

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

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

FOR THE YEAR ENDED JUNE 30, 2017

**COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM
FOR THE YEAR ENDED JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure B Transportation Improvement Program (Program) of the County of Santa Clara, California (County), as of and for the year ended June 30, 2017 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis Matters

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 as of June 30, 2017 and the changes in its financial position in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's financial statements. The Schedule of Revenues and Expenditures – Budget to Actual is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues and Expenditures – Budget to Actual is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2018 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* in considering the Program's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 8, 2018

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

**Balance Sheet
June 30, 2017
(In Thousands)**

| | Measure B Transportation Improvement Fund |
|--|--|
| ASSETS | |
| Cash and investments pooled with the County | \$ 225 |
| Interest receivable | 1 |
| Project reimbursement advances to Santa Clara Valley Transportation Authority | <u>1,178</u> |
| Total Assets | <u><u>\$ 1,404</u></u> |
| FUND BALANCE | |
| Restricted for project reimbursement advances | \$ 1,178 |
| Restricted for the transportation improvement program | <u>226</u> |
| Total Fund Balance | <u>1,404</u> |
| Total Liabilities and Fund Balance | <u><u>\$ 1,404</u></u> |

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

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

**Statements of Revenues, Expenditures and Change in Fund Balance
For the Year Ended June 30, 2017
(In Thousands)**

| | <u>Measure B Transportation Improvement Fund</u> |
|---|---|
| REVENUES | |
| Investment income | \$ - |
| Total Revenues | - |
| EXPENDITURES | |
| Administration: | |
| Administrative | 22 |
| Project management oversight | 6 |
| Transportation: | |
| Highway projects | 107 |
| Transit/railway projects | 2,415 |
| Total Expenditures | 2,550 |
| Excess of Expenditures Over Revenues | (2,550) |
| Fund Balance, Beginning of Year | 3,954 |
| Fund Balance, End of Year | \$ 1,404 |

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, 2017
(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 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 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 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, 2017
(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.

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, 2017
(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, 2017, the Pool is unrated and the weighted average maturity is 528 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 funds, 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, 2017.

COUNTY OF SANTA CLARA
MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

Notes to the Financial Statements
June 30, 2017
(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 manages its exposure to interest rate risks by substantially depositing its cash with the county Pool.

NOTE 3 – COMMITMENTS

In June 2006, the County’s Board of Supervisors adopted the last amended Revenue and Expenditures Plan (the Plan) committing the Program to provide resources for transportation improvement programs. Inception-to-date expenditures for these projects are presented below (in thousands):

| | <u>Inception to Date</u> |
|--------------------------|------------------------------|
| Highway projects | \$ 425,943 |
| Transit/railway projects | 496,610 |
| Other programs | 474,522 |
| Debt services | <u>158,183</u> |
| Total | <u><u>\$ 1,555,258</u></u> |

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 contracts 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.

During the fiscal year 2016-17, the California State Board of Equalization (BOE) determined that overpayments of sales tax amounting to \$476,953 were made to the Program. These overpayments were the result of refunds and adjustments based on audits conducted by the BOE. The BOE has not requested the overpayments to be paid back. However, in the event BOE requests the overpayments to be paid back, the County will seek reimbursement from VTA for those overpayments.

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

**Notes to the Financial Statements
June 30, 2017
(In Thousands)**

NOTE 4 – 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, 2017. The administrative expenditures are at 0.49% of the total sales tax revenue as of June 30, 2017.

| 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 |
| 2012 | 525 | 15 |
| 2013 | 213 | 20 |
| 2014 | 88 | 32 |
| 2015 | - | 28 |
| 2016 | - | 26 |
| 2017 | - | 28 |
| | <u>\$ 1,345,477</u> | <u>\$ 6,678</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**

**Schedule of Revenues, Expenditures -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2017
(In Thousands)**

| | Original Budget | Final Budget | Actual | Variance-Positive (Negative) |
|---|--------------------|-----------------|----------|---------------------------------|
| Budgetary fund balance, beginning of year | \$ 3,954 | \$ 3,954 | \$ 3,954 | \$ - |
| Resources (inflows): | | | | |
| Interest income | 3 | 3 | - | (3) |
| Amounts Available for Appropriation | 3 | 3 | - | (3) |
| Charges to appropriations (outflows): | | | | |
| Administration | 24 | 24 | 22 | 2 |
| Program management oversight | 7 | 7 | 6 | 1 |
| Projects and programs | - | 3,269 | 2,522 | 747 |
| Transfers out | - | 315 | - | 315 |
| Total Charges to Appropriations | 31 | 3,615 | 2,550 | 1,065 |
| Budgetary Fund Balance, End of Year | \$ 3,926 | \$ 342 | \$ 1,404 | \$ 1,062 |

COMPLIANCE SECTION



**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***

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

We have audited, in accordance with the 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, the financial statements of the Measure B Transportation Improvement Program (Program), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated January 8, 2018. Our report included an emphasis of mater indicating 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Program's internal control.

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 a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 8, 2018