

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, 2012 and 2011



Certified Public Accountants.

CITY OF SAN JOSE, CALIFORNIA

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

For the Years Ended June 30, 2012 and 2011

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City Council
City of San José, California

Independent Auditor's Report

We have audited the accompanying balance sheets of the Pedestrian/Bicycle Facilities Grant (Grant) made to the City of San José, California (the City), by the Metropolitan Transportation Commission, Transportation Development Act Funds, Article III as of June 30, 2012 and 2011, and the related statements of revenues, expenditures, and changes in fund deficit for the years then ended. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the financial statements of the Grant are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the nonmajor governmental funds of the City of San José that is attributable to the activities of the Grant. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012 and 2011, and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2012 and 2011, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012 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 for the year ended June 30, 2012. 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* and should be considered in assessing the results of our audit.

Management has not presented the management's discussion and analysis that governmental 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 Governmental Accounting Standards Board 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information 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 information has been subjected to the auditing procedures applied in the audits 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.

Macias Gini & Connell LLP

Walnut Creek, California
November 9, 2012

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
Transportation Development Act Funds, Article III
Balance Sheets
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Due from Metropolitan Transportation Commission	\$ 875,343	\$ 193,677
	<u>875,343</u>	<u>193,677</u>
Liabilities and Fund Deficit		
Liabilities:		
Due to other funds of the City	\$ 875,343	\$ 193,677
Deferred revenue	875,343	-
	<u>1,750,686</u>	<u>193,677</u>
Total liabilities		
Fund deficit:		
Unassigned	(875,343)	-
	<u>(875,343)</u>	<u>-</u>
Total liabilities and fund deficit	\$ 875,343	\$ 193,677
	<u>875,343</u>	<u>193,677</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 Deficit
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Grant	\$ -	\$ 493,942
Expenditures:		
Capital outlay	<u>875,343</u>	<u>456,715</u>
Deficiency of revenues under expenditures	(875,343)	37,227
Fund deficit - beginning	<u>-</u>	<u>(37,227)</u>
Fund deficit - ending	<u><u>\$ (875,343)</u></u>	<u><u>\$ -</u></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, 2012 and 2011

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 (e.g., bond proceeds and investment income) 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) *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.

CITY OF SAN JOSE, CALIFORNIA

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

Notes to Financial Statements
June 30, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Fund Balance

In June 2011, the City established a policy on Governmental Fund Balance Financial Reporting to provide necessary clarification on the terminology used in the fund balance classifications and assist with adhering to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 outlines the requirement to report the fund balance for governmental funds in specific classifications (nonspendable, restricted, committed, assigned and unassigned), which create 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, 2012. Unassigned fund balance represents the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

At June 30, 2012, the Pedestrian/Bicycle Facilities Grant had a deficit fund balance in the amount of \$875,343 resulting from the City's deferral of the grant revenues not received within the availability period. This deficit was eliminated with subsequent reimbursement receipts from the Metropolitan Transportation Commission during fiscal year 2012-2013.

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 2012:

Title of Project	Project Number	Total Awards	Cumulative Capital Outlay Expenditures as of June 30, 2011	Current Year Capital Outlay Expenditures	Cumulative Capital Outlay Expenditures as of June 30, 2012	Status of Project
TDA 09-10 Citywide Curb Ramps	10001053	\$ 100,000	\$ 100,000	\$ -	\$ 100,000	Completed
TDA 09-10 Pedestrian & Bicycle Safety Education	10001054	50,000	5,000	45,000	50,000	Completed
TDA 09-10 Bicycle Facility Implementation	10001055	832,087	1,744	830,343	832,087	Completed
TDA 11-12 Pedestrian & Bicycle Safety Education	12001044	50,000	-	-	-	On-Going
TDA 11-12 Citywide Curb Ramps	12001045	100,000	-	-	-	On-Going
TDA 11-12 Bicycle Facility Implementation	12001046	339,546	-	-	-	On-Going
		\$ 1,471,633	\$ 106,744	\$ 875,343	\$ 982,087	

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City Council
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 Statements Performed in
Accordance with *Governmental Auditing Standards* and
the Transportation Development Act**

We have audited the accompanying balance sheet 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 June 30, 2012, and the related statement of revenues, expenditures, and changes in fund deficit for the year then ended, and have issued our report thereon dated November 9, 2012. Our report includes an explanatory paragraph describing that the financial statements of the Grant present only that portion of the governmental activities and the nonmajor governmental funds of the City that is attributable to the activities of the Grant and an explanatory paragraph describing management’s omission of the management’s discussion and analysis required by accounting principles generally accepted in the United States of America. 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City’s internal control over the Grant’s 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 City’s internal control over the Grant’s financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over the Grant’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.

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 over financial reporting that might be deficiencies, 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 Grant's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Transportation Development Act.

This report is intended solely for the information and use of the Metropolitan Transportation Commission, the City Council, and City management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP

Walnut Creek, California
November 9, 2012