

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, 2015 and 2014



Certified
Public
Accountants

This page intentionally left blank.

CITY OF SAN JOSE, CALIFORNIA

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

For the Years Ended June 30, 2015 and 2014

Table of Contents

	<i>Page</i>
Independent Auditor’s Report	1
Financial Section	
Balance Sheets	3
Statements of Revenues, Expenditures, and Changes in Fund Balance	4
Notes to Financial Statements.....	5
Supplementary Information	
Schedule of Construction Projects with Capital Outlay Expenditures.....	7
Internal Control and Compliance Section	
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
Status of Prior Year Finding	11

This page intentionally left blank.



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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, 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 13, 2015, 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 the Grant's financial reporting and compliance.



Walnut Creek, California
November 13, 2015

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
Transportation Development Act Funds, Article III
Balance Sheets
June 30, 2015, and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Due from the Metropolitan Transportation Commission	\$ 538,864	\$ 376,306
Liabilities		
Accounts payable	\$ 7,051	\$ 260,655
Due to other funds of the City	531,813	115,651
Total liabilities	<u>\$ 538,864</u>	<u>\$ 376,306</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, 2015, and 2014

	<u>2015</u>	<u>2014</u>
Revenues:		
Grant	\$ 538,864	\$ 756,284
Expenditures:		
Capital outlay	<u>538,864</u>	<u>376,306</u>
Excess of revenues over expenditures	-	379,978
Fund balance - beginning	<u>-</u>	<u>(379,978)</u>
Fund balance - ending	<u><u>\$ -</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, 2015 and 2014

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

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

Notes to Financial Statements
June 30, 2015 and 2014

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

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

Schedule of Construction Projects with Capital Outlay Expenditures

The following schedule identifies the projects with capital outlay expenditures during fiscal year 2015:

Title of Project	Project Number	Total Awards	Current Year Grant Rescission	Current Year Capital Outlay Expenditures	Award Expiration Date
TDA 12-13 Bicycle Facility Implementation	13001028	\$ 640,126	\$ (440,126)	\$ 199,905	June 30, 2015
TDA 13-14 Citywide Class I, II, and III Bicycle Facilities	14001040	725,799	-	113,349	June 30, 2016
TDA 13-14 ADA Curb Ramps	14001041	200,000	-	188,131	June 30, 2016
TDA 13-14 Bike Safety Education & Encouragement	14001043	100,000	-	37,403	June 30, 2016
TDA 14-15 Bike Plan 2020 Implementation	15001031	553,137	-	76	June 30, 2017
		\$ 2,219,062	\$ (440,126)	\$ 538,864	

This page left intentionally blank.



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, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2015.

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.

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. 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 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

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.

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.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California
November 13, 2015

CITY OF SAN JOSE, CALIFORNIA

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

Status of Prior Year Finding
June 30, 2015

Reference Number: ***Item 2014-001 Material Weakness in Internal Control, Material Noncompliance***

Audit Finding: 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.

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

Status: The City has corrected the prior year finding.

This page intentionally left blank.