

**COUNTY OF SANTA CLARA
MEASURE B
TRANSPORTATION IMPROVEMENT PROGRAM**

Independent Auditor's Reports and
Financial Statements

For the Year Ended June 30, 1999

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM
For the Year Ended June 30, 1999

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To the Santa Clara County
Measure B Citizens Watchdog Committee
San Jose, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Measure B Transportation Improvement Program (the Program) of the County of Santa Clara, California (the County), as of and for the year ended June 30, 1999. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Program, and are not intended to present fairly the financial position of the County and the results of its operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 3, 1999 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts.

The required supplementary information listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We were unable to apply certain limited procedures prescribed by professional standards to the year 2000 information because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the County is or will become year 2000 compliant, that the County's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the County does business are or will become year 2000 compliant.

Certified Public Accountants
Walnut Creek, California
December 3, 1999

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Balance Sheet
June 30, 1999
(In thousands)

ASSETS

Cash and investments	\$ 289,258
Interest receivable	5,687
Sales tax receivable	<u>26,925</u>
 Total assets	 <u>\$ 321,870</u>

LIABILITIES

Accounts payable	\$ 134
Due to other governmental agencies	48,118
Due to the County	2
Due to the County Road Fund	<u>3,634</u>
 Total liabilities	 <u>51,888</u>

FUND EQUITY

Fund balance:	
Reserved for encumbrances	256
Designated for the transportation improvement program	<u>269,726</u>
 Total fund equity	 <u>269,982</u>
 Total liabilities and fund equity	 <u>\$ 321,870</u>

See accompanying notes to the financial statements.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended June 30, 1999
(In thousands)

Revenues:	
Sales tax	\$ 139,359
Investment income	<u>9,549</u>
Total revenues	<u>148,908</u>
Expenditures:	
Current general government:	
Office and other miscellaneous	14
Professional and special services	592
Outside legal fees	285
External printing and reproduction	10
Transportation:	
Highway Projects	775
Railway Projects	47,343
Pavement Projects	<u>3,634</u>
Total expenditures	<u>52,653</u>
Excess of revenues over expenditures	<u>96,255</u>
Fund balance, beginning of year	<u>173,727</u>
Fund balance, end of year	<u>\$ 269,982</u>

See accompanying notes to the financial statements.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Statement of Revenues, Expenditures and Encumbrances –
 Budget and Actual (Budget Basis)
 For the Year Ended June 30, 1999
 (In thousands)

	<u>Budget</u>	<u>Actual (Budget Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Sales tax	\$ 277,700	\$ 308,900	\$ 31,200
Investment income	-	13,735	13,735
	<u>277,700</u>	<u>322,635</u>	<u>44,935</u>
Total revenues			
Expenditures and encumbrances:			
Current general government:			
Office and other miscellaneous	50	17	33
Professional and special services	1,000	845	155
Outside legal fees	285	285	-
External printing and reproduction	10	10	-
Computer hardware and software	20	-	20
Transportation	<u>276,335</u>	<u>51,752</u>	<u>224,583</u>
	<u>277,700</u>	<u>52,909</u>	<u>224,791</u>
Total expenditures and encumbrances			
Excess of revenues over expenditures and encumbrances - budget basis	<u>\$ -</u>	<u>\$ 269,726</u>	<u>\$ 269,726</u>

See accompanying notes to the financial statements.

**COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM**

Notes to the Financial Statements
For the Year Ended June 30, 1999

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measure B Sales Tax

In November 1996, the voters of the County of Santa Clara (the County) approved by a simple majority (51.8%) Measure B. Measure B authorizes the enactment of a ½ cent retail transaction and use (sales) tax for general county purposes, with the following mandatory restrictions:

- The tax will be imposed for the period commencing April 1, 1997 and ending March 30, 2006. The length of this tax can not be extended without a vote and the approval of the residents of Santa Clara County.
- The independent Citizens Watchdog Committee must review all expenditures.
- The independent Citizens Watchdog Committee must consist of private citizens, not elected officials.

After the passage of Measure B, litigation was initiated in an effort to invalidate the Measure B tax. The litigation was resolved in the County’s favor in the 1998-99 fiscal year.

The Measure B sales tax revenues received by the County of Santa Clara Measure B Transportation Improvement Program (the Program), after deducting certain administrative costs, are designated by the County’s Board of Supervisors to be spent on the County’s Transportation Improvement Program. The financial statements present only the Program and are not intended to present the financial position and results of operations of the County in conformity with generally accepted accounting principles.

Basis of Accounting

The Program uses the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Investment income has been treated as “susceptible to accrual” under the modified accrual basis. Measure B sales taxes reported to the State Board of Equalization on behalf of the Program for the period ending June 30th are also recognized as revenue. Expenditures are recorded when the related liability is incurred.

Budgets and Budgetary Accounting

During the year, the Board of Supervisors approved a supplemental appropriation establishing the budget for the Program. The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP). The results of operations on a budget basis for the Program differ from operations on a GAAP basis due to the inclusion of year-end encumbrances with expenditures on a budget basis and due to a timing difference representing GAAP basis revenue recognized prior to July 1, 1998.

The results of “actual” operations on a budget basis are reconciled to the results of operations on a GAAP basis as follows for the year ended June 30, 1999 (in thousands):

Excess of revenues over expenditures and encumbrances – budget basis	\$269,726
Encumbrances	256
Revenue recognized on budget basis	(173,727)
	\$96,255
Excess of revenues over expenditures – GAAP basis	\$96,255

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 1999

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting (Continued)

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

Additional information regarding budgets and budgetary accounting of the County is presented in Note 1 of the County's general-purpose financial statements.

Investments

The Program's investments are reported at fair value. The County Treasurer determines fair value on a monthly basis, based on quoted market prices.

Sales Tax Revenue and Receivables

The Program recognizes taxpayer-assessed revenues, net of estimated refunds, in the accounting period in which they become susceptible to accrual, which means when the revenues become both measurable and available to finance expenditures of the current fiscal period.

Sales tax receivables represent sales tax receipts in the two months subsequent to the Program's fiscal year-end relating to the prior year's sales activity. The Program has contracted with the State Board of Equalization for collection and distribution of the ½% sales tax. The Board of Equalization receives an administrative fee for providing this service. The Program records sales tax revenues net of such fees.

Use of Estimates

The Program's management has made a number of estimates and assumptions relating to the reporting of amounts and disclosures used to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments Pooled with the County

The Program's cash is invested with the County's internal investment pool (Pool). The County Treasurer manages the Pool. Investments made by the Treasurer are regulated by California Government Code and by a County investment policy approved annually by the County Treasury Oversight Committee. Adherence to the statutes and policies is monitored by the County Board of Supervisors and by the Treasury Oversight Committee via monthly reports and an annual audit. Investment income earned on the Program's share of the Pool is allocated quarterly among the Pool participants based upon the average daily balance of cash maintained by each participant. The County reports its investments in the Pool at fair value. The County Treasurer determines the fair value of the Pool on a monthly basis, based on quoted market prices. Changes in fair value are included in investment income. Redeemed or sold shares of the Pool are priced at book value, which includes realized investment earnings such as interest income, realized gains or losses upon sale of investments, and amortized premiums and discounts. This number may differ from the shares' fair value, which would include unrealized gains or losses based on market

conditions.

**COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM**

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 1999

NOTE 2 – CASH AND INVESTMENTS (Continued)

The Pool consists of U.S. Treasury or government agency notes and bonds, time deposits, negotiable certificates of deposit, medium term notes, commercial paper, repurchase agreements, and passbook savings/checking accounts as authorized by State statutes and the County's investment policy.

Additional information regarding insurance, collateralization, and custodial risk categorization of the County's cash and investments is presented in Note 3 of the County's general-purpose financial statements.

Separately Held Investments

The County also has investments separately held for the Program. These investments are classified by three custodial risk categories: Category 1 includes investments that are insured or registered, or for which the securities are held by the County or its agent in the County's name; Category 2 includes uninsured and unregistered investments, with the securities held by the counterparty, or by its trust department or agent but not in the County's name; Category 3 includes uninsured and unregistered investments with the securities held by the counterparty, or by its trust department or agent but not in the County's name. There were no investments held in the County Treasury that were classified as either Category 2 or 3 as of June 30, 1999.

The Program's investments, at fair value, included the following as of June 30, 1999 (in thousands):

Category 1:		
U.S. government agency notes and bonds		\$138,622
Corporate bonds		7,168
Non-categorized:		
Cash and investments pooled with the County		<u>143,468</u>
Total cash and investments		<u><u>\$289,258</u></u>

NOTE 3 – DUE TO THE COUNTY

Due to the County – The County provides administrative personnel and facilities and is compensated based on actual costs incurred. Amounts due to the County at June 30, 1999 total \$2,000.

Due to the County Road Fund represents the County's allotment for the pavement management program.

NOTE 4 – COMMITMENTS

In June 1999, the County's Board of Supervisors adopted a revised Base Case Implementation Plan (the Plan) committing the Program to provide resources for the following transportation improvement programs (in thousands):

	Total Commitment	Expenditures to Date	Outstanding Commitment
Highway Projects	\$435,000	\$ 775	\$434,225
Highway Programs	44,000	-	44,000
Railway Projects	860,900	47,343	813,557
Pavement Program	<u>90,000</u>	<u>3,634</u>	<u>86,366</u>
Total	<u><u>\$1,429,900</u></u>	<u><u>\$51,752</u></u>	<u><u>\$1,378,148</u></u>

Required Supplementary Information (Unaudited)

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Required Supplementary Information (Unaudited)
For the Year Ended June 30, 1999

DISCLOSURES ABOUT THE YEAR 2000 ISSUE

In order to conserve data storage space, many older technology applications in use by government and business represent the year by its last two digits only and imply the first two digits. Because of this methodology, the approaching Year 2000 has the potential to cause problems for computerized data files, programs, hardware and other electronic systems that receive or process data information. The County's activities could be adversely impacted by the resulting operation of some of its computer and other electronic systems, as well as those of vendors, contractors, and other organizations.

Recognizing that the Year 2000 problem could adversely affect its delivery of services to County residents and its internal operations, which include accounting for the Program's operations, the County initiated a needs assessment in 1997. Based on this assessment, the County determined that a large part of its information technology infrastructure required modification or replacement. In response to the identified needs, the County has organized a central Year 2000 program office which used both in-house staff and qualified consultants. The office is fully engaged towards its goal of making possible the operation of vital County services and accountability of public resources through the Year 2000 transition. All high priority systems have gone through a remediation (modification or replacement of the system) and validation/testing phase or are now operating with a version deemed to be Year 2000 compliant.

As of October 31, 1999, the project management office reported that all departments with "highest priority" systems were either "Year 2000 Ready" or on target for completion of all Year 2000 tasks (including testing and implementing new or remediated systems) prior to January 1, 2000.

While the County cannot guarantee that it and all of its partners will address all of their Year 2000 risks successfully before their potential realization (which may be well before January 1, 2000), the County believes that critical information technology systems will be ready.



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To the Santa Clara County
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San Jose, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the Measure B Transportation Improvement Program (the Program) of the County of Santa Clara, California (the County), as of and for the year ended June 30, 1999, and have issued our report thereon dated December 3, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by County staff in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Santa Clara County Measure B Citizens Watchdog Committee and management of the County of Santa Clara and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants
Walnut Creek, California
December 3, 1999