

**Transportation Development Act Funds  
Local Transportation Fund – Non-Transit  
The Bike Path  
Special Revenue Fund of the  
City of Morro Bay**

Morro Bay, California

**Independent Auditors' Reports  
and Financial Statements**

*For the Years Ended June 30, 2016 and 2015*





**The Bike Path Special Revenue Fund  
of the City of Morro Bay  
For the Years Ended June 30, 2016 and 2015**

**Table of Contents**

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	<u>Page</u>
<b>Independent Auditors' Reports:</b>	
<b>Report on Financial Statements .....</b>	<b>1</b>
<b>Report on Internal Control over Financial Reporting and on Compliance (Including Those Contained in the TDA Statutes and California Code of Regulations) and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....</b>	<b>5</b>
<b>Report on Compliance for the Bike Path Fund and Report on Internal Control over Compliance Required by Transportation Development Act .....</b>	<b>7</b>
<b>Financial Statements:</b>	
Balance Sheets .....	11
Statements of Revenues, Expenditures, and Changes in Fund Balances .....	12
Notes to the Financial Statements .....	15
Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual .....	19

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of  
the City Council of the City of Morro Bay  
Morro Bay, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Bike Path Special Revenue Fund (the "Bike Path Fund") of the City of Morro Bay, California (the "City") as of and for the years ended June 30, 2016 and 2015, 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 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 Bike Path Fund as of June 30, 2016 and 2015, 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**

As discussed in Notes 1, these financial statements present only the Bike Path Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016 and 2015, and the changes in its financial position, and where applicable, its cash flows 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**

### *Required Supplementary Information*

Management has omitted Management’s Discussion and Analysis (“MD&A”) information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (“GASB”) who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

### *Supplementary Information*

The Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual 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. Such information 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 Schedule of Revenues, Expenditures and Changes of Fund Balance – Budget and Actual is fairly stated, in material respects, in relation to the financial statements as a whole.

To the Honorable Mayor and Members of  
the City Council of the City of Morro Bay  
Morro Bay, California  
Page 3

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of the City's internal control over the Bike Path Fund'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 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 City's internal control over the Bike Path Fund's financial reporting and compliance.

*The PwC Group, LLP*

Walnut Creek, California  
November 30, 2016

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
(INCLUDING THOSE CONTAINED IN THE TDA STATUTES AND CALIFORNIA CODE OF  
REGULATIONS) AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

***Independent Auditors' Report***

To the Honorable Mayor and Members of  
the City Council of the City of Morro Bay  
Morro Bay, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the standards for financial statements and compliance audits contained in the TDA Statutes and California Code of Regulations issued by the California Department of Transportation, the financial statements of the Bike Path Special Revenue Fund (the "Bike Path Fund") of the City of Morro Bay, California (the "City") as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated November 30, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered City's internal control over the Bike Path Fund'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of 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 the 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 City's Bike Path Fund's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 Standard*.

### **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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*The PwC Group, LLP*

Walnut Creek, California  
November 30, 2016



**REPORT ON COMPLIANCE FOR THE BIKE PATH FUND  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY TRANSPORTATION DEVELOPMENT ACT**

**Independent Auditors' Report**

To the Honorable Mayor and Members of City Council  
of the Morro Bay  
Morro Bay, California

We have audited the City of Morro Bay, California's (the "City") compliance with the compliance requirements described in §6666 of the California Code of Regulation, Title 21, Division 3, Chapter 3, Article 5.5 that could have a direct and material effect on the City's Bike Path Special Revenue Fund (the "Bike Path Fund") of the City for the years ended June 30, 2016 and 2015.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Bike Path Fund.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the City's Bike Path Fund based on our audits of the compliance requirements referred to above. We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Transportation Development Act Guidebook – Statutes and California Codes of Regulations, April, 2013, issued by the California Department of Transportation Division of Mass Transportation. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Bike Path Fund occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audits provide a reasonable basis for our opinion on compliance for the Bike Path Fund. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on the Bike Path Fund**

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Bike Path Fund for the years ended June 30, 2016 and 2015.

## Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on the Bike Path Fund to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Bike Path Fund and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of §6666 of the California Codes of Regulation, Title 21, Division 3, Chapter 3, Article 5.5. Accordingly this report is not suitable for any other purpose.

*The PwC Group, LLP*

Walnut Creek, California  
November 30, 2016

## **FINANCIAL STATEMENTS**

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**The Bike Path Special Revenue Fund  
of the City of Morro Bay  
Balance Sheets  
June 30, 2016 and 2015**

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 4,042	\$ 3
Due from the City of Morro Bay	-	110
<b>Total assets</b>	<b>\$ 4,042</b>	<b>\$ 113</b>
<b>FUND BALANCE</b>		
Restricted for bike path capital projects	\$ 4,042	\$ 113
<b>Total Fund Balance</b>	<b>\$ 4,042</b>	<b>\$ 113</b>

**The Bike Path Special Revenue Fund  
of the City of Morro Bay**  
**Statements of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Years Ended June 30, 2016 and 2015**

	2016	2015
<b>REVENUES:</b>		
Intergovernmental revenues	\$ 7,907	\$ 10,721
Investment earnings	22	113
	7,929	10,834
Total revenues		
<b>EXPENDITURES:</b>		
Capital outlay	(4,000)	(40,969)
<b>REVENUES OVER (UNDER) EXPENDITURES</b>		
<b>CHANGES IN FUND BALANCES</b>	3,929	(30,135)
<b>FUND BALANCES:</b>		
Beginning of the year	113	30,248
End of the year	\$ 4,042	\$ 113

## **NOTES TO THE FINANCIAL STATEMENTS**

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**The Bike Path Special Revenue Fund  
of the City of Morro Bay  
Notes to the Financial Statements  
For the Years Ended June 30, 2016 and 2015**

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**Note 1 – Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statements of the Bike Path Special Revenue Fund (the “Bike Path Fund”) of the City of Morro Bay, California (the “City”) are intended to reflect the financial position, results of operations of the Bike Path Fund.

As a non-transit claimant, the City is eligible for Transportation Development Act (“TDA”) Public Utilities Code Section 99233.3 (“TDA Section 99233.3”) funds. These funds were allocated by the San Luis Obispo Council of Governments (“SLOCOG”) to supplement the City’s bike path capital projects.

**B. Financial Statements Presentation and Measurement Focus**

The accompanying financial statements present only the Bike Path Fund and are not intended to present the financial position, changes in financial position, or cash flows of the City in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

The accounting policies of the Bike Path Fund are in conformity with U.S. GAAP applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Governmental Fund Financial Statements

The financial statements are prepared using the “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances.

**C. Basis of Accounting**

The Bike Path Fund’s financial activities are accounted for using the modified accrual basis of accounting wherein revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Revenues considered susceptible to accrual include state grants and interest. Expenditures are recognized in the accounting period in which the liability is incurred.

**D. Financial Statements**

The accompanying financial statements present only the financial activities of the Bike Path Fund and are not intended to present fairly the financial position and results of operations of the City in accordance with accounting principles generally accepted in the United States of America.

**The Bike Path Special Revenue Fund  
of the City of Morro Bay  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2016 and 2015**

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**Note 2 – Cash and Investments**

Cash and investments are pooled with other City funds to maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds, including the Bike Path Fund, on a yearly basis, based on weighted average cash balances in each fund.

**Note 3 – Allocations from Local Transportation Fund**

The City was allocated the following funds for the years ended June 30, 2016 and 2015 and recognized intergovernmental revenues as following:

<u>Article</u>		<u>Sections</u>	<u>2016</u>	<u>2015</u>
Local Transportation Fund				
3	Bikeway/Pedestrian	99233.3	<u>\$ 7,907</u>	<u>\$ 10,721</u>

## **SUPPLEMENTARY INFORMATION**

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**The Bike Path Special Revenue Fund  
of the City of Morro Bay**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>REVENUES:</b>			
Intergovernmental revenues	\$ 7,907	\$ 7,907	\$ -
Investment earnings	-	22	22
Total revenues	<u>7,907</u>	<u>7,929</u>	<u>22</u>
<b>EXPENDITURES:</b>			
Capital outlay	<u>(46,443)</u>	<u>(4,000)</u>	<u>(42,443)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>			
<b>CHANGES IN FUND BALANCES</b>	<u>\$ (38,536)</u>	3,929	<u>\$ (42,421)</u>
<b>FUND BALANCES:</b>			
Beginning of the year		<u>113</u>	
End of the year		<u>\$ 4,042</u>	

**The Bike Path Special Revenue Fund  
of the City of Morro Bay**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>REVENUES:</b>			
Intergovernmental revenues	\$ 10,721	\$ 10,721	\$ -
Investment earnings	-	113	113
Total revenues	<u>10,721</u>	<u>10,834</u>	<u>113</u>
<b>EXPENDITURES:</b>			
Capital outlay	<u>(35,205)</u>	<u>(40,969)</u>	<u>5,764</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>			
<b>CHANGES IN FUND BALANCES</b>	<u>\$ (24,484)</u>	<u>(30,135)</u>	<u>\$ 5,877</u>
<b>FUND BALANCES:</b>			
Beginning of the year		<u>30,248</u>	
End of the year		<u>\$ 113</u>	