

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
Transportation Development Act Funds, Article III

Independent Auditor's Reports,
Financial Statements and
Supplementary Information

For the Years Ended June 30, 2014 and 2013



Certified Public Accountants.

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CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
Transportation Development Act Funds, Article III

For the Years Ended June 30, 2014 and 2013

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Independent Auditor's Report

City Council
City of San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Pedestrian/Bicycle Facilities Grant (Grant) made to the City of San José, California (City), by the Metropolitan Transportation Commission, Transportation Development Act Funds, Article III, as of and for the years ended June 30, 2014 and 2013, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grant made to the City by the Metropolitan Transportation Commission, Transportation Development Act Funds, Article III, as of June 30, 2014 and 2013, and the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

As described in Note 1 to the financial statements, the financial statements present only the Grant made to the City by the Metropolitan Transportation Commission and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014 and 2013, and changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the Grant's financial statements. The accompanying schedule of construction projects with capital outlay expenditures is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The schedule of construction projects with capital outlay expenditures has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards* and the Transportation Development Act

In accordance with *Government Auditing Standards* and the Transportation Development Act, we have also issued our report dated November 14, 2014, on our consideration of the City's internal control over the Grant'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Transportation Development Act in considering the City's internal control over financial reporting and compliance.

Macias Gini É O'Connell LLP

Walnut Creek, California
November 14, 2014

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
Transportation Development Act Funds, Article III
Balance Sheets
June 30, 2014, and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Due from the Metropolitan Transportation Commission	\$ 376,306	\$ 379,978
Liabilities, Deferred Inflows of Resources and Fund Balance (Deficit)		
Liabilities:		
Accounts payable	\$ 260,655	\$ -
Due to other funds of the City	115,651	379,978
Total liabilities	376,306	379,978
Deferred inflows of resources:		
Unavailable governmental revenue	-	379,978
Fund balance (deficit):		
Unassigned	-	(379,978)
Total liabilities, deferred inflows of resources, and fund balance (deficit)	\$ 376,306	\$ 379,978

See accompanying notes to the financial statements.

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
Transportation Development Act Funds, Article III

Statements of Revenues, Expenditures, and Changes in Fund Balance (Deficit)
For the Years Ended June 30, 2014, and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Grant	\$ 756,284	\$ 875,343
Expenditures:		
Capital outlay	<u>376,306</u>	<u>379,978</u>
Excess of revenues over expenditures	379,978	495,365
Fund balance (deficit) - beginning	<u>(379,978)</u>	<u>(875,343)</u>
Fund balance (deficit) - ending	<u>\$ -</u>	<u>\$ (379,978)</u>

See accompanying notes to the financial statements.

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
Transportation Development Act Funds, Article III

Notes to Financial Statements
June 30, 2014 and 2013

NOTE 1 – DESCRIPTION OF REPORTING ENTITY

The accompanying financial statements are prepared from the accounts and financial transactions of the City of San José (City) for projects funded under the Transportation Development Act of 1971 (TDA) Article III of the State of California, which include the construction of pedestrian and bicycle paths. The financial statements do not purport to present the financial position or changes in financial position of the City. The projects represent a portion of the accounts of the City and, as such, are included in the City's basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation*

The Pedestrian/Bicycle Facilities Grant has been accounted for in a capital projects fund, which is a governmental fund type and is included in the City's basic financial statements. Capital projects funds are used to account for financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition of land or acquisition and construction of major governmental facilities.

(b) *Basis of Accounting*

The accompanying financial statements have been prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded when the related governmental fund liabilities are incurred. Grant revenues, which are received as reimbursement for specific purposes or projects, are recognized when they become measurable and available (received within 60 days after year-end.)

(c) *Due to other funds of the City*

Cash has been advanced to the Pedestrian/Bicycle Facilities Grant projects for expenditures paid by the City's nonmajor capital projects fund for the benefit of the TDA Article III projects. The projects are obligated to immediately repay these advances from reimbursement receipts from the Metropolitan Transportation Commission.

(d) *Fund Balance*

The City reports the fund balances for governmental funds in specific classifications (nonspendable, restricted, committed, assigned and unassigned), which creates a hierarchy primarily based on the extent to which the City is bound to the constraints on the specific purposes for which funds can be spent. The Fund only receives restricted revenues. The Fund only has unassigned fund balance at June 30, 2014 and 2013. Unassigned fund balance represents the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed.

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
Transportation Development Act Funds, Article III

Notes to Financial Statements
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

At June 30, 2013, the Pedestrian/Bicycle Facilities Grant had a deficit fund balance in the amount of \$379,978, resulting from the City's deferral of the grant revenues not received within the availability period. The fiscal year 2012-2013 deficit was eliminated with subsequent reimbursement receipts from the Metropolitan Transportation Commission during fiscal year 2013-2014.

NOTE 4 – SECTION 99301 – INTEREST EARNED ON ALLOCATED FUNDS

The City incurred and paid expenditures prior to the receipt of grant reimbursements; as a result, no interest was earned on grant funds.

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
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Schedule of Construction Projects with Capital Outlay Expenditures

The following schedule identifies the projects with capital outlay expenditures during fiscal year 2014:

Title of Project	Project Number	Total Awards	Cumulative Capital Outlay Expenditures as of June 30, 2013	Current Year Capital Outlay Expenditures	Cumulative Capital Outlay Expenditures as of June 30, 2014	Award Expiration Date
TDA 11-12 Pedestrian Bicycle Safety Education	12001044	\$ 50,000	\$ -	\$ 47,721	\$ 47,721	June 30, 2014
TDA 11-12 Citywide Curb Ramps	12001045	100,000	-	100,000	100,000	June 30, 2014
TDA 11-12 Bicycle Facility Implementation	12001046	339,546	555	228,585	229,140	June 30, 2014
TDA 12-13 Bicycle Facility Implementation	13001028	640,126	-	-	-	June 30, 2015
		\$ 1,129,672	\$ 555	\$ 376,306	\$ 376,861	

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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* and the Transportation Development Act

City Council
City of San José, California

We have audited, in accordance with the 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 Pedestrian/Bicycle Facilities Grant (Grant) made to the City of San José, California (City), by the Metropolitan Transportation Commission, Transportation Development Act Funds, Article III, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of finding and response as item 2014-001, we identified a deficiency in internal control that we consider to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grant's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable statutes, rules and regulations of the Transportation Development Act, including Section 6666 of Title 21, of the California Code of Regulations, and the allocation instructions and resolutions of the Metropolitan Transportation

Commission, 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 that is required to be reported under *Government Auditing Standards* and the Transportation Development Act and which is described in the accompanying schedule of finding and response as item 2014-001.

City's Response to the Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The City'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 14, 2014

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
Transportation Development Act Funds, Article III

Schedule of Finding and Response
June 30, 2014

Item 2014-001 – Material Weakness in Internal Control, Material Noncompliance

Criteria:

The City of San Jose (City) has projects funded under the Transportation Development Act of 1971 (TDA) Article III of the State of California, which include the construction of pedestrian and bicycle paths. The City receives project funding allocation instructions from the Metropolitan Transportation Commission (MTC) that states that the MTC disburses funding in these grants on a reimbursement basis. Under the reimbursement basis, the City is required to pay the project costs incurred prior to receipt of the grant funds.

Condition:

As part of the City's request for reimbursement of project costs, the City did not pay its vendors prior to submitting the reimbursement request for grant funds. We tested 96% of the total vendor expenditures of \$306,606 and determined that for 89% of the amounts tested or \$260,655, the City did not pay its vendors prior to receipt of its reimbursements.

Cause and Effect:

Staffing changes at the City resulted in a misinterpretation of the grant cash management requirements. While the costs were determined to be allowable, the City was not in compliance with the grants' terms and conditions.

Recommendation:

The City should improve its training program so that staff would be better informed of the specific requirements of its grant requirements.

Management Response:

The Department of Transportation (DOT) staff that administers the Transportation Development Act, Article III Grants has updated the grant management and reimbursement procedures to ensure that expenditures are paid prior to submission of grant reimbursement requests to the MTC.

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