

**CITY OF SAN JOSE, CALIFORNIA**

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

June 30, 2016 and 2015

**CITY OF SAN JOSE, CALIFORNIA**  
Pedestrian/Bicycle Facilities Grant  
Metropolitan Transportation Commission  
Transportation Development Act Funds, Article III

For the Years Ended June 30, 2016 and 2015

*Table of Contents*

	<i>Page</i>
<b>Independent Auditor's Report</b> .....	1
<b>Financial Section</b>	
Balance Sheets .....	4
Statements of Revenues, Expenditures, and Changes in Fund Balance .....	5
Notes to Financial Statements .....	6
<b>Supplementary Information</b>	
Schedule of Construction Projects with Capital Outlay Expenditures .....	8
<b>Internal Control and Compliance Section</b>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> and the Transportation Development Act. ....	9
Schedule of Findings .....	11
Management Responses .....	12



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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### **Report on the financial statements**

We have audited the accompanying financial statements of the Pedestrian/Bicycle Facilities Grant (the “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, 2016, and the related notes to the financial statements, which collectively comprise the Grant’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 Grant’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 Grant’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, 2016, and the change in financial position for the year 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, 2016 and changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified as a result of this matter.

*Supplementary information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Grant's basic 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 basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Other matter*

The financial statements of the Grant as of and for the year ended June 30, 2015 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2015 financial statements in their report dated November 13, 2015.



**Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 20, 2016, on our consideration of the Grant's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Grant's internal control over financial reporting and compliance.

GRANT THORNTON LLP

*Grant Thornton LLP*

San José, California  
December 20, 2016

**CITY OF SAN JOSE, CALIFORNIA**

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

**Balance Sheets**

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Due from the Metropolitan Transportation Commission	<u>\$ 598,542</u>	<u>\$ 538,864</u>
<b>Liabilities</b>		
Accounts payable	189,678	7,051
Due to other funds of the City	408,864	531,813
Total liabilities	<u>\$ 598,542</u>	<u>\$ 538,864</u>

See accompanying notes to the financial statements.

**CITY OF SAN JOSE, CALIFORNIA**

Pedestrian/Bicycle Facilities Grant  
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**Statements of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2016 and 2015**

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
<b>Revenues:</b>		
Grant	\$ 682,032	\$ 538,864
<b>Expenditures:</b>		
Capital outlay	682,032	538,864
Excess of revenues over expenditures	<u>-</u>	<u>-</u>
Fund balance - beginning	-	-
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

**CITY OF SAN JOSE, CALIFORNIA**  
Pedestrian/Bicycle Facilities Grant  
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Notes to Financial Statements

**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.



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Notes to Financial Statements, Continued

**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 – 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**

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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 2016:

<b>Title of Project</b>	<b>Project Number</b>	<b>Total Awards</b>	<b>Current Year Grant Rescission</b>	<b>Current Year Capital Outlay Expenditures</b>	<b>Award Expiration Date</b>
TDA 12-13 Bicycle Facility Implementation	13001028	\$ 640,126	\$ (440,126)	\$ -	6/30/2015
TDA 13-14 Citywide Class I, II, and III Bicycle Facilities	14001040	725,799	-	486,789	6/30/2016
TDA 13-14 ADA Curb Ramps	14001041	200,000	-	11,870	6/30/2016
TDA 13-14 Bike Parking	14001042	200,000	(100,000)	100,000	6/30/2016
TDA 13-14 Bike Safety Education & Encouragement	14001043	100,000	-	62,042	6/30/2016
TDA 14-15 Bike Plan 2020 Implementation	15001031	553,137	-	-	6/30/2017
TDA 15-16 ADA Curb Ramps	16001016	100,000	-	-	6/30/2018
TDA 15-16 Ped & Bike Safety Education	16001017	104,691	-	-	6/30/2018
TDA 15-16 Bike Plan 2020 Implementation	16001018	532,362	440,126	-	6/30/2018
TDA 15-16 Hedding Street (BEP33B)	16001019	308,830	-	-	6/30/2018
TDA 15-16 Bike Parking	16001090	-	100,000	21,331	6/30/2018
		<u>\$ 3,464,945</u>	<u>\$ -</u>	<u>\$ 682,032</u>	



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT  
AUDITING STANDARDS* AND THE TRANSPORTATION DEVELOPMENT  
ACT

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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 Pedestrian/Bicycle Facilities Grant (the “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, 2016, and the related notes to the financial statements, which collectively comprise the Grant’s basic financial statements, and have issued our report thereon dated December 20, 2016.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Grant’s internal control over financial reporting (“internal control”) to design 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the Grant’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Grant’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, but important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as item 2016-001 to be material weakness in the Grant’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.

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 Regulation, and the allocation instruction and resolution 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Transportation Development Act.

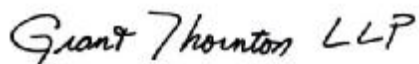
Grant's response to findings

The City's response to our findings, which is described in the accompanying schedule of findings was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the City's response.

Intended purpose

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 Grant'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 Grant's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

GRANT THORNTON LLP



San José, California  
December 20, 2016

**CITY OF SAN JOSE, CALIFORNIA**

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**Schedule of Findings  
June 30, 2016**

**Finding 2016-001 Lack of detailed reviewed over reimbursements made and received**

**Criteria**

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

**Condition**

The City's preparation of the financial statements for the Pedestrian/Bicycle Facilities Grant is the responsibility centralized within the Finance Department who compiles and verifies financial data and US GAAP application decisions maintained by the transportation department.

The City requested and received from the Metropolitan Transportation Commission (MTC), reimbursement for the same expenditure twice.

**Cause**

Lack of review of expenditures submitted for reimbursement against items previously expensed and review receivables against cash receipts received during the year.

**Effect or Potential Effect**

This error overstated grant revenue by \$33K. In another instance, the City had received a reimbursement of \$83K from MTC but did not reduce accounts receivable for that receipt. Management properly reflected these amounts in the financial statements.

Errors such as those noted above are a risk in the current environment.

**Management Response (Unaudited)**

Refer to Corrective Action Plan section for Management's Response.

December 20, 2016

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**Subject: Audit of the Pedestrian/Bicycle Facilities Grant**

The City concurs with the finding. The City has already contacted the Metropolitan Transportation Commission (MTC) in regards to the overpayment of grant revenue. An outcome of this discussion with MTC would most likely allow the City to offset the overpayment against reimbursements to be received in the grant period covering year 2017. The City is committed to improving its internal expenditure and revenue tracking sheets to minimize risk of incorrect invoice claims being submitted to MTC. In an effort to reduce future occurrence of duplicate or incorrect claim submissions, the City will continue to improve upon its staff training to know the program specific requirements and restrictions and emphasize the importance of accurate financial reporting requirements.