

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

Independent Auditor's Reports
and Fund Financial Statements

For the Year Ended June 30, 2003

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM
For the Year Ended June 30, 2003

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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 fund 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, 2003, 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 do not purport to, and do not present fairly the financial position of the County of Santa Clara and the changes in its financial position 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, 2003, 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 discussed in Note 1 to the financial statements, the Program adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2003 on our consideration of the County's internal control over financial reporting related to the 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.

Macias, Gini & Company LLP

Walnut Creek, California
December 18, 2003

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

Balance Sheet
June 30, 2003
(In Thousands)

	Measure B Improvement Fund	Bond Proceeds Fund	Total (Memorandum Only)
ASSETS			
Cash and investments pooled with the County	\$ 102,838	\$ 204	\$ 103,042
Cash and investments with fiscal agent	-	14,424	14,424
Interest receivable	225	314	539
Sales tax receivable	23,342	-	23,342
Project reimbursement advances to Santa Clara Valley Transportation Authority	78,255	-	78,255
Total assets	\$ 204,660	\$ 14,942	\$ 219,602
LIABILITIES			
Accounts payable	\$ 3,532	\$ -	\$ 3,532
Interest payable	-	324	324
Due to the County	4,848	-	4,848
Total liabilities	8,380	324	8,704
FUND BALANCES			
Reserved for encumbrances	255	-	255
Reserved for project reimbursement advances	78,255	-	78,255
Reserved for debt service	-	13,986	13,986
Designated for the transportation improvement program	117,770	632	118,402
Total fund balances	196,280	14,618	210,898
Total liabilities and fund balances	\$ 204,660	\$ 14,942	\$ 219,602

See accompanying notes to the financial statements.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2003
(In Thousands)

	Measure B Improvement Fund	Bond Proceeds Fund	Total (Memorandum Only)
Revenues:			
Sales tax	\$ 132,657	\$ -	\$ 132,657
Investment income	2,288	632	2,920
Contributions and donations	1	-	1
Total revenues	134,946	632	135,578
Expenditures:			
Administration:			
Salaries and benefits	270	-	270
Administrative	414	-	414
Project management oversight	624	-	624
Bond issuance costs	-	1,106	1,106
Transportation:			
Highway projects	104,643	-	104,643
Transit/railway projects	160,369	-	160,369
Other (ancillary) programs	59,147	-	59,147
Total expenditures	325,467	1,106	326,573
Deficiency of revenues under expenditures	(190,521)	(474)	(190,995)
Other financing sources (uses):			
Contributions from the Authority's Special Obligation Bond Proceeds, Series 2003	-	149,359	149,359
Transfers in	134,267	-	134,267
Transfers out	-	(134,267)	(134,267)
Total other financing sources (uses)	134,267	15,092	149,359
Change in fund balances	(56,254)	14,618	(41,636)
Fund balances, beginning of year	252,534	-	252,534
Fund balances, end of year	\$ 196,280	\$ 14,618	\$ 210,898

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, 2003
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Budgetary fund balances, beginning of year	\$ 252,534	\$ 252,534	\$ 252,534	\$ -
Resources (inflows):				
Sales tax revenues	153,600	131,700	132,657	957
Donation	-	-	1	1
Interest income	1,240	1,310	2,920	1,610
Bond proceeds	-	148,517	149,359	842
Amounts available for appropriation	<u>154,840</u>	<u>281,527</u>	<u>284,937</u>	<u>3,410</u>
Charges to appropriations (outflows):				
Salaries and benefits	390	275	270	5
Administration	359	764	419	345
Program management oversight	800	800	874	(74)
Bond issuance costs	-	265	1,106	(841)
Transportation:				
Highway program	159,531	177,534	104,643	72,891
Rail program	178,603	223,692	160,369	63,323
Other (ancillary) programs:				
PMP	22,287	32,346	22,358	9,988
LOS	2,000	11,104	1,771	9,333
Signal synchronization	10,400	17,709	4,911	12,798
Bicycle	1,050	1,050	-	1,050
Fund swap	24,371	31,997	29,395	2,602
Mitigation site	7,583	7,583	712	6,871
Total charges to appropriations	<u>407,374</u>	<u>505,119</u>	<u>326,828</u>	<u>178,291</u>
Budgetary fund balances, end of year	<u>\$ -</u>	<u>\$ 28,942</u>	<u>\$ 210,643</u>	<u>\$ 181,701</u>

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

Sources/inflows of resources

Actual amounts (budget basis) "amounts available for appropriation" from the Statement of Revenues, Expenditures and Encumbrances-Budget to Actual

\$ 284,937

Differences - budget to GAAP:

Other financing sources from bond proceeds are inflows of budgetary resources but are not revenues for financial reporting purposes

(149,359)

Total revenues as reported on the Statement of Revenues, Expenditures and Changes Fund Balances

\$ 135,578

Uses/outflows of resources

Actual amounts (budget basis) "total charges to appropriations" from the Statement of Revenues, Expenditures and Encumbrances-Budget to Actual

\$ 326,828

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

(255)

Total expenditures as reported on the Statement of Revenues, Expenditures and Changes Fund Balances

\$ 326,573

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, 2003
(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 the 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 Pronouncement

In fiscal year 2003, the Program adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. The Statement modifies the custodial credit risk disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The disclosure changes related to implementing this pronouncement are reflected in Note 2.

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. The Program considers sales tax revenues to be available if they are collected within 180 days of the end of the current fiscal period. Investment income has been treated as "susceptible to accrual" under the modified accrual basis. Measure B sales tax reported to the State Board of Equalization on behalf of the Program for the period ending June 30th is also recognized as revenue. Expenditures are recorded when the related liability is incurred.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2003
(In Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The accounts of the Program are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The Program utilizes the Measure B Improvement fund to account for all general operating transactions and the Bond Proceeds fund to account for bond proceeds from Special Obligation Bonds (Measure B Transportation Improvement Program), Series 2003, issued in February 2003 by the Santa Clara County Financing Authority (the Authority), a component unit of the County.

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. Under GAAP accounting, encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

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.

Interfund Transactions

Interfund transactions are reflected as either reimbursements or transfers. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2003
(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 and disclosures. Actual results could differ from those estimates.

Total (Memorandum Only) Column

The total column in the combined balance sheet is captioned as “Total (Memorandum Only)” because it does not represent consolidated financial information and is presented only to facilitate financial analysis. The column does not represent information that reflects financial position or results of operations in accordance with accounting principles generally accepted in the United States of America.

NOTE 2 – CASH AND INVESTMENTS

Pooled with the County

The Program’s cash is invested with the County Treasurer’s (Treasurer) investment pool (the Pool). Investments made by the Treasurer are regulated by California Government Code and by the County’s investment policy which is approved annually by the County’s Treasury Oversight Committee. Adherence of the Treasurer to regulations, 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. The value of the Program’s shares in the Pool that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Program’s position in the Pool.

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.

Information regarding the County’s cash and investments pool, including credit risk, concentration of credit risk, interest rate risk, collateral, and maturities, can be found in Note 4 of the County’s basic financial statements.

Cash and investments with Fiscal Agent

Cash with Fiscal Agent is composed of unspent bond proceeds, reserves and associated interest earnings held by the Fiscal Agent. Unspent bond proceeds and associated interest earnings are intended either for future eligible project costs that have not yet occurred, or for principal and interest debt service payments that have not yet occurred as of the balance sheet date. Reserves held by the Fiscal Agent are funds that are legally restricted for the retirement of long-term Special Obligation Debt Bonds (Series 2003 issued by the Santa Clara County Financing Authority).

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

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2003
(In Thousands)

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments

Statutes authorize the Program to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody’s Investor Services, Inc. or Standard and Poor’s Corporation, bankers’ acceptances, corporate notes, negotiable certificates of deposit of nationally or state-chartered banks or savings and loan associations, mutual funds, repurchase and reverse repurchase agreements. Provisions of the Program’s bond trust agreement require that certain restricted accounts be established. These accounts are held by a trustee for the repayment of debt, construction and improvements, and as reserves. These funds have been invested only as permitted by specific state statutes and applicable resolutions or bond indentures.

Credit Risk

The Program’s investment policy limits mutual funds to investments in securities and obligations of the U.S. Government with the highest ranking or the highest letter and numerical rating by not less than two of the three nationally recognized rating services. The Program’s investment in money market mutual funds is not rated. The County investment pool (a permitted investment in accordance with the trust agreements) is not rated by any of the rating agencies.

A summary of the Program’s cash and investments at June 30, 2003 is shown below.

<i>Cash and Investments</i>	June 30, 2003		
	Fair Value	Investment (Maturities in Years)	
		Less than 1	1 - 5
Federal Agency Coupon Note	\$ 14,025	\$ -	\$ 14,025
Federal Agency Discount Note	325	-	325
Money Market Mutual Funds	74	74	-
Cash and investments in County Pool	103,042	103,042	-
Total cash and investments	\$ 117,466	\$ 103,116	\$ 14,350

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Program’s investment policy limits the maturity of the Program’s investments with fiscal agent to less than 5 years.

Additional information regarding custodial credit risk, interest rate risk and concentration of credit risk of the investments in the County Pool is presented in the Notes to the County’s basic financial statements.

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

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2003
(In Thousands)

NOTE 3 – DUE TO THE COUNTY

Due to the County is comprised of:

Due to the County General Fund – The County General Fund provides administrative personnel and facilities and is compensated based on actual costs incurred. Amounts due to the County General Fund at June 30, 2003 total \$7.

Due to the County Road Fund – At June 30, 2003, the Program owed the County Road Fund \$4,841 for pavement management, level of service, signal synchronization.

NOTE 4 – INTERFUND TRANSACTIONS

Transfers – During the year ended June 30, 2003, the Bond Proceeds fund transferred \$134,267 to the Measure B Improvement fund to provide financing resources to the Program.

NOTE 5 - CONTRIBUTIONS FROM THE AUTHORITY

In February 2003, the Santa Clara County Financing Authority issued Measure B Transportation Improvement Program Series 2003 special obligation bonds in the amount of \$139,855. These bonds are to be repaid from amounts appropriated by the County from its General Fund. Amounts appropriated from the General Fund are expected to be received from the “1996 Measure B Sales Tax Revenues” in accordance with the 1996 Measure B and the California Transactions and Use Tax Law. These bonds were issued to finance 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.

NOTE 6 – COMMITMENTS

In June 2003, 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	\$ 383,206	\$ 246,275	\$ 136,931
Transit/railway projects	509,689	332,067	177,622
Other programs	465,851	352,774	113,077
Debt service	158,184	-	158,184
Total	\$ 1,516,930	\$ 931,116	\$ 585,814

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, and the debt service associated with the Authority’s issuance of the special obligation bonds. The 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.

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

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2003
(In Thousands)

NOTE 7 – 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, 2003. The administrative expenditures are currently at 0.37% of total sales tax revenue.

Fiscal year ending June 30,	Sales Tax Revenue	Administrative Expenditures
1997-1998	\$ 169,542	\$ -
1999	139,359	901*
2000	166,338	655
2001	183,505	552
2002	143,871	709
2003	132,657	684
Total	<u>\$ 935,272</u>	<u>\$ 3,501</u>

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

COMPLIANCE SECTION

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, 2003, and have issued our report thereon dated December 18, 2003, which included an explanatory paragraph due to the Program adopting the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No.3*. 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, regulations, and contracts, 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 County'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 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
December 18, 2003