

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

Independent Auditor's Reports
and Fund Financial Statements

For the Year Ended June 30, 2005

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM
For the Year Ended June 30, 2005

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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, 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2005, and the changes in its financial position and respective budgetary comparison for the Program 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 2, 2005 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 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 on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Macias Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
December 2, 2005

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

Balance Sheet
June 30, 2005
(In Thousands)

	Measure B Improvement Fund	Bond Proceeds Fund	Total
ASSETS			
Cash and investments pooled with the County	\$ 139,371	\$ 725	\$ 140,096
Restricted cash and investments with fiscal agent	-	14,149	14,149
Interest receivable	680	74	754
Sales tax receivable	28,652	-	28,652
Prepaid items	2	-	2
Project reimbursement advances to Santa Clara Valley Transportation Authority	14,243	-	14,243
Total assets	\$ 182,948	\$ 14,948	\$ 197,896
LIABILITIES			
Accounts payable	\$ 98	\$ -	\$ 98
Due to the County	776	-	776
Total liabilities	874	-	874
FUND BALANCES			
Reserved for encumbrances	1	-	1
Reserved for prepaid items	2	-	2
Reserved for project reimbursement advances	14,243	-	14,243
Reserved for debt service	-	13,985	13,985
Designated for the transportation improvement program	167,828	963	168,791
Total fund balances	182,074	14,948	197,022
Total liabilities and fund balances	\$ 182,948	\$ 14,948	\$ 197,896

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, 2005
(In thousands)

	Measure B Improvement Fund	Bond Proceeds Fund	Total
Revenues:			
Sales tax	\$ 145,012	\$ -	\$ 145,012
Investment income	2,273	324	2,597
Total revenues	147,285	324	147,609
Expenditures:			
Administration:			
Salaries and benefits	288	-	288
Administrative	270	-	270
Project management oversight	781	-	781
Debt service:			
Interest expense	6,144	-	6,144
Transportation:			
Highway projects	38,828	-	38,828
Transit/railway projects	45,236	-	45,236
Other (ancillary) programs	10,382	-	10,382
Total expenditures	101,929	-	101,929
Excess of revenues over expenditures	45,356	324	45,680
Other financing sources (uses):			
Transfers in	4	-	4
Transfers out	-	(4)	(4)
Total other financing sources (uses)	4	(4)	-
Change in fund balances	45,360	320	45,680
Fund balances, beginning of year	136,714	14,628	151,342
Fund balances, end of year	\$ 182,074	\$ 14,948	\$ 197,022

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, 2005
(In thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Budgetary fund balances, beginning of year	\$ 151,342	\$ 151,342	\$ 151,342	\$ -
Resources (inflows):				
Sales tax revenues	132,949	142,871	145,012	2,141
Interest income	1,044	2,028	2,597	569
Transfers in	-	-	4	4
Amounts available for appropriation	<u>133,993</u>	<u>144,899</u>	<u>147,613</u>	<u>2,714</u>
Charges to appropriations (outflows):				
Salaries and benefits	301	301	289	12
Administration	512	459	270	189
Program management oversight	1,135	998	781	217
Interest expense	6,144	6,144	6,144	-
Transportation:				
Highway program	46,147	47,249	38,828	8,421
Rail program	54,751	52,185	45,236	6,949
Other (ancillary) programs:				
Pavement management program (PMP)				
Labor of service (LOS)	3,000	3,000	1,270	1,730
Signal synchronization	4,000	4,000	3,559	441
Bicycle	1,585	123	11	112
Fund swap	4,305	9,265	5,001	4,264
Mitigation site	755	596	541	55
Transfers out	53	53	4	49
Total charges to appropriations	<u>122,688</u>	<u>124,373</u>	<u>101,934</u>	<u>22,439</u>
Budgetary fund balances, end of year	<u>\$ 162,647</u>	<u>\$ 171,868</u>	<u>\$ 197,021</u>	<u>\$ 25,153</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 and Actual

\$ 147,613

Differences - budget to GAAP:

Interfund transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes

(4)

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

\$ 147,609

Uses/outflows of resources

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

\$ 101,934

Differences - budget to GAAP:

Interfund transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes

(4)

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

(1)

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

\$ 101,929

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, 2005
(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).

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.

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.

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 or acquiring, constructing and installing certain transportation improvements within the County included in the County’s 1996 Measure B Transportation Improvement Program.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2005
(In thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and the receipt and disbursement of interfund transfers.

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.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2005
(In thousands)

NOTE 2 – CASH AND INVESTMENTS

Pooled with the County

The Program's cash is invested with the County Treasurer's (the 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 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 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. At June 30, 2005, the Pool is unrated and the weighted average maturity is 289 days.

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 Notes of the County's basic financial statements.

Restricted 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 Bonds (Series 2003 issued by the Santa Clara County Financing Authority).

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 as permitted by the California government code, 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 rated Aaa by Moody's Investors Services and AAAM by Standard & Poor's. The Federal agency coupon notes are rated Aaa by Moody's Investors Services and AAA by Standard & Poor's. The County investment pool (a permitted investment in accordance with the trust agreements) is not rated by any of the rating agencies.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements (Continued)
 For the Year Ended June 30, 2005
 (In thousands)

NOTE 2 – CASH AND INVESTMENTS (Continued)

A summary of the Program’s cash and investments at June 30, 2005 is shown below.

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Maturities</u>		<u>Total</u>
		<u>Less Than Six Months</u>	<u>Six Months to One Year</u>	
Federal Agency Securities	Aaa	\$ -	\$ 13,659	\$ 13,659
Money Market Mutual Funds	Aaa	490	-	490
Investments in County Pool	Not Rated	-	140,096	140,096
		<u>\$ 490</u>	<u>\$ 153,755</u>	<u>\$ 154,245</u>

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.

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. There is \$6 due to the County General Fund at June 30, 2005.

Due to the County Road Fund – At June 30, 2005, the Program owed the County Road Fund \$770 for pavement management, level of service, and signal synchronization.

NOTE 4 – COMMITMENTS

In June 2005, 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:

	<u>Total Commitment</u>	<u>Expenditures to Date</u>	<u>Outstanding Commitment</u>
Highway projects	\$ 467,908	\$ 456,035	\$ 11,873
Transit/railway projects	419,639	356,073	63,566
Other programs	453,292	406,044	47,248
Debt service	157,858	11,725	146,133
Total	<u>\$ 1,498,697</u>	<u>\$ 1,229,877</u>	<u>\$ 268,820</u>

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. 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, 2005
(In thousands)

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, 2005. The administrative expenditures are currently at 0.38% of total sales tax revenue.

Fiscal year ending June 30,	Sales Tax Revenue	Administrative Expenditures
1997	\$ 31,680	\$ -
1998	137,862	-
1999*	139,359	901
2000	166,338	655
2001	183,505	552
2002	143,871	709
2003	132,657	684
2004	138,714	552
2005	145,012	558
Total	<u>\$ 1,218,998</u>	<u>\$ 4,611</u>

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

COMPLIANCE SECTION



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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AND 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, 2005, and have issued our report thereon dated December 2, 2005, which includes an explanatory paragraph indicating that the financial statements present only the Program and do not present the financial position and the changes in financial position of the County of Santa Clara. 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.

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 Program's financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control of financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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, 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 Standards*.

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 2, 2005