

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

**INDEPENDENT AUDITOR'S REPORT
AND FUND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2011

**COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM
FOR THE YEAR ENDED JUNE 30, 2011**

Table of Contents

| | Page (s) |
|---|-----------------|
| Independent Auditor's Report | 1 |
| Fund Financial Statements: | |
| Balance Sheet | 2 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 3 |
| Notes to the Financial Statements | 4 |
| Supplementary Information: | |
| Schedule of Revenues, Expenditures and Encumbrances Budget and Actual (Budgetary Basis) | 10 |
| Compliance Section: | |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 12 |



INDEPENDENT AUDITOR'S REPORT

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

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, 2011, as listed in the table of content. 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 State of America and the standards applicable to financial audit 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 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 statements 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, 2011, 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 accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011 on our consideration of the Program's internal control over financial reporting related to the Program and on our test 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 result 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 conjunction with this report in considering the results of our audits.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
October 31, 2011

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

Balance Sheet
June 30, 2011
(In Thousands)

| | Measure B Improvement Fund |
|--|---|
| | |
| ASSETS | |
| Cash and investments pooled with the County | \$ 10,695 |
| Interest receivable | 19 |
| Project reimbursement advances to Santa Clara Valley Transportation Authority | 16,840 |
| Total assets | \$ 27,554 |
| LIABILITIES | |
| Due to the County | \$ 75 |
| FUND BALANCE | |
| Restricted for project reimbursement advances | 16,840 |
| Restricted for the transportation improvement program | 10,639 |
| Total fund balance | 27,479 |
| Total liabilities and fund balance | \$ 27,554 |

The accompanying notes are an integral part of these 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, 2011
(In Thousands)

| | Measure B Improvement Fund |
|---|---|
| REVENUES | |
| Sales tax | \$ 432 |
| Investment income | 94 |
| Total Revenues | 526 |
| EXPENDITURES | |
| Administration: | |
| Salaries and benefits | 2 |
| Administrative | 63 |
| Project management oversight | 26 |
| Transportation: | |
| Highway projects | 631 |
| Transit/railway projects | 54 |
| Other (ancillary) programs | 1,495 |
| Total Expenditures | 2,271 |
| Excess (Deficiency) of Revenues Over (Under)Expenditures | (1,745) |
| Other Financing Sources (Uses) | |
| Transfers out | (159) |
| Changes in fund balance | (1,904) |
| Fund balance, beginning of year | 29,383 |
| Fund balance, end of year | \$ 27,479 |

The accompanying notes are an integral part of these financial statements.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements
June 30, 2011
(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 Supervisor's to be spent on the County's Transportation Improvement Program.

The Measure B sales tax ended March 30, 2006 and collections were received through May 2006. In addition, the County continues to collect residual sales tax revenues based upon amended merchant tax returns or from audits of merchants conducted by the State Board of Equalization.

The financial statements present only the Program and are not intended to present the financial position and changes in financial positions of the County in conformity with accounting principles generally accepted in the United State 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 actual" under the modified accrual basis. Measure B sales tax reported to the State Board of Equalization on behalf of the Program for the period ended 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 Transportation Improvement fund to account for all general operating transactions.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements
June 30, 2011
(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 purchases 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 subsequent to the Program's fiscal year-end relating to the current 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 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
June 30, 2011
(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 share 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 deposits, medium term notes, commercial paper, and passbook savings/checking accounts as authorized by State statutes and the County's investment policy. At June 30, 2011, the Pool is unrated and the weighted average maturity is 451 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 to the County's basic financial statements.

Investments

Statutes authorize the Program to invest in obligations of the U.S. Treasury or U.S Agencies, commercial paper of "prime" quality, bankers' acceptances, corporate notes, negotiable certificates of deposit of nationally or state-chartered banks or savings and loan associations, mutual fund, and as permitted by the California government code, repurchase and reverse repurchase agreements.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Program's investment in the County pool is not rated as of June 30, 2011.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements
June 30, 2011
(In Thousands)

NOTE 2- CASH AND INVESTMENTS (Continued)

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 fiscal agent to less than 5 years.

NOTE 3- DUE TO THE COUNTY

Due to the County is comprised of amounts due to the County Road Fund. At June 30, 2011, the Program owed the County Road Fund \$75 for capital project reimbursements that was paid in the following year.

NOTE 4- COMMITMENTS

In June 2006, the County's Board of Supervisors adopted the Revenue and Expenditures Plan (the Plan) committing the Program to provide resources for transportation improvement programs. Year to date expenditures for these projects are presented below:

| | Expenditures to Date |
|--------------------------|-------------------------|
| Highway projects | \$ 424,511 |
| Transit/railway projects | 487,646 |
| Other programs | 463,952 |
| Debt services | 158,183 |
| Total | <u>\$ 1,534,292</u> |

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements
 June 30, 2011
 (In Thousands)

NOTE 4- COMMITMENTS (Continued)

The majority of 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 the Agreement, VTA is responsible for the administration of the bid and contacts 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 Board of both entities.

NOTE 5 - ADMINISTRATION 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, 2011. The administrative expenditures are at 0.48% of the total sales tax revenue as of June 30, 2011.

| Fiscal Year Ending June 30, | Sales Tax Revenues | 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 |
| 2006 | 119,088 | 753 |
| 2007 | 2,339 | 449 |
| 2008 | 2,657 | 238 |
| 2009 | 530 | 221 |
| 2010 | 607 | 192 |
| 2011 | 432 | 65 |
| | <u>\$ 1,344,651</u> | <u>\$ 6,529</u> |

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

SUPPLEMENTARY INFORMATION

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Statement of Revenues, Expenditures and Encumbrances-
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011
(In Thousands)

| | Original Budget | Final Budget | Actual | Variance-Favorable (Unfavorable) |
|---|--------------------|-----------------|-----------|-------------------------------------|
| Budgetary fund balance, beginning of year | \$ 29,383 | \$ 29,383 | \$ 29,383 | \$ - |
| Resources (inflows): | | | | |
| Sales tax revenues | 650 | 650 | 432 | (218) |
| Interest income | 178 | 178 | 94 | (84) |
| Amounts available for appropriation | 828 | 828 | 526 | (302) |
| Charges to appropriations (outflows): | | | | |
| Salaries and benefits | - | 2 | 2 | - |
| Administration | 300 | 298 | 63 | 235 |
| Program management oversight | 161 | 161 | 26 | (135) |
| Transportation: | | | | |
| Highway program | 1,600 | 1,600 | 631 | 969 |
| Rail program | 3,200 | 3,200 | 54 | 3,146 |
| Other ancillary programs: | | | | |
| Level of service (LOS) | - | 4,800 | 531 | 4,269 |
| Signal synchronization | - | 361 | 268 | 93 |
| Bicycle | - | - | 724 | (724) |
| Fund Swap | 1,000 | 1,000 | 3 | 997 |
| Mitigation site | 450 | 450 | (31) | 481 |
| Transfers out | - | 159 | 159 | - |
| Total charges to appropriations | 6,711 | 12,031 | 2,430 | 9,601 |
| Budgetary fund balance, end of year | \$ 23,500 | \$ 18,180 | \$ 27,479 | \$ 9,299 |

COMPLIANCE SECTION



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

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

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, 2011, and have issued our report thereon dated October 31, 2011, 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 Program’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's Fund 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. In addition, we performed specific testing to determine that the Measure B funds were expended for transportation projects specified in Measure A and/or approved by the County Board of Supervisors. 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.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
October 31, 2011