

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, 2019 and 2018



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, 2019 and 2018

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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, under the Transportation Development Act Funds, Article III, as of and for the years ended June 30, 2019 and 2018, 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 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 audits 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, under the Transportation Development Act Funds, Article III, as of June 30, 2019 and 2018, 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 Matter

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, 2019 and 2018, 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 December 20, 2019, 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 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 City'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* and the Transportation Development Act in considering the City's internal control over the Grant's financial reporting and compliance.

Macias Gini É O'Connell LLP

Walnut Creek, California
December 20, 2019

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
Metropolitan Transportation Commission
Transportation Development Act Funds, Article III
Balance Sheets
June 30, 2019, and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Due from the Metropolitan Transportation Commission	\$ 2,462,318	\$ 288,612
Liabilities		
Accounts payable	\$ 63,902	\$ -
Due to other funds of the City	2,462,318	288,612
Total liabilities	2,526,220	288,612
Deferred inflows of resources:		
Unavailable governmental revenue	2,462,318	288,612
Fund balance (deficit):		
Unassigned	(2,526,220)	(288,612)
Total liabilities, deferred inflows of resources, and fund balance (deficit)	<u>\$ 2,462,318</u>	<u>\$ 288,612</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, 2019, and 2018

	<u>2019</u>	<u>2018</u>
Revenues:		
Grant	\$ 288,612	\$ -
Expenditures:		
Capital outlay	<u>2,526,220</u>	<u>288,612</u>
Excess of revenues over expenditures	(2,237,608)	(288,612)
Fund balance - beginning	<u>(288,612)</u>	<u>-</u>
Fund balance - ending	<u><u>\$ (2,526,220)</u></u>	<u><u>\$ (288,612)</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, 2019 and 2018

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 capital projects funds (the Funds), which is a governmental fund type and is included in the City’s basic financial statements. The 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 are reported using the current financial resources measurement focus and 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 Funds only receive restricted revenues.

CITY OF SAN JOSE, CALIFORNIA

Pedestrian/Bicycle Facilities Grant
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Notes to Financial Statements
June 30, 2019 and 2018

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 - 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 2019:

Title of Project	Project Number	Total Awards	Current Year Grant Rescission	Current Year Capital Outlay Expenditures	Award Expiration Date
TDA 16-17 Citywide Bikeway Implementation	17001025	\$ 440,288	\$ -	\$ 440,288	6/30/2019
TDA 16-17 ADA Curb Ramps	17001026	100,000	-	100,000	6/30/2019
TDA 16-17 Monterey Road Ped Safety Improvement	17001097	100,000	-	90,191	6/30/2019
TDA 16-17 Citywide Bike Plan	17001027	375,000	(100,000)	275,000	6/30/2019
TDA 17-18 Citywide Bikeway Implementation	18001013	721,063	-	641,850	6/30/2020
TDA 16-17 Bike Plan 2020 Implementation	18001095	962,336	-	962,336	6/30/2020
TDA 18-19 Citywide Bikeway Implementation	19001011	100,000	-	16,555	6/30/2021
		\$ 2,798,687	\$ (100,000)	\$ 2,526,220	

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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, under the Transportation Development Act Funds, Article III, as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2019.

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 E O'Connell LPA". The signature is written in a cursive style with a small vertical line under the letter 'i' in "Gini".

Walnut Creek, California
December 20, 2019