

CITY OF SAN JOSE, CALIFORNIA

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

June 30, 2017 and 2016

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

For the Years Ended June 30, 2017 and 2016

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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, 2017, 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, 2017, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the Grant's financial statements. The 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 reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 17, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Grant's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Grant's internal control over financial reporting and compliance.

Grant Thornton LLP

San José, California
November 17, 2017

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
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Balance Sheets

| | June 30, | |
|---|-------------------|-------------------|
| | 2017 | 2016 |
| Assets | | |
| Due from the Metropolitan Transportation Commission | <u>\$ 991,308</u> | <u>\$ 598,542</u> |
| Liabilities | | |
| Accounts payable | 53,861 | 189,678 |
| Due to other funds of the City | 937,447 | 408,864 |
| Total liabilities | <u>\$ 991,308</u> | <u>\$ 598,542</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

**Statements of Revenues, Expenditures, and Changes in Fund Balance
For the Years Ended June 30, 2017 and 2016**

| | <u>June 30,</u> | |
|--------------------------------------|-----------------|-------------|
| | <u>2017</u> | <u>2016</u> |
| Revenues: | | |
| Grant | \$ 1,030,750 | \$ 682,032 |
| Expenditures: | | |
| Capital outlay | 1,030,750 | 682,032 |
| 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.

CITY OF SAN JOSE, CALIFORNIA
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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.

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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 2017:

| Title of Project | Project Number | Total Awards | Prior Year Grant Reallocation/ (Rescission) | Current Year Grant Reallocation/ (Rescission) | Current Year Capital Outlay Expenditures | Award Expiration Date |
|---|-----------------------|---------------------|--|--|---|------------------------------|
| TDA 14-15 ADA Curb Ramps | 15001028 | \$ 100,000 | - | - | 100,000 | 6/30/2017 |
| TDA 14-15 Bicycle Safety Education Program | 15001029 | 141,558 | - | (125,000) | 16,558 | 6/30/2017 |
| TDA 14-15 Monterey Road Ped Safety Improvements | 15001030 | 300,000 | - | (100,000) | 200,000 | 6/30/2017 |
| TDA 14-15 Bike Plan 2020 Implementation | 15001031 | 553,137 | - | - | 553,061 | 6/30/2017 |
| TDA 15-16 ADA Curb Ramps | 16001016 | 100,000 | - | - | 4,867 | 6/30/2018 |
| TDA 15-16 Ped & Bike Safety Education | 16001017 | 104,691 | - | - | 54,540 | 6/30/2018 |
| TDA 15-16 Bike Plan 2020 Implementation | 16001018 | 532,362 | 440,126 | - | 10,151 * | 6/30/2018 |
| TDA 15-16 Bike Plan 2020 Implementation | 16001018 | - | - | - | 39,441 * | 6/30/2018 |
| TDA 15-16 Hedding Street (BEP33B) | 16001019 | 308,830 | - | - | - | 6/30/2018 |
| TDA 15-16 Bike Parking | 16001090 | - | 100,000 | - | 49,530 | 6/30/2018 |
| TDA 16-17 Citywide Bikeway Implementation | 17001025 | 440,288 | - | - | - | 6/30/2019 |
| TDA 16-17 ADA Curb Ramps | 17001026 | 100,000 | - | - | - | 6/30/2019 |
| TDA 16-17 Citywide Bike Plan | 17001027 | 250,000 | - | 125,000 | - | 6/30/2019 |
| TDA 16-17 Monterey Road Ped Safety Improvements | 17001097 | - | - | 100,000 | 2,602 | 6/30/2020 |
| TDA 17-18 Citywide Bikeway Implementation | 18001013 | 721,063 | - | - | - | 6/30/2020 |
| TDA 17-18 ADA Curb Ramps | 18001014 | 100,000 | - | - | - | 6/30/2020 |
| TDA 17-18 Bike Parking | 18001015 | 100,000 | - | - | - | 6/30/2020 |
| | | <u>\$ 3,851,929</u> | <u>540,126</u> | <u>-</u> | <u>1,030,750</u> | |

* City of San José received an overpayment of grant revenue from Metropolitan Transportation Commission ("MTC") in FY15-16. As such, a billing credit of \$39,441 was given to MTC and this project's reimbursement amount was reduced to \$10,151 in FY16-17.

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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Honorable City Council
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 Pedestrian/Bicycle Facilities Grant (the “Grant”) made to the City of San José, California (the “City”), by the Metropolitan Transportation Commission, Transportation Development Act Funds, Article III, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Grant’s basic financial statements, and have issued our report thereon dated November 17, 2017.

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

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the 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.

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
November 17, 2017