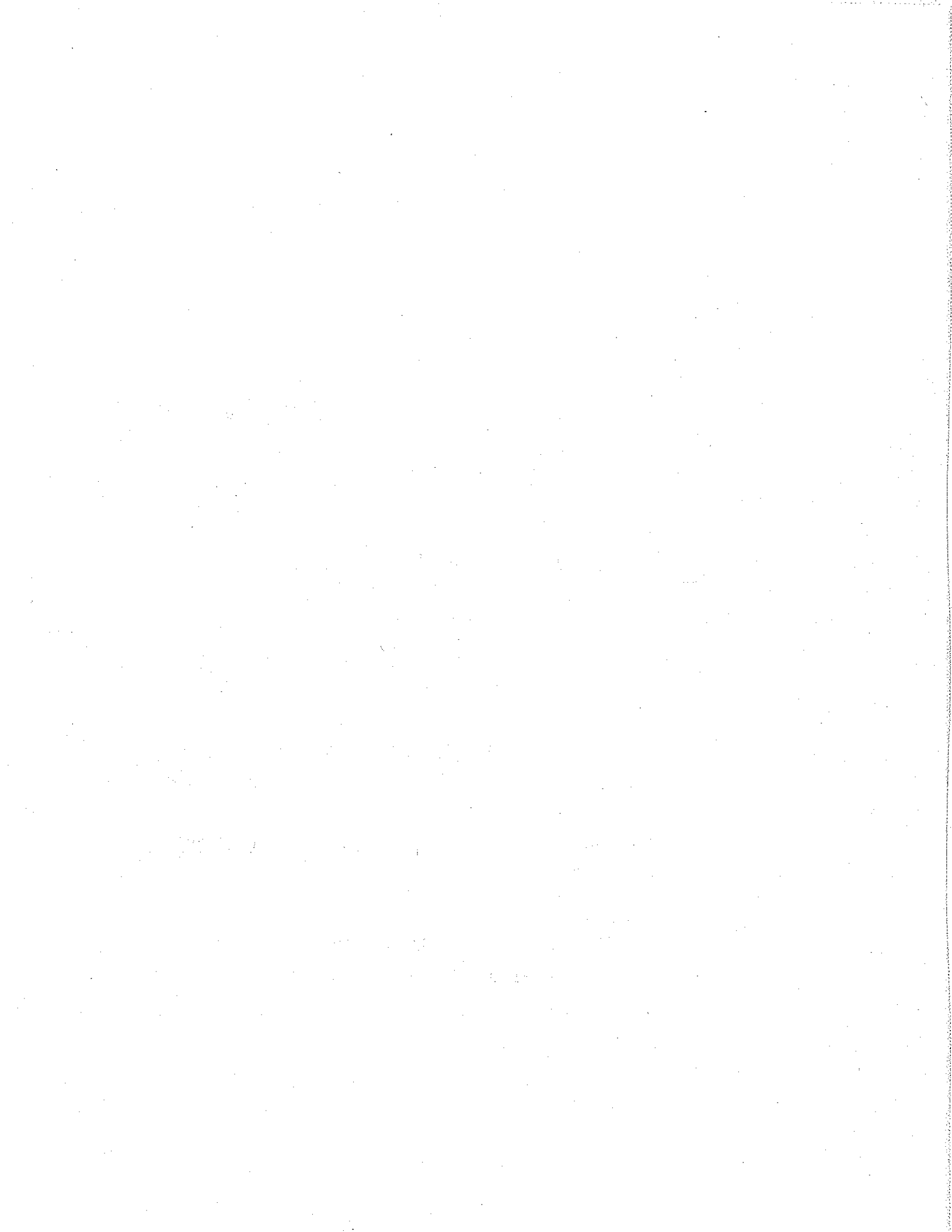


- (1) Independent auditor's report on financial statements and
- (2) Compliance audit

2 complete reports are forwarded; 1 for State Controller and 1 for HCD

- (1) report was accepted by the PSFSS Committee 10/18 and the Agency Board 11/06 and is on-line at:
<http://www.sjredevelopment.org/Agendas2007/11-6-07/2-5-CAFR.pdf>
- (2) this report was not completed until after 10/18 agenda cutoff date and will be discussed in board report accompanying the state controller's report



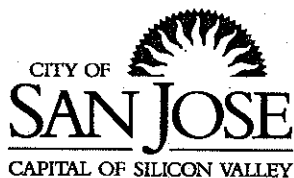
The Redevelopment Agency of the City of San Jose

A Component Unit of the City of San José, California

 SAN JOSE
bio center

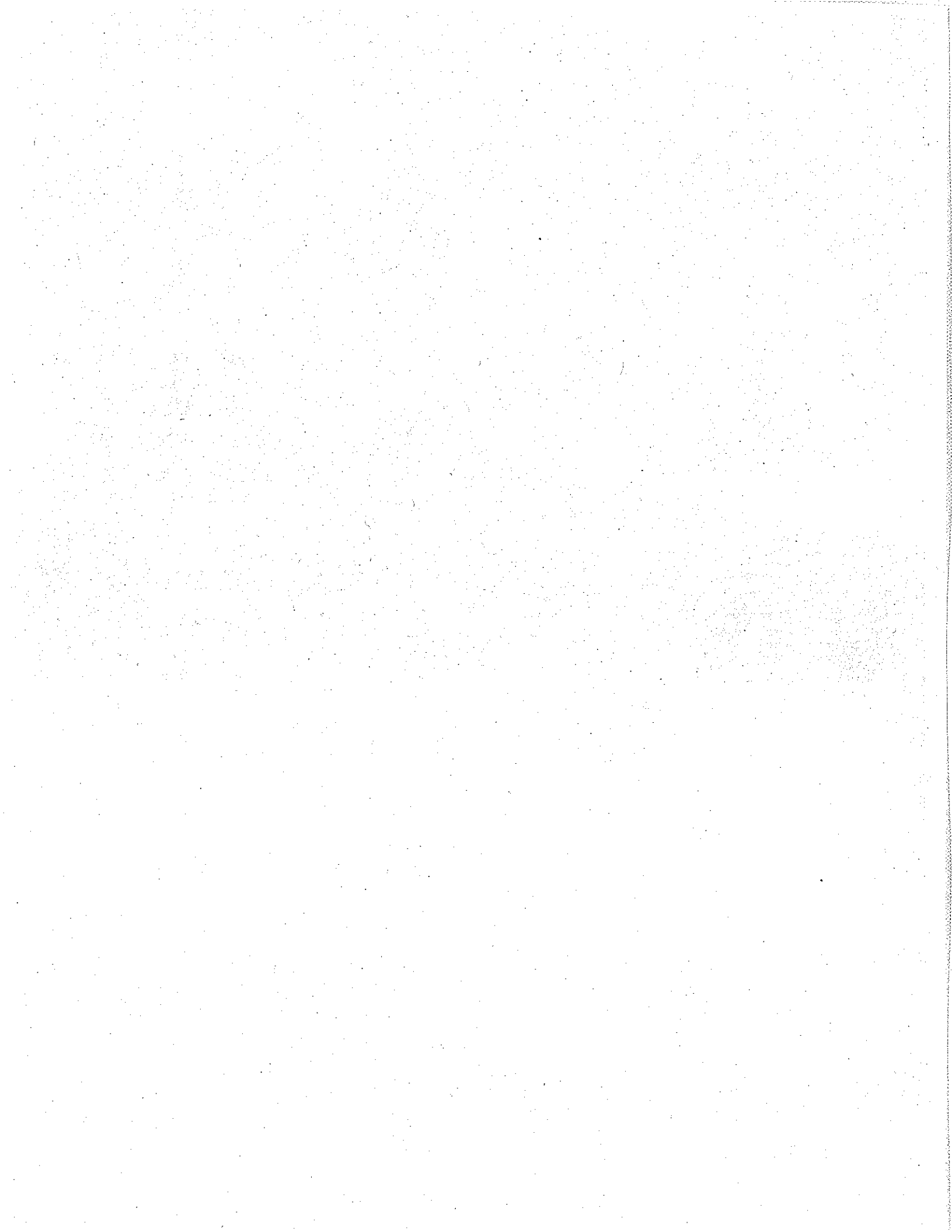


Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2007



Redevelopment Agency

www.sjredevelopment.org





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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of San José (Agency), a component unit of the City of San José, California, as of and for the fiscal year ended June 30, 2007, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated September 27, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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 that is required to be reported under *Government Auditing Standards* and which is described as follows:

California Redevelopment Agencies are required to submit implementation plans, in accordance with Health & Safety Code (the Code) section 33490 and section 33413(b). The code requires each project area to submit an implementation plan every five years and to have the first plan adopted by December 31, 1994, or within five years following the adoption of the redevelopment plan in cases where the redevelopment plan was adopted on or after January 1, 1994. The San Jose Redevelopment Agency adopted the Strong Neighborhood Initiative (SNI) Plan on June 25, 2002 along with its Five-Year Implementation Plan.

During our audit, we noted that the Five-Year Implementation Plan for the SNI project area has not been submitted since the original submission on June 25, 2002. Therefore, the Agency is not in compliance with the Code. While the Code does not cite any consequences for compliance with the requirement to submit the implementation plan, we recommend the Agency complete it and submit it to the Agency Board of Directors immediately.

Management's Response:

The Agency is aware that the new Five Year Implementation Plan for the SNI Project Area is due this year, as the original Implementation Plan was adopted on June 28, 2002. The Redevelopment Agency staff started working on the Five Year Implementation plan in April 2007 and took extraordinary steps to insure the document was well conceived and incorporated the hundreds of projects and programs that are likely to be implemented over the next five years.

The complexity of the Strong Neighborhoods Initiative organization and the significant number of projects to be implemented in the SNI Implementation Plan required review by staff from the Agency and the City. This internal Agency/City staff review began in May 2007 and extended through August 2007. Finally, the Implementation Plan was presented to the SNI Project Area Committee on September 26, 2007 for their review.

To insure the Implementation Plan was inclusive and comprehensive, Agency staff (as required by State law), posted and mailed a public notice for the October 2, 2007 public hearing. Also the public notice was published three times in successive weeks. The first notice was published on

August 31, 2007, the second notice was published on September 7, 2007 and the third and final notice was published on September 14, 2007. The hearing was held on October 2, 2007 and the Agency Board adopted the new Implementation Plan at that meeting.

The Agency's response to the finding identified in our audit is described above. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management of the Agency and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP
Certified Public Accountants

Walnut Creek, California

September 27, 2007, except as related to the Agency's response,
which is dated as of October 2, 2007