

**SANTA CLARA VALLEY  
TRANSPORTATION AUTHORITY  
CONGESTION MANAGEMENT PROGRAM**

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**INDEPENDENT AUDITOR'S REPORT,  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

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**June 30, 2006**

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
CONGESTION MANAGEMENT PROGRAM  
FOR THE YEAR ENDED**

**JUNE 30, 2006**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Santa Clara Valley Transportation Authority  
San Jose, California

We have audited the accompanying financial statements of the Special Revenue Fund and the Agency Fund of the Santa Clara Valley Transportation Authority Congestion Management Program (CMP) as of and for the year ended June 30, 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of management of the CMP. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the CMP's financial statements, audited by other auditors whose report thereon dated October 26, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

As described in Note 2(a) of the financial statements, the financial statements referred to the above, present only the financial activities of the CMP and do not purport to, and do not present the financial position and changes in the financial position of the Santa Clara Valley Transportation Authority 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 respective financial position of the Special Revenue Fund and the Agency Fund of the CMP as of June 30, 2006, and the changes in financial position of the Special Revenue Fund for the year then ended in conformity with principles generally accepted in the United States of America.

As described in Note 2(m) of the financial statements, the financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the CMP's financial statements for the year ended June 30, 2005, from which the partial information was derived.

Our audit was conducted for the purpose of forming opinions on the financial statements of the special revenue fund and the agency fund of the CMP. The budgetary comparison schedule, as listed in the accompanying table of contents as supplementary information, is presented for purposes of additional analysis and is not a required part of the financial statements of the CMP. Such information has been subjected to the auditing procedures applied in the audit of the financial statement of the CMP and, in our opinion, is fairly stated in all material respects in relation to the financial statements of the CMP taken as a whole.

Varrinek Trine Day + Co. LLP

Palo Alto, California  
November 16, 2006

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
CONGESTION MANAGEMENT PROGRAM**

**BALANCE SHEET - SPECIAL REVENUE FUND**

**JUNE 30, 2006 AND 2005  
(in thousands)**

	2006	2005
<b>Assets</b>		
Equity in VTA's cash and investment pool	\$ 2,749	\$ 3,352
Due from other funds		147
Due from other governmental agencies	915	510
	3,664	4,009
<b>Total Assets</b>	3,664	4,009
 <b>Liabilities and Fund Balance</b>		
Accounts payable	170	79
Other accrued liabilities		80
Due to other funds	25	
Due to other governmental agencies	1,383	
Deferred revenue	156	1,499
<b>Total Liabilities</b>	1,734	1,658
 Fund balance, designated for capital projects	850	
Fund balance, unreserved	1,080	2,351
	1,930	2,351
<b>Total Fund Balance</b>	1,930	2,351
 Total Liabilities and Fund Balance	\$ 3,664	\$ 4,009

See accompanying notes to financial statements.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
CONGESTION MANAGEMENT PROGRAM**

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - SPECIAL REVENUE FUND**

**FOR THE YEARS ENDED JUNE 30, 2006 AND 2005  
(in thousands)**

	2006	2005
Revenues		
Member agency assessment revenue	\$ 2,250	\$ 2,174
Federal grant revenues	621	1,036
Administrative fees	40	57
State operating assistance grants	229	63
Investment earnings	39	97
Other revenues	28	105
Total Revenues	3,207	3,532
Expenditures		
VTA labor and overhead costs	2,823	
Salaries and benefits		2,160
Services and other	803	640
Capital outlay	2	
Total Expenditures	3,628	2,800
Change in fund balance	(421)	732
Fund Balance, Beginning of Year	2,351	1,619
Fund Balance, End of Year	\$ 1,930	\$ 2,351

See accompanying notes to financial statements.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
CONGESTION MANAGEMENT PROGRAM**

**STATEMENT OF FIDUCIARY ASSETS AND  
LIABILITIES - AGENCY FUND**

**JUNE 30, 2006 AND 2005  
(in thousands)**

	<u>2006</u>	<u>2005</u>
Restricted assets		
Equity in VTA's cash and investment pool	<u>\$ 3,983</u>	<u>\$ 5,779</u>
Liabilities payable from restricted assets		
Accounts payable	\$ 3,983	\$ 158
Due to Bay area Air Quality Management District		<u>5,621</u>
Total liabilities payable from restricted assets	<u>\$ 3,983</u>	<u>\$ 5,779</u>

See accompanying notes to financial statements.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
CONGESTION MANAGEMENT PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

***NOTE 1 – ORGANIZATION***

The Congestion Management Program (CMP) for Santa Clara County was created in 1990 in response to Proposition 111. It was established as a joint powers authority with a separate governing board. On January 1, 1995, pursuant to the separation of the Santa Clara County Transit District from the County of Santa Clara, the CMP was merged with the Transit District to form the Valley Transportation Authority (VTA) under a new governing Board.

The CMP is governed by a joint powers agreement entered into by its 16 member agencies, comprised of the 15 municipalities within Santa Clara County and the County government. The Member Agencies are: the cities of Campbell, Cupertino, Gilroy, Los Altos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, Saratoga, San Jose, Santa Clara, and Sunnyvale; the towns of Los Altos Hills and Los Gatos; and the County of Santa Clara. VTA serves as the managing agency of the CMP.

The CMP is responsible for development and implementation of the Valley Transportation Plan (VTP) 2030, the current comprehensive long-range multimodal transportation plan for the county, and for preparing and implementing the state-mandated CMP. It is also responsible for the programming and monitoring of discretionary federal, state, regional and local funds programmed by the VTA Board and for serving as the program manager for certain countrywide grant funds, including the Transportation Fund for Clean Air (TFCA) and the Measure B Transportation Improvement Program (MBTIP) Ancillary Program. It is also responsible for preparation and implementation of the Countywide Bicycle Plan, Pedestrian Program and the Intelligent Transportation Systems (ITS) Plan.

The CMP is funded in part by annual fees charged to each Member Agency based on a formula adopted by the VTA governing board. The contribution formula considers each Member Agency's share of Proposition 111 state gas tax monies, as well as employment within the County. The CMP is also funded by federal and state planning grants and other grant sources, TFCA administration fees and SB45 programmed project monitoring funds. The fiscal resources of the CMP are distinct from those of VTA Transit Enterprise.

***NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES***

**A. Basis of Presentation**

The accompanying financial statements present only the financial activities of the CMP and are not intended to present the financial position and changes in financial position of the VTA. They are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

**B. Description of Funds**

The accounts of the CMP are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 2 – SIGNIFICANT ACCOUNTING PRINCIPLES, (Continued)**

The funds are grouped into broad fund categories as follows:

**Special Revenue Fund (Government Fund)** – is used to account for the CMP’s governmental activities. The measurement focus is based upon the determination of changes in financial position rather than upon the determination of net income. A special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**Agency Fund (Fiduciary Fund)** – is used to account for assets held by the CMP as an agent for individuals, private organizations, other governmental units, and/or other funds. The Agency Fund includes activities related to the Bay Area Air Quality Management District’s (BAAQMD) Transportation Fund for Clean Air (TFCA) 40% Program.

**C. Basis of Accounting**

The Special Revenue Fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when “susceptible to accrual” (i.e. when they become both measurable and available). “Measurable” means that the amount of the transaction can be determined and “available” means that revenues are collectible within 60 days of year-end. Revenues susceptible to accrual include member agency assessments, administrative fees and grants. Expenditures are recorded when a liability is incurred, as under accrual accounting.

The Agency Fund assets and liabilities are reported using the economic resources measurement focus and the accrual basis of accounting.

**D. Investments**

The CMP’s investments are pooled with the VTA’s cash and investment pool. The VTA has reported its investments at fair value based on quoted market information obtained from a pricing service provided by the investment management firms. The corresponding change in fair value of investments is recognized in the year in which the change occurs. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned and available.

**E. Restricted Assets and Liabilities Payable from Restricted Assets**

Restricted assets and liabilities payable from restricted assets of the Agency Fund consist of monies and other resources, the use of which is legally restricted for certain capital projects and for the purpose of administering the Bay Area Air Quality Management Program. The Bay Area Air Quality Management District’s Transportation Fund for Clean Air 40% Program was created to administer certain projects that improve air quality in the County. Included in FY2006 Special Revenue Fund was \$40,000 of administrative fees related to this program.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
CONGESTION MANAGEMENT PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 2 – SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

**F. Deferred Revenue**

The CMP reports deferred revenue for both unearned revenue and revenue that does not meet its revenue recognition policy for its Special Revenue Fund. Unearned revenue arises when resources are received by the CMP before it has a legal claim to them (e.g. when grant monies are received prior to the incurrence of qualifying expenditures). In subsequent periods, when the CMP has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Included in unearned revenue is \$156,000 representing 4<sup>th</sup> quarter FY2006 qualifying expenditures billed to the Metropolitan Transit Commission (MTC). The reimbursement is expected to be received during FY2007 and will be recognized as revenue at that time.

**G. Due To Other Government Agencies**

Due to other government agencies at year end of \$1,383,000 was comprised of the undisbursed portion of the grant for the Best Practices Planning Program received during the FY2003 in the amount of \$1,408,000. Qualifying expenditures of \$25,000 were incurred in the FY2006.

**H. Member Agency Assessment Revenue**

Assessments of \$2,250,000 from fuel tax subventions pursuant to Proposition 111 were invoiced to member agencies during FY2006.

**I. Federal Grant Funds**

Federal grant funds are accounted for in accordance with the purpose for which the funds are intended. Approved grants for operating assistance are recorded as revenues when the related expenditures are incurred and are considered available. In FY2006, expenditures of federal technical studies operating assistance grants of approximately \$530,000 are included in VTA labor costs and service expenditures in the accompanying statement of revenues, expenditures and changes in fund balance. Federal technical studies operating assistance grants are approved by the Metropolitan Transportation Commission (MTC), the agency responsible for allocating such federal funds. In addition, the CMP recognized \$91,000 of federal maintenance grants from MTC in FY2006.

**J. Compensated Absences**

Beginning in FY2004, vested or accumulated vacation and sick leave are reported separately in VTA's Internal Service Fund. For FY2006, the liability for compensated absences was \$290,000.

**K. VTA Labor and Overhead Costs**

Beginning with FY2006, as part of the major reorganization of the Development & Congestion Management Division, 27 positions in CMP were pooled with existing VTA planning staff to improve efficiency and reduce cost by combining similar functions. These positions continued to provide services to CMP and were charged to CMP accordingly. During FY2006, CMP was charged \$2,823,000 in labor and overhead costs for services provided by VTA to CMP.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

***NOTE 2 – SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)***

**L. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amount and disclosures. Accordingly, actual results may differ from those estimates.

**M. Comparative Data**

The comparative data for fiscal year ended June 30, 2005 provided in these financial statements is not required for a fair presentation of the financial statements, but is presented as additional analytical data.

***NOTE 3 – CASH AND INVESTMENTS***

**Equity in VTA's Cash and Investment Pool** – The VTA's investment policies conform to State statutes, and provide written investment guidance regarding the types of investments that may be made and amounts that may be invested in any one financial institution or amounts that may be invested in long-term instruments. Permissible investments included deposits with the County Treasurer in a commingled account, obligations of the U.S. Treasury, U.S. government agencies, the State of California Local Agency Investment Fund (LAIF), certain time deposits, certificates of deposit, bankers' acceptances, commercial paper, medium-term corporate notes and repurchase and reverse repurchase agreements. Investments in commercial paper must be rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Negotiable certificates of deposit are restricted to those rated B or better by the Thompson Bankwatch, Inc. rating service.

At June 30, 2006, the balance of the CMP's equity in the VTA's cash and investment pool was \$6,732,000 (CMP \$2,749,000 and BAAQ \$3,983,000). The VTA cash and investment pool possesses the characteristics of a demand deposit account, and consists of investments permitted by the VTA's investment policy. Additional information regarding types of investments, insurance, collateralization, interest rate risk and credit risk of the VTA's pooled investments is presented in Note 3 of the VTA's basic financial statements.

***NOTE 4 – DUE FROM OTHER FUNDS***

At June 30, 2006, due from other governmental agencies in the Special Revenue Fund was \$915,000. Of this amount, \$686,000 represents FY2006 revenue billable to Metropolitan Transportation Commission (MTC) and \$229,000 represents FY2006 revenue billable to the State of California Department of Transportation.

***NOTE 5 – FUND BALANCE***

At June 30, 2006, total fund balance for CMP was \$1,930,000. The fund balance includes \$850,000 designated for capital projects that were recommended by the CMPP Committee and approved by the VTA Board of Directors and were not completed as of June 30, 2006.

## **SUPPLEMENTARY INFORMATION**

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
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**BUDGETARY COMPARISON SCHEDULE  
SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2006  
(in thousands)**

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>Revenues</b>				
Assessments to member agencies	\$ 2,250	\$ 2,250	\$ 2,250	\$ -
Federal grant revenues	686	686	621	(65)
Administrative fees	115	115	40	(75)
State operating assistance grants	229	229	229	-
Other non-operating revenue	15	15	28	13
Total Revenue	<u>3,295</u>	<u>3,295</u>	<u>3,168</u>	<u>(127)</u>
<b>Expenditures</b>				
VTA labor and overhead costs	2,680	2,680	2,823	(143)
Services and other:				
Materials and supplies	2	2	-	2
Professional services	875	875	525	350
Other services	215	215	61	154
Data processing	45	45	84	(39)
Office expense	15	15	67	(52)
Communication and telephone services	3	3	2	1
Employee related expense	40	40	22	18
Leases and rentals	8	8	5	3
Miscellaneous	133	133	37	96
Other expenses	12	12	2	10
Total Expenditures	<u>4,028</u>	<u>4,028</u>	<u>3,628</u>	<u>400</u>
Change in Fund Balance, on a Budgetary Basis	<u>\$ (733)</u>	<u>\$ (733)</u>	<u>(460)</u>	<u>\$ 273</u>
<b>Revenues Not Budgeted</b>				
Investment earnings			39	
Change in Fund Balance, on a GAAP Basis			(421)	
Fund Balance, Beginning of Year			<u>2,351</u>	
Fund Balance, End of Year			<u>\$ 1,930</u>	

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
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**BUDGETARY COMPARISON SCHEDULE  
SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2006  
(in thousands)**

State law requires the adoption of an annual budget, which must be approved by the Board of Directors of the Santa Clara Valley Transportation Authority (VTA). VTA budgets annually for the Congestion Management Program (CMP) Special Revenue Fund. The budget is prepared on the modified accrual basis, which is similar to the accounting principles generally accepted in the United States of America.

Budgetary control is maintained at the fund level. Line item reclassification amendments to the budget must be authorized by the responsible Division Chief. The VTA did not budget for investment earnings for FY2006. However, as the CMP has been reporting investment earnings in FY2005 and FY2006, VTA will start estimating earnings with the FY2008 and FY2009 Biennial Budget. Operating expenditures are monitored by managers who are assigned responsibility for controlling their budgets. Annual appropriations for the operating budget lapse at the end of the fiscal year to the extent that they have been expended.

Supplemental budgetary changes are made to the Special Revenue Fund throughout the year, and if any, are reflected in the accompanying budgetary comparison schedule.