

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

Independent Auditor's Reports,
Financial Statements and Supplemental Information

For the Year Ended June 30, 2002

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM
For the Year Ended June 30, 2002

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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 (Program) of the County of Santa Clara, California (the County), as of and for the year ended June 30, 2002, as listed in the table of contents. 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, and do not, present fairly the financial position of the County as of June 30, 2002, and the changes in its financial position for the year then ended 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, 2002, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the County implemented Governmental Accounting Standards Board (GASB) Statement No.34, *Basic Financial Statements - Management Discussion and Analysis - for State and Local Governments*, GASB Statement No.37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2002 on our consideration of the County's internal control over financial reporting related to the Measure B Transportation Improvement Program 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.

Macias, Gini & Company LLP
 Certified Public Accountants
 Walnut Creek, California
 November 16, 2002, except for Note 6,
 as to which the date is February 20, 2003

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Balance Sheet
June 30, 2002
(In thousands)

ASSETS

| | |
|--|--------------------------|
| Cash and investments | \$ 160,221 |
| Interest receivable | 1,785 |
| Sales tax receivable | 23,081 |
| Project reimbursement advances to Santa Clara Valley Transportation Authority | <u>71,235</u> |
| Total assets | <u><u>\$ 256,322</u></u> |

LIABILITIES

| | |
|-----------------------------|--------------|
| Accounts payable | \$ 159 |
| Due to the County | 9 |
| Due to the County Road Fund | <u>3,620</u> |
| Total liabilities | <u>3,788</u> |

FUND EQUITY

| | |
|---|--------------------------|
| Fund balance: | |
| Reserved for encumbrances | 991 |
| Reserved for project reimbursement advances | 71,235 |
| Designated for the transportation improvement program | <u>180,308</u> |
| Total fund equity | <u>252,534</u> |
| Total liabilities and fund equity | <u><u>\$ 256,322</u></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, 2002
(In thousands)

| | |
|---|--------------------------|
| Revenues: | |
| Sales tax | \$ 143,871 |
| Investment income | <u>10,742</u> |
| Total revenues | <u>154,613</u> |
| Expenditures: | |
| Administration: | |
| Salaries and benefits | 202 |
| Administrative | 507 |
| Project management oversight | 660 |
| Transportation: | |
| Highway projects | 87,862 |
| Transit/railway projects | 42,780 |
| Other programs | <u>144,878</u> |
| Total expenditures | <u>276,889</u> |
| Deficiency of revenues under expenditures | <u>(122,276)</u> |
| Fund balance, beginning of year | <u>374,810</u> |
| Fund balance, end of year | <u><u>\$ 252,534</u></u> |

See accompanying notes to the financial statements

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Schedule of Revenues, Expenditures and Encumbrances -
Budget and Actual (Budget Basis)
For the Year Ended June 30, 2002
(In thousands)

| | Original Budget | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|--|--------------------|-----------------|------------------|---|
| Budgetary fund balances, beginning of year | \$ 374,810 | \$ 374,810 | \$ 374,810 | \$ - |
| Resources (inflows): | | | | |
| Sales tax | 153,000 | 151,600 | 143,871 | (7,729) |
| Investment income | 11,000 | 7,500 | 10,742 | 3,242 |
| Amounts available for appropriation | 538,810 | 533,910 | 529,423 | (4,487) |
| Charges to appropriations (outflows): | | | | |
| Administration: | | | | |
| Salaries and benefits | 274 | 274 | 202 | 72 |
| Administrative | 325 | 325 | 552 | (227) |
| Project management oversight | 1,000 | 1,000 | 1,606 | (606) |
| Transportation: | | | | |
| Highway projects | 103,772 | 103,772 | 87,862 | 15,910 |
| Transit/railway projects | 135,048 | 128,148 | 42,780 | 85,368 |
| Other programs | 179,583 | 214,587 | 144,878 | 69,709 |
| Total charges to appropriations | 420,002 | 448,106 | 277,880 | 170,226 |
| Budgetary fund balances, end of year | \$ 118,808 | \$ 85,804 | \$ 251,543 | \$ 165,739 |

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/outflows of resources

| | |
|---|------------|
| Actual amounts (budget basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 277,880 |
| Differences - budget to GAAP: | |
| Encumbrances for services and supplies ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year services are incurred or supplies are received for financial reporting purposes | (991) |
| Total expenditures as reported on the statement of revenues, expenditures and changes fund balance | \$ 276,889 |

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, 2002
(In Thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measure B Sales Tax

In November 1996, the voters of the County of Santa Clara (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 changes in financial position of the County in conformity with accounting principles generally accepted in the United States of America (GAAP).

Implementation of Governmental Accounting Standards Board Statements

Statement Nos. 34 and 37

During the year ended June 30, 2002, the County implemented GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*. These statements established new financial reporting requirements for state and local governments throughout the United States.

Statement No. 38

During the year ended June 30, 2002, the County also implemented GASB Statement No. 38, *Note Disclosures*. This statement modifies, adds and deletes various note disclosure requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transfers and balances, and short-term debt.

The implementation of GASB Statement Nos. 34, 37 and 38 had no impact on the Program's operations for the years ended June 30, 2002.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2002
(In Thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 basic 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.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2002
(In Thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 basic financial statements.

The Program's investments, at fair value, included the following as of June 30, 2002:

Non-categorized:

| | |
|---|-------------------|
| Cash and investments pooled with the County | \$ 160,221 |
| Total cash and investments | <u>\$ 160,221</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, 2002 total \$9.

Due to the County Road Fund – At June 30, 2002, the Program owed the County Road Fund \$3,620 for pavement management, level of service, signal synchronization.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2002
(In Thousands)

NOTE 4 – COMMITMENTS

In June 2002, the County’s Board of Supervisors adopted the Revenue and Expenditure Plan (Plan) committing the Program to provide resources for the following transportation improvement programs:

| | Total Commitment | Expenditures to Date | Outstanding Commitment |
|--------------------------|---------------------|-------------------------|---------------------------|
| Highway projects | \$ 474,312 | \$ 141,632 | \$ 332,679 |
| Transit/railway projects | 539,712 | 171,698 | 368,015 |
| Other programs | 467,903 | 293,962 | 173,941 |
| Total | \$ 1,481,927 | \$ 607,292 | \$ 874,635 |

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 may not exceed 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, 2002. The administrative expenditures are currently at 0.35% 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 |
| June 30, 2002 | 143,871 | 709 |
| Total | \$ 802,615 | \$ 2,817 |

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

NOTE 6 – SUBSEQUENT EVENT

On February 20, 2003, the Santa Clara County Financing Authority (Authority) issued Special Obligation Bonds (Measure B Transportation Improvement Program), Series 2003, in the amount of \$139,855,000. Interest rates range from 4.00% to 5.00% and the bonds will mature on August 1, 2006. The bonds were issued to finance or refinance a portion of the costs of acquiring, constructing and installing certain transportation improvements within the County included in the County’s 1996 Measure B Transportation Improvement Program. The debt is secured by annual appropriations by the County to the Authority of amounts sufficient to pay debt service requirements.

SUPPLEMENTAL INFORMATION

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Schedule of Reclassified Expenditures
For the Year Ended June 30, 2002
(In Thousands)

| Expenditures | After Reclassification | Prior to Reclassification |
|--------------------------|-----------------------------------|--------------------------------------|
| Transportation: | | |
| Highway projects | \$ 87,862 | \$ 87,862 |
| Transit/railway projects | 42,780 | 145,730 |
| Other programs | 144,878 | 41,928 |
| Total expenditures | <u>\$ 275,520</u> | <u>\$ 275,520</u> |

In FY 2002 management of the Program reclassified \$102,950 from Transit/railway projects to Other programs related to a bond swap implemented between the County and VTA. The Other Programs category 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, 2002, and have issued our report thereon dated November 15, 2002. Our report contained an explanatory paragraph describing the County's adoption of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* as of July 1, 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.

Macias, Gini & Company LLP
 Certified Public Accountants
 Walnut Creek, California
 November 16, 2002