

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

Independent Auditor's Reports,
Financial Statements and
Supplemental Information

For the Year Ended June 30, 2001

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM
For the Year Ended June 30, 2001

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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, 2001. 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 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 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 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 Program as of June 30, 2001, and the results of its operations for the year 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 December 7, 2001 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The supplemental information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Program. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such information.

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

Certified Public Accountants

Walnut Creek, California
December 7, 2001

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

Balance Sheet
June 30, 2001
(In thousands)

ASSETS

Cash and investments	\$ 325,078
Interest receivable	3,886
Sales tax receivable	29,161
Project reimbursement advances to Santa Clara Valley Transportation Authority	<u>27,892</u>
Total assets	<u><u>\$ 386,017</u></u>

LIABILITIES

Accounts payable	\$ 3,578
Due to the County	11
Due to the County Road Fund	<u>7,618</u>
Total liabilities	<u>11,207</u>

FUND EQUITY

Fund balance:	
Reserved for encumbrances	151
Reserved for project reimbursement advances	27,892
Designated for the transportation improvement program	<u>346,767</u>
Total fund equity	<u>374,810</u>
Total liabilities and fund equity	<u><u>\$ 386,017</u></u>

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended June 30, 2001
(In thousands)

Revenues:	
Sales tax	\$ 183,505
Investment income	24,109
	207,614
Expenditures:	
Administration:	
Salaries and benefits	175
Administrative	377
Project management oversight	966
Transportation:	
Highway projects	41,072
Transit/railway projects	19,236
Other programs	122,836
	184,662
Excess of revenues over expenditures	22,952
Fund balance, beginning of year	351,858
Fund balance, end of year	\$ 374,810

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, 2001
 (In thousands)

	Budget	Actual (Budget Basis)	Variance Favorable (Unfavorable)
Revenues:			
Sales tax	\$ 164,000	\$ 183,505	\$ 19,505
Investment income	13,005	24,109	11,104
Total revenues	<u>177,005</u>	<u>207,614</u>	<u>30,609</u>
Expenditures and encumbrances:			
Administration:			
Salaries and benefits	180	175	5
Administrative	360	379	(19)
Project management oversight	1,000	1,115	(115)
Transportation:			
Highway projects	48,512	41,072	7,440
Transit/railway projects	30,385	19,236	11,149
Other programs	140,280	122,836	17,444
Total expenditures and encumbrances	<u>220,717</u>	<u>184,813</u>	<u>35,904</u>
Excess (deficit) of revenues over (under) expenditures and encumbrances	<u>\$ (43,712)</u>	<u>\$ 22,801</u>	<u>\$ 66,513</u>

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements
For the Year Ended June 30, 2001
(In Thousands)

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 cannot be extended without a vote and the approval of the residents of Santa Clara County.
- An independent Citizens Watchdog Committee must review all expenditures.
- The independent Citizens Watchdog Committee must consist of private citizens, not elected officials.

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 accounting principles generally accepted in the United States of America (GAAP).

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 GAAP. The results of operations for the Program on a budgetary basis differ from operations on a GAAP basis due to the inclusion of year-end encumbrances along with expenditures on a budgetary basis.

The results of “actual” operations on a budgetary basis are reconciled to the results of operations on a GAAP basis as follows for the year ended June 30, 2001:

Excess of revenues over expenditures and encumbrances – budgetary basis	\$ 22,801
Encumbrances at June 30, 2001	<u>151</u>
Excess of revenues over expenditures – GAAP basis	<u>\$ 22,952</u>

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2001
(In Thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 are 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 cent 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 preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. 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 Treasurer's investment pool (Pool). Investments made by the Treasurer are regulated by California Government Code and by a County investment policy approved annually by its 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 amount 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, 2001
(In Thousands)

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, 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 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 on behalf of the Program that were classified as either Category 2 or 3 as of June 30, 2001.

The Program's investments, at fair value, included the following as of June 30, 2001:

Category 1:		
U.S. government agency notes and bonds	\$	15,155
Corporate bonds		7,373
Non-categorized:		
Cash and investments pooled with the County		<u>302,550</u>
 Total cash and investments	 \$	 <u>325,078</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, 2001 total \$11.

Due to the County Road Fund – This represents the County's allotment for the pavement management program of \$7,618.

NOTE 4 – COMMITMENTS

In June 2001, the County's Board of Supervisors adopted the Revenue and Expenditure Plan (the Plan) committing the Program to provide resources for the following transportation improvement programs:

	Total Commitment	Expenditures to Date	Outstanding Commitment
Highway projects	\$ 531,177	\$ 53,770	\$ 477,407
Transit/railway projects	822,727	128,918	693,809
Other programs	<u>258,727</u>	<u>149,084</u>	<u>109,643</u>
 Total	 <u>\$ 1,612,631</u>	 <u>\$ 331,772</u>	 <u>\$ 1,280,859</u>

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

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2001
(In Thousands)

NOTE 4 – COMMITMENTS (Continued)

The commitments of the Program are those projects specified in Measure B and delivered by the Santa Clara Valley Transportation Authority (VTA) with oversight by the County. These projects are administered via a Master Co-Op Agreement (Agreement) between the County and VTA. Through this Agreement, VTA is responsible for the administration of the bid and contract process related to the ultimate delivery of projects. As depicted in the Plan, the delivery of Measure B projects relies on other funding sources outside of Measure B sales tax revenues. The commitments of the Program are based on the Plan, utilizing project scope, delivery projections and cash flow estimates from VTA and accepted by the Boards of both entities.

NOTE 5 – ADMINISTRATIVE EXPENDITURES

Over the life of Measure B, administrative expenditures are capped at 0.5% of total sales tax revenue. Below is a table that reflects total sales tax revenue and total administrative expenditures through fiscal year ended June 30, 2001. The administrative expenditures are currently at 0.32% of total sales tax revenue.

	Sales Tax Revenue	Administrative Expenditures
Fiscal year ending:		
June 30, 1997	\$ 31,680	\$ -
June 30, 1998	137,862	-
June 30, 1999	139,359	901*
June 30, 2000	166,338	655
June 30, 2001	183,505	552
Total	\$ 658,744	\$ 2,108

*Fiscal Year 1999 is the first year expenditures were made or incurred and includes legal defense costs.

SUPPLEMENTAL INFORMATION

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

Schedule of Reclassified Expenditures
For the Year Ended June 30, 2001
(In Thousands)

Expenditures	<u>After Reclassification</u>	<u>Prior to Reclassification</u>
Transportation:		
Highway projects	\$ 41,072	\$ 41,072
Transit/railway projects	19,236	114,632
Other programs	122,836	27,440
Total expenditures	<u>\$ 183,144</u>	<u>\$ 183,144</u>

In FY 2001 management of the Program reclassified \$ 95,396 from Transit/railway projects to Other Programs related to a bond swap implemented between the County and VTA. Other expenditures include Pavement Management, Level of Service, Signal Synchronization, Bicycle Paths and Fund Swap Projects.

COMPLIANCE SECTION



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To the Santa Clara County
Measure B Citizens Watchdog Committee
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, 2001, and have issued our report thereon dated December 7, 2001. 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.

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.

A handwritten signature in black ink that reads 'Macias, Gini & Company LLP'.

Certified Public Accountants

Walnut Creek, California
December 7, 2001