the bonds were used mainly to finance redevelopment projects within the Merged Area. The 2003 Merged Area Revenue Bonds are ratably and equally secured by a pledge of the subordinated revenues and subordinate to the debt service payment of Senior Obligations of the SARA.

The 2003 Merged Area Revenue Bonds had a variable rate of interest at a weekly rate, until converted to bear interest at another variable rate or fixed rate at the option of the SARA. The weekly rates are the rates that result in the market value of the bonds being equal to 100% of the outstanding principal and accrued interest. The total interest on 2003 Merged Area Revenue Bonds amounted to $43,015 for the fiscal year ended June 30, 2013. In June 2013, the interest rates on the variable rate demand bonds were converted from a Weekly Rate to a Flexible Rate in callable commercial paper mode. At June 30, 2013, the interest rate was 0.30% for the 2003 Series A and 0.17% for the 2003 Series B. See disclosure about the conversion of the 1996 and 2003 bonds on page 20.

Under the reimbursement agreements related to these credit facilities, the trustee is authorized to draw an amount sufficient to pay the purchase price of bonds that have been tendered and have not otherwise been remarketed. The credit facilities that support the variable-rate demand bonds are as follows:

	Balance June 30, 2013 (in thousands)	Credit Facility Description: Provider	Credit Facility Description: Expiration Date
Redevelopment Agency Revenue Bonds:			
Series 1996A (Merged Area)	$ 22,000	JPMorgan Chase Bank, N.A.	6/1/2014
Series 1996B (Merged Area)	22,000	JPMorgan Chase Bank, N.A.	6/1/2014
Series 2003A (Taxable) (Merged Area)	31,355	JPMorgan Chase Bank, N.A.	6/1/2014
Series 2003B (Merged Area)	15,000	JPMorgan Chase Bank, N.A.	6/1/2014
Total variable rate revenue bonds	$ 90,355		

These variable-rate revenue bonds (1996 and 2003 Bonds) are payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. The SARA's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the SARA's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

In connection with the issuance of the 1996 and 2003 Bonds, on August 7, 2012 JPMorgan delivered amendments to the Letters of Credit directly to the U.S. Bank National Association as Trustee for both the 1996 Bonds and 2003 Bonds. On June 3, 2013, JPMorgan extended the Letter of Credit through June 1, 2014. As a condition to extending the Letters of Credit, JPMorgan required the interest rate on the 1996 Bonds and 2003 Bonds be converted from a Weekly Rate to a Flexible Rate in callable commercial paper mode.

In the event the LOCs are not renewed or a substitute LOC cannot be obtained from another financial institution the full amount of the outstanding 1996 and 2003 Merged Area Revenue Bonds becomes "due and payable". In the event the LOC is not extended and insufficient funds exist to pay the amount due and payable, the interest rate on the 1996 and 2003 Merged Area Revenue Bonds increases to a default rate of 11.5%.

The SARA is required to pay the credit facility provider an annual commitment fee for each credit facility at 2.8% , based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility. In addition, in fiscal year 2010, the former Agency made the required deposit with JPMorgan, a liquidity reserve in the amount of $5 million as an added source of security for the bank. Parcels of the former Agency owned land and the California Theatre were also used to secure the Letters of Credit (see Note 6 - Capital Assets).

2010 Housing Set-Aside Tax Allocation Bonds – On April 29, 2010, the Agency issued $93,000,000 in Taxable Subordinate Housing Set-Aside Tax Allocation Variable Rate Bonds, Series 2010 C. The 2010 C bonds were to (1) refinance the Bank of New York Term Loan and (2) finance and refinance the City's gap loans made or to be made in connection with certain affordable housing developments. The 2010 C bonds are secured by 20% housing set-aside tax allocation revenues on a basis subordinate to the senior bonds. The 2010 C bonds were issued as multi-modal, variable rate bonds with a taxable interest rate that resets weekly. The 2010 C bonds have a single maturity anticipated to be no later than August 1, 2035, but with a scheduled mandatory tender date in three years and mandatory sinking fund redemption payments on August 1 of each year.

The Series 2010 C were directly purchased by Wells Fargo Bank. Because the bonds were directly purchased, the bond indenture did not require a credit facility to support the debt service payments until the bank's Mandatory Purchase Date of April 29, 2013, or such other date agreed to in writing by the SARA and Wells Fargo Bank. On August 15, 2012, the SARA and Wells Fargo Bank agreed to forbear from exercising its rights and remedies under the Continuing Covenant Agreement and Fiscal Agent Agreement, due to a Moody's downgrade, through November 15, 2012, and the Forbearance Agreement was subsequently extended three more times to coincide with interim extensions of the Mandatory Purchase Date. On September 12, 2013, Wells Fargo Bank and the SARA entered into an Amended and Restated Continuing Covenant Agreement pursuant to which Wells Fargo Bank and the SARA agreed to extend the Mandatory Purchase Date for the 2010 C Bonds to April 29, 2016.

As of June 26, 2013, the Series 2010 C bore an interest rate at 1-month LIBOR, two London Business Days before the 1st day of each month plus 280 basis points, with a final maturity date of August 1, 2035. The average weekly interest rate for the Series 2010 C as of June 26, 2013 was 3.05%. Under the extended agreement, the principal amortization schedule for the 2010 C Bonds would not change. On September 7, 2013, the index rate changed and the interest became a fixed rate based on three-year LIBOR plus an applicable spread of 260 basis points.

4th and San Fernando Streets Parking Facility Agency Pledge Agreement

In March 2001, the City of San José Financing Authority (the "Financing Authority"), issued Revenue Bonds, Series 2001 A in the amount of $48,675,000 to finance the construction of the 4th & San Fernando Parking Facility Project. The Financing Authority is a Joint Powers Authority authorized pursuant to a Joint Exercise of Powers Agreement between the City and the Agency to borrow money for the purpose of financing the acquisition and construction of assets of the City and the Agency, of which the Series 2001A bonds were issued by the Financing Authority. The Agency entered into the Agency Pledge Agreement with the Financing Authority, whereby the Agency payments are payable from and secured by surplus Agency Revenues and, therefore, this debt reflects only the Fourth Street Garage obligation. The Agency Pledge Agreement was assumed by SARA. The obligated payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the garage. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the Agency's outstanding tax allocation bonds and deemed to be "Surplus" in the current fiscal year in accordance with the resolution or indenture pursuant to which the outstanding tax allocation bonds were issued, plus (ii) all legally available revenues of the Agency.

At June 30, 2013, the City's Parking System Fund paid $3,362,653 to the SARA to enable SARA to make its payments under the Agency Pledge Agreement to the Financing Authority, thereby increasing SARA's obligation to the City (see Note 8). At June 30, 2013, the SARA has an outstanding principal obligation, per the Agency Pledge Agreement of $31,695,000.

Convention Center Refunding Reimbursement Agreement

In July 2001, the Financing Authority issued the Convention Center Lease Revenue Refunding Bonds, Series 2001 F (tax-exempt) and Series 2001 G (taxable) amounting to $186,150,000 and $4,580,000, respectively. The bonds were issued to refund the 1993 Revenue Bonds, Series C, which have all been redeemed as of June 30, 2013. In connection with the issuance of the 2001 Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement under which the Agency is obligated to use redevelopment property tax revenues or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Second Amended and Restated Reimbursement Agreement were assumed by SARA.

At June 30, 2013, the City advanced $12,343,475 to the SARA to assist in the payment of the Reimbursement Agreement to the Financing Authority. Due to the priority of obligations per the Oversight Board approved reimbursement agreements, the SARA used $1,649,605 to pay direct administrative costs and $353,227 to pay for various agreements and the remaining advances of $10,340,643 was used to pay a portion of SARA's annual debt service payment of $15,340,225 (see Note 8). The Series 2001 F bonds (tax-exempt) mature in 2022 and have an outstanding balance of $119,870,000 at June 30, 2013.

California Statewide Communities Development Authority (CSCDA) Educational Revenue Augmentation Fund (ERAF) Loan

The Agency had been sporadically required to make payment to the State of California's Educational Revenue Augmentation Fund ("ERAF") through the County of Santa Clara. To finance the 2005 and 2006 ERAF payments, the Agency participated in the California Redevelopment

Association/Educational Revenue Augmentation Fund ("CRA/ERAF") Loan Program. The loan was assumed by the SARA. As of June 30, 2013, the 2006 loan has a balance of $5,410,000, bears a fixed interest rate from 5.53% to 5.67% on remaining interest payments, and matures on August 1, 2016. The 2005 loan has a balance of $4,595,000 at June 30, 2013, bears a fixed interest rate from 4.77% to 5.01%, and matures on August 1, 2015.

HUD Section 108 Loans

In 1997, the Agency received loan proceeds of $5,200,000 under the provisions of the U.S. Department of Housing and Urban Development ("HUD") Section 108. The proceeds were used to finance the following downtown projects: Security Building, Bassler & Haynes and Beach Buildings ("Eu Bldgs"), and the Masson Building.

In 2006, the Agency received loan proceeds aggregating to $31,000,000 under the provisions of HUD Section 108 program. The proceeds were used to finance the CIM Mix-used Project (Central Place/ Tower 88) ($13,000,000) and for reimbursement of costs incurred on the Story/King Retail Project ($18,000,000).

As of June 30, 2013, the outstanding loans due to HUD totaled to $28,007,000. The notes payable to HUD mature annually through August 2025 and bear interest at 20 basis points above the LIBOR index. The average rate for June 2013 was 0.47%. The HUD loans are secured by several City and SARA owned capital assets (Convention Center - South Hall, José Theatre, and Arena Lot D) with an aggregate gross value of $31,595,000 at June 30, 2013, and CDBG grants that were awarded or will be awarded to the City.

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 $2.05 billion of property tax increment in county 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 $62.2 million in fiscal year 2009-2010 and $12.8 million in fiscal year 2010-2011. Payments were made by May 10 of each respective fiscal year.

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) with a combined amount of $74,815,668 to make the SERAF payment. Sources of the loan were from the City's Low and Moderate Income Housing Fund ($64,815,668) which was specifically authorized by the legislation, and idle moneys from City special funds ($10,000,000).

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 Fund for payment of SERAF, was invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA. As such, the $10,000,000 portion of the SERAF loan and its related accumulated interest in the amount $160,143 from the City made by 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 $2,940,000 was also invalidated in 2012.

The DOF has determined that a significant portion of the SERAF loan made from the Low and Moderate Income Housing Fund (LMIHF) administered by the City in the amount of $52 million should not be reported in the ROPS as an enforceable obligation. The City contends the item is a housing asset because this portion of the SERAF loan was made with $52 million in cash from the LMIHF. While the DOF does not dispute that the SERAF payment was made with cash from the LMIHF, the DOF states that this portion of the SERAF loan for $52 million was funded from two sources: (1) the February 23, 2010 Loan Agreement between the City and the former Agency and (2) from funds borrowed from the 2010 Housing TABs ($12 million and $40 million, respectively, plus all fees and interest incurred). The DOF states that the LMIHF acted as a conduit between the City and the former Agency under the loan agreement. However, the City's position is that cash available in the LMIHF was used to fund the SERAF loan and should be an enforceable obligation of the SARA and that the resources received by the LMIHF from the 2010 Loan Agreement and 2010 Housing TABs were used for continuing housing programs.

Management continues to believe, in consultation with legal counsel, that the entire portion of the SERAF loan borrowed from the Low and Moderate Income Housing funds in the amount of $65,556,000 and the interest accrued are valid enforceable obligations payable by SARA under the requirements of the Redevelopment Dissolution Law. As such, the SARA has not removed this obligation from its financial statements as of June 30, 2013 and has included this obligation as a note in the ROPS.

Commercial Paper Obligation

During fiscal year 2010, the Agency was provided $12 million from the City's commercial paper program to use the proceeds on its housing projects and provide available cash to the Agency for a SERAF loan. The Oversight Board approved the inclusion of this obligation along with accrued interest and fees as an enforceable obligation. The repayment of the commercial paper proceeds is reported in the ROPS in the amount of $14,227,000 at June 30, 2013.

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 under which the Agency would pay a portion of tax increment revenue generated in the Merged Area (the "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.

On May 22, 2001, the County, the City and the Agency approved an Amended and Restated Agreement (the "Amended Agreement"). 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 requires SARA to transfer funds to the County to pay for such projects (the "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 SARA's Tax Increment Revenues (excluding bonds payable from Housing Set-Aside and refunding bonds) must be paid to the County as the Delegated Payment.

Subsequently, the County, the Agency and the City, along with the Diridon Authority, entered into a Settlement Agreement dated March 16, 2011 (the "Settlement Agreement"). The Settlement Agreement related to a lawsuit filed by the County in which the County alleged, among other things, that the Agency had failed to make timely payment of the County Pass-Through Payment for fiscal years 2008-09, 2009-10 and 2010-11 in an aggregate amount, as of June 30, 2011, of $58.27 million.

Pursuant to the Settlement Agreement, the Agency agreed, among other things, to pay the County $21.5 million of tax-exempt bond proceeds by March 30, 2011, pay an additional $5 million of unrestricted funds and transferred title to certain property to the County, resulting in a remaining amount of $23.78 million owed to the County, which the Agency agreed to make in five installments no later than June 30 of 2014, 2015, 2016, 2017 and 2018.

The County and the Agency also agreed that the Agency would not issue any bonds or other indebtedness secured by tax increment until the County, the City and the Agency conclude negotiations regarding possible amendments to the Amended Agreement. The Amended Agreement provides that the payments due to the County from the Agency are subordinate to all of the Successor Agency's debt. The County and SARA are involved in litigation in Sacramento County Superior Court related to the subordination of the payments due to the County under the Amended Agreement (see Note 10).

During the year ended June 30, 2013, the SARA did not have sufficient redevelopment property tax revenues to make the fiscal year 2012-2013 County Pass-Through Payment. Accordingly, the amount of pass-through payments due to the County increased by $16,073,212 in fiscal year 2012-2013 and the total amount due to the County at June 30, 2013 is $31,792,369.

Debt Service Requirements

The debt service requirements for all debt are based upon a fixed rate of interest, except 1996 Merged Area Revenue Bonds Series A/B, 2003 Merged Area Revenue Bonds Series A/B, 2010 Housing Set-Aside Bonds Series C, HUD Section 108 Loans and the SERAF Loan, which bear interest at variable rates. For purposes of calculating the annual debt service requirements for variable rate debt at June 30, 2013, the following assumed effective rates have been used:

Bond issues	Effective interest rate
1996 Merged Area Revenue, Series A	0.17%
1996 Merged Area Revenue, Series B	0.18%
2003 Merged Area Revenue, Series A	0.30%
2003 Merged Area Revenue, Series B	0.17%
2010 Housing Set-Aside, Series C	3.05%
HUD Section 108 loan	0.47%
SERAF Loan – (LAIF)	0.24%

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding at June 30, 2013, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending	Merged Tax Allocation		Housing Tax Allocation Bonds		Merged Area Revenue Bonds*		Pledge and Other Agreements	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 54,210	$ 77,377	$ 10,310	$ 14,479	$ 3,700	$ 171	$ 11,385	$ 7,302
2015	56,975	74,516	10,795	14,043	3,790	164	11,935	6,732
2016	59,880	71,516	11,330	13,569	4,075	156	12,510	6,133
2017	62,920	68,471	11,890	13,066	4,365	147	13,125	5,502
2018	65,905	65,374	12,510	12,527	4,650	138	13,765	4,840
2019-23	375,885	273,840	73,075	53,370	26,555	546	79,680	12,939
2024-28	430,975	172,165	85,050	35,180	25,875	276	9,165	932
2029-33	360,020	75,749	74,125	15,738	17,345	84	-	-
2034-37	143,440	10,187	30,050	2,051	-	-	-	-
Total	$ 1,610,210	$ 889,195	$ 319,135	$ 174,023	$ 90,355	$ 1,682	$ 151,565	$ 44,380

Year Ending	Obligations with 3rd Parties		Obligations with the City		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 10,487	$ 718	$ 31,266	$ 406	$ 121,358	$ 100,453
2015	10,812	498	52,000	237	146,307	96,190
2016	8,672	261	12,816	233	109,283	91,868
2017	6,891	135	-	-	99,191	87,321
2018	6,512	155	-	-	103,342	83,034
2019-23	10,500	410	-	-	565,695	341,105
2024-28	7,700	57	-	-	558,765	208,610
2029-33	-	-	-	-	451,490	91,571
2034-37	-	-	-	-	173,490	12,238
Total	$ 61,574	$ 2,234	$ 96,082	$ 876	$ 2,328,921	$ 1,112,390

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* Assumes the merged area revenue bonds would not be payable on demand upon expiration of the LOC on June 1, 2014. The scheduled redemption of these bonds is incorporated in the annual requirements to maturity schedules.

Conduit Debt

In August 1997, the Agency served as the conduit issuer of $10,595,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to a private developer for a rental housing project on the Agency-owned land. The Agency has no obligation for these bonds as they are secured primarily by fully modified pass-through mortgage-backed securities guaranteed as a timely payment of principal and interest by the Government National Mortgage Association. The bonds were issued for the purpose of expanding the community's supply of low to moderate-income housing. Additionally, the loan is secured on a nonrecourse basis and is insured by the Federal Housing Authority pursuant to and in accordance with the provisions of Section 221(d) (4) of the National Housing Act. At June 30, 2013, the outstanding balance was $9,185,000.

NOTE 8 –TRANSACTIONS WITH THE CITY OF SAN JOSÉ

Payments to the City

During the year ended June 30, 2013, the SARA incurred $1,169,142 of general and administrative costs for support services of designated City employees allocated to the SARA administrative activities and $100,000 for rent of City office space.

Due from the City

The State Controller's final Asset Transfer Review requires the City to pay the SARA the net revenue earned from parking and rent from the properties transferred to the Diridon Authority. As of June 30, 2013, the SARA has recorded a receivable due from the City in the amount of $803,926 related to the net revenue earned from parking and rent from the properties transferred to the Diridon Authority

In addition, as of June 30, 2013, the SARA has recorded a receivable in the amount of $49,341 to recognize other reimbursements due from the City.

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 $467,019 at June 30, 2013. During the year ended June 30, 2013, the City paid $100,000 and future receipts will be recorded as the loan is collected by the City's Housing Department.

2012-2013 Reimbursement Agreement

In the event future redevelopment property tax revenues are not sufficient to cover the SARA's enforceable obligations, the City has committed other sources of funding to cover costs related to the following obligations: agreements associated with the City of San José Financing Authority Lease Revenue Bonds, Series 2001 F (Convention Center) and City of San José Financing Authority Revenue Bonds, Series 2001 A (4th and San Fernando Streets Parking Facility Project); Education Revenue Augmentation Fund ("ERAF") payments; and the SARA annual administrative budget and City support service expenses.

During the year ended June 30, 2013, the City advanced the following to the SARA:

Description	
City of San José Financing Authority Agreements:	
Lease Revenue Bonds, Series 2001 F (Convention Center)	$ 10,340,643
Revenue Bonds, Series 2001 A (4th and San Fernando Streets Parking Facility Project)	3,362,653
Total City of San José Financing Authority Agreements	13,703,296
Other administrative advances:	
Direct SARA administrative services	1,649,605
Indirect City support services	1,269,143
Various agreements	353,227
Support services from the prior year	199,994
Total other administrative advances	3,471,969
Total administrative advances	$ 17,175,265

Business Interest in an Owners Operating Participating Agreement ("OOPA")

In March 2013, the SARA received the final Asset Transfer Review report from the State Controller regarding various properties that the Agency transferred to the City. In the report, the State Controller disallowed the transfer of various properties including business interest in an OOPA with no book value that the Agency transferred to the City prior to June 28, 2011, the effective date of the Redevelopment Dissolution Law. The purpose of the transfer of the OOPA was to compensate the City for the Agency's funding commitments of $11,000,000 for public improvements to the Montague Expressway pursuant to a settlement agreement among the City, the Agency, the County of Santa Clara, the City of Santa Clara and the City of Milpitas. In June 2013, the City adopted a resolution authorizing the return of the business interest in the OOPA to the SARA.

NOTE 9 – 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, workers' compensation, and unemployment claims for which the SARA carries commercial insurance policies. 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 includes amounts of incremental claims adjustment expense related to specific claims.

Environmental Land Remediation Obligation

A review of the SARA's property during the year ended June 30, 2013 reveals that there is no current pollution remediation required based on their current uses (i.e. surface parking and other uses), except the Adobe property and the Miraido property as discussed below. If in the future when a land remediation obligation occurs to a property due to a change in the purpose (i.e., convert to housing or retail project), the SARA will prepare estimates and comply with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.*

Adobe Property - In prior years, the Agency entered a Disposition and Development Agreement ("DDA") with Adobe Systems, Inc. for development of office towers and underground parking garage on land owned by the Agency in the downtown area. After the parking garage was in operation, it was found that water has been accumulating in the parking ground area. To prevent ground water intrusion, accumulation and contamination in the area, a permanent dewatering and ground water treatment and discharge system (Groundwater Treatment System) was installed that cleanses the water from volatile organic compounds prior to discharging to the Guadalupe River. Although the Agency sold the land to Adobe during the year ended June 30, 2011, the SARA was liable to operate and maintain the treatment system and remedy the property from contamination. On May 1, 2013, the SARA transferred the National Pollutant Discharge Elimination System (NPDES) Permit to Adobe, including its responsibility, coverage and liability for the treatment system. While the transfer of the NPDES Permit eliminates the Agency's liability for the treatment systems, the Agency's and Adobe's rights and obligations remain in the Environmental Indemnity Agreement under the DDA.

Miraido Property - On December 2, 2010, the Agency received a Notice of Responsibility from the County for soil remediation at the Miraido Village Site located at 560 North 6th Street in San José. The SARA owns the underlying land and leases the site to the Japantown Development Limited Partnership ("Miraido"). The Agency was added as an additional responsible party. The cleanup process is currently underway with Miraido's consultant working with the Santa Clara County Department of Environmental Health and with the San Francisco Regional Water Quality Control Board on finalizing the details of the cleanup process. As of June 30, 2013 the cleanup will take approximately two years to complete and, upon completion, Miraido expects to receive a No Further Action letter.

Miraido is responsible for all cleanup activities and is expected to be reimbursed by the State of California LUST Fund in an amount up to $500,000. Miraido's consultant has estimated that the cost to achieve case closure is approximately $400,000, with which the SARA's consultant concurs. Under the Ground Lease, Miraido is required to indemnify the SARA if Miraido fails to complete the cleanup process and the SARA incurs any cleanup costs as a result of such failure. As of June 30, 2013, the SARA has not incurred any cleanup costs and Miraido has been conducting the cleanup as required under the Ground Lease.

Contractual Commitments

At June 30, 2013, the SARA had encumbered $7,423,051 for contracted obligations. In addition, as part of the SARA's accounts payable balance, the SARA has contractual obligations in the amount of $2,210,870 at June 30, 2013 which are in arrears due to an insufficient amount of redevelopment property tax revenues remitted from the County.

Defined Contribution Retirement Plan

In January 1995, the Agency Board adopted a defined contribution retirement plan, the Redevelopment Agency of the City of San José Retirement Plan (the "Plan"), which provides pension benefits for its employees. For eligible employees who contribute 3.5% of their annual base salary, the SARA contributes approximately 9.0%. SARA contributions are based on a formula taking into account employee annual base salary and length of service. The SARA's contributions for each employee (and interest allocated to the employee's account) are fully vested after three years of continuous service from the original date of employment. The SARA contributions and interest forfeited by employees who leave employment before vesting occurs may be used to reduce the SARA's contribution requirement or to offset the plan's operating expenses. Three SARA employees are co-trustees of the Plan. The SARA contracts with an advisor to manage the Plan with all assets being held in trust by a third party custodian in the name of each of the Plan's participants. Each of the Plan's participants directs the investments of their separate account. The SARA Governing Board must authorize changes to the Plan. Any changes to the Plan that increases or accelerates SARA's obligations under the Plan must also be approved by the Oversight Board.

The total payroll for the year ended June 30, 2013 for the SARA's direct employees was $891,845. Both the SARA and the participating employees made contributions to the Plan amounting to $62,883 and $30,124, respectively.

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, 2013, is as follows (in thousands):

Year Ending June 30	Minimum payments
2014	$ 2,000
2015	908
2016	799
2017	818
2018	837
2019-2022	2,232
Total	$ 7,594

The total rent expense for operating leases during the year ended June 30, 2013 was $980,086.

Redevelopment Dissolution Law "True up" Process

The Redevelopment Dissolution Law required that the County Auditor-Controller determine if the tax revenues received by the Agency in January 2012 (before dissolution) were in excess of the amount spent by the Agency and the SARA on enforceable obligations as defined by the Redevelopment Dissolution Law during the period from January 1 through June 30, 2012. If there was an excess, the SARA must remit the residual amounts to the County by July 12, 2012, for allocation to the taxing entities. This is referred to as the "true up" process. Due to the manner in which some of the Agency's bond obligations were categorized on the ROPS during this period, the County Auditor-Controller's calculations indicated that there was a $39.3 million overpayment of tax revenues to the Agency. On July 9, 2012, the Oversight Board of the SARA approved corrections to the previously approved ROPS to clarify that there were no residual tax revenues to distribute to the taxing entities from the Trust Fund. On July 9, 2012, the County Auditor-Controller submitted an invoice to the SARA in the amount of $39.3 million, which the SARA did not pay. The SARA filed a complaint against the State DOF in Sacramento Superior Court requesting the Court to acknowledge that the alleged "overpayment" was due to an accounting error and that the SARA owed no funds to the taxing agencies under the true-up process. In December 2012, the parties entered into a stipulated judgment in favor of the SARA. As of June 30, 2013, the SARA resolved this contingency.

NOTE 10 – LITIGATION

Litigation Against County Auditor-Controller

The City on its own behalf and as the SARA has filed a lawsuit entitled *City of San Jose as Successor Agency to the San Jose Redevelopment Agency v. Vinod Sharma, County of Santa Clara, et al.* in the Sacramento County Superior Court. The suit seeks to recover special levies, which includes a contribution to the County's employees' retirement program (the "PERS Levy") and a levy for the benefit of the Santa Clara Valley Water District (the "Water District Levy"), being withheld by the County from property taxes that were previously considered to be "tax increment" paid directly to the Agency and to determine the priority of the County's pass-through payments under the Amended Agreement. The Sacramento Superior Court agreed with the City as the Successor Agency that the portion of the PERS levy attributable to former Redevelopment tax increment should not be withheld from SARA; however, the Court agreed with the County that the pass-through payments are not subordinate to other Agency debt pursuant to the Redevelopment Dissolution Law. The Court did not rule on the Water District Levy. Both the City and County have appealed the Sacramento Superior Court decision. The County has continued to withhold the revenues associated with the special levies pending resolution of the appeal. At June 30, 2013, the County has withheld approximately $11.5 million from the SARA.

NOTE 11 – SUBSEQUENT EVENTS

Finding of Completion

On August 30, 2013, the DOF granted a Finding of Completion for the SARA. Pursuant to Health and Safety Code (HSC) section 34179.7, the DOF has verified that the SARA does not owe any amounts to the taxing entities as determined under HSC section 34179.6, subdivisions (d) or (e) and HSC section 34183.5. With a Finding of Completion, the SARA may proceed with the following:

- Place loan agreements between the former Agency and the City on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes per HSC.
- Utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants.

In addition, the receipt of the Finding of Completion allows the SARA to submit a Long Range Property Management Plan ("LRPMP") to the Oversight Board and the DOF for approval. The LRPMP addresses the disposition and use of real properties held by SARA.

HUD Section 108 Loans

As described on Note 7, the SARA has three loans with HUD. On August 9, 2013, the DOF reviewed the Oversight Board's approval of the Reimbursement Agreement described in Note 8 and determined that the reimbursement to the City of loan repayments made by City on behalf of SARA for fiscal year 2012-13 in the amount of $1.9 million was not an enforceable obligation. On November 1, 2013, DOF confirmed this determination.

Transfer of Governmental Purpose Properties to the City

On October 10, 2013, the SARA Oversight Board approved the return of government purpose assets with the book value of $98,011,755 to the City. This action is currently under review by the DOF.

Housing Set-Aside Tax Allocation Bonds. Series 2010C

On September 12, 2013, the SARA and Wells Fargo Bank entered into an Amended and Restated Continuing Covenant Agreement to among other things extend the Mandatory Purchase Date on the Housing Set-Aside Tax Allocation Bonds, Series 2010C from September 30, 2013 to April 29, 2016.

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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, 2013, 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 12, 2013. Our report includes an emphasis of matter paragraph indicating that the SARA adopted the provisions of Governmental Accounting Standards Board Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over the SARA's financial reporting (internal control) to determine the 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 City's internal control over the SARA's financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over the SARA's financial reporting.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described in the accompanying schedule of finding and response as number 2013-01 that we consider to be a significant deficiency.

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 determination of financial statement amounts. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of finding and response as number 2013-01.

SARA's Response to Finding

The SARA's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The SARA'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 & O'Connell LLP

Walnut Creek, California
November 12, 2013

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ
Schedule of Finding and Response
June 30, 2013

Significant Deficiency – Finding 2013-01 –
Internal Control Over Financial Reporting

As discussed during the prior year's audit, the numerous audit requests from the State of California and the County of Santa Clara, the establishment of a new oversight board related to the Successor Agency to the Redevelopment Agency of the City of San Jose (SARA)'s activities, and limited number of resources assigned to manage the transition of the dissolution of the Redevelopment Agency of the City of San José (Agency) on February 1, 2012 severely impacted the organization's internal controls.

Over the past year, the City has provided assistance to the SARA in year-end financial reporting and has developed a work plan to transition SARA's financial operations into the Finance Department. However, the disruption to the overall organization from the Agency's dissolution caused a deficiency related to its reporting requirements. The Agency has entered into Continuing Disclosure Agreements as part of its bond issuances in order to comply with S.E.C. Rule 15c2-12(b)(5), whereby the Agency has covenanted to provide annually (by February 1) certain financial information and operating data related to the Agency and notices of occurrences of certain enumerated events. The SARA subsequently submitted its annual report and corrected this deficiency on March 14, 2013.

We recommend that the SARA and the City continue to transition its financial operations and document all compliance requirements relating to debt covenants, contractual requirements, and financial transactions to ensure that all commitments have been calendared and transitioned to appropriate personnel.

Management Response

Management acknowledges the considerable challenges associated with the financial reporting requirements of the Successor Agency to the Redevelopment Agency (SARA) post dissolution. For fiscal year 2013-2014, 2.50 FTEs were budgeted in the Finance Department to perform financial reporting and monitoring of SARA operations. It is Management's expectation that all of the financial operations, including financial reporting and requirements in Continuing Disclosure Agreements of bond issuances will be transferred to the City's Finance Department by January 2014. The transfer to the Finance Department allows the financial operations to be reviewed, monitored, and managed by a larger organization with the appropriate level of management reviews. In addition, the transition will allow SARA's financial operations to be imbedded within a well-established financial control infrastructure.

STATUS OF PRIOR YEAR'S FINDING

Reference Number:	**Comment #2012-01 –** Material Weakness Internal Control Over Financial Reporting
Audit Condition:	The dissolution of the Agency severely impacted the organization's internal controls over financial reporting. The current staffing complement is not configured to adequately support the Successor' Agency's financial reporting responsibilities resulting in a deficiency in internal controls that provide reasonable assurance that closing transactions and financial statements are accurately prepared under generally accepted accounting principles.
Recommendation:	We recommend that the City provide additional assistance to reduce the likelihood that errors may occur and not be detected or corrected on a timely basis and therefore improve internal controls over financial reporting.
Status of Comment:	Recommendation in the process of being implemented. See comment 2013-01.