

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

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

June 30, 2008

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
CONGESTION MANAGEMENT PROGRAM
FOR THE YEAR ENDED JUNE 30, 2008**

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Executive Summary

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. In January 1995, the Santa Clara County Transit District was designated the Congestion Management Agency for Santa Clara County. At the same time, the Transit District was legislatively reformed as the Santa Clara Valley Transportation Authority (VTA) under a new governing Board.

The CMP is governed by a joint powers agreement entered into between 15 cities (member agencies) within Santa Clara County, the County and VTA. 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. VTA serves as the managing agency of the CMP.

The CMP is responsible for:

- the development and implementation of the Valley Transportation Plan (VTP);
- the comprehensive long-range multimodal transportation plan for the county;
- the preparation and implementation of the state-mandated CMP;
- the programming and monitoring of discretionary federal, state, regional and local funds programmed by the VTA Board;
- serving as the program manager for certain countywide grants funds, including Transportation Fund for Clean Air (TFCA) 40% Program funds and the Measure B Transportation Improvement Program (MBTIP) Ancillary Program;
- the 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 each Member Agency's proportion of total 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.

FY2008 Financial Highlights

Financial Audit

The Joint Powers Agreement with the member agencies requires an annual audit of CMP's accounts and records to be conducted by an independent Certified Public Accountant. For FY2008, Vavrinek, Trine, Day and Company LLP (VTD), a certified public accounting firm, has audited the CMP's financial records and financial statements. The Independent Auditor's report, CMP's financial statements and notes to financial statements are contained in the Financial Section of this report.

VTD has issued a "clean" or unqualified opinion on CMP's financial statements. The audit report, found on page 1, states that the CMP's financial statements present fairly, in all material respects, the respective financial position of the CMP as of June 30, 2008, and the changes in financial position of the CMP for the year then ended in conformity with principles generally accepted in the United States of America. There were no significant deficiencies or material weaknesses in internal control procedures.

CMP Revenues

The CMP is funded by a number of revenue sources. The table below shows the revenues for FY2008 and FY2007 (in thousands):

<u>Category</u>	<u>FY2008</u>	<u>FY2007</u>	<u>Change</u>	<u>Percent</u>
Member agencies assessments revenues	\$ 2,410	\$ 2,329	\$ 81	3%
Federal grant revenues	1,102	794	308	39%
Administrative fees	65	68	(3)	(4%)
State operating assistance grants	1,091	229	862	376%
Investment earnings	122	134	(12)	(9%)
Other revenues	151	3	148	4,933%
Total Revenues	<u>\$ 4,941</u>	<u>\$ 3,557</u>	<u>\$ 1,384</u>	<u>39%</u>

Total CMP revenues, which mainly include member assessment and grants, were \$4.9 million in FY2008; \$1.4 million higher than the prior year due primarily to higher Surface Transportation Program (STP) grant receipts, member-agency assessment dues and State operating assistance grants and other revenues compared to FY2007. In FY2008, CMP received a \$750 thousand grant from The Metropolitan Transportation Commission (MTC) to fund certain eligible programs related to VTA's paratransit program. As of June 30, 2008, CMP expended and recognized \$151 thousand of Lifeline Grant revenues which are reported as Other Revenues.

CMP Expenditures

The table below shows the CMP expenditures for FY2008 and FY2007 (in thousands):

<u>Category</u>	<u>FY2008</u>	<u>FY2007</u>	<u>Change</u>	<u>Percent</u>
VTA labor and overhead costs	\$ 3,337	\$ 3,093	\$ 244	8%
Services and other expenses	770	888	(118)	(13%)
Capital outlay	805	40	765	1913%
Total Expenditures	<u>\$ 4,912</u>	<u>\$ 4,021</u>	<u>\$ 891</u>	<u>22%</u>

Total expenses were \$4.9 million, an increase of \$891 thousand mainly due to higher labor costs as the CMP project activity increased during FY2008 compared to the prior fiscal year. In addition, CMP incurred capital outlay on projects which were deferred in prior fiscal years.

CMP Fund Balance

The Statement of Revenues, Expenditures, and Changes in Fund Balance on page 4 shows a total fund balance of \$1.5 million as of June 30, 2008. This is \$29 thousand higher than the fund balance reported in FY2007.



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, 2008, 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 summarized comparative information was derived from the CMP's 2007 financial statements and, in our report dated November 26, 2007, we expressed unqualified opinions on them.

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, 2008, 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(L) 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, 2007, 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. The executive summary is not a required part of the basic financial statements. We did not audit the information contained in the summary and express no opinion on it.

Varrinck Trime Day + Co. LLP

Palo Alto, California
January 20, 2009

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
CONGESTION MANAGEMENT PROGRAM
Balance Sheet – Special Revenue Fund
June 30, 2008 and 2007
(in thousands)

Assets	2008	2007
Equity in VTA’s cash and investment pool	\$ 3,100	\$ 2,381
Due from other funds	52	61
Due from other governmental agencies	217	859
Other current assets	10	-
Total Assets	<u>3,379</u>	<u>3,301</u>
Liabilities and Fund Balance		
Accounts payable	179	263
Due to other funds	-	50
Due to other governmental agencies	1,105	1,325
Deferred revenues	600	197
Total Liabilities	<u>1,884</u>	<u>1,835</u>
Fund balance, designated for capital projects	65	870
Fund balance, unreserved	1,430	596
Total Fund Balance	<u>1,495</u>	<u>1,466</u>
Total Liabilities and Fund Balance	<u>\$ 3,379</u>	<u>\$ 3,301</u>

See Accompanying Notes to Financial Statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 CONGESTION MANAGEMENT PROGRAM
 Statements of Revenues, Expenditures, and Changes in Fund Balance
 Special Revenue Fund
 For the Years Ended June 30, 2008 and 2007
 (in thousands)**

Revenues	2008	2007
Member agency assessment revenue	\$ 2,410	\$ 2,329
Federal grant revenues	1,102	794
Administrative fees	65	68
State operating assistance grants	1,091	229
Investment earnings	122	134
Other Revenues	151	3
Total Revenues	<u>4,941</u>	<u>3,557</u>
Expenditures		
VTA labor and overhead costs	3,337	3,093
Services and other	770	888
Capital outlay	805	40
Total Expenditures	<u>4,912</u>	<u>4,021</u>
Change in fund balance	29	(464)
Fund Balance, Beginning of Year	<u>1,466</u>	<u>1,930</u>
Fund Balance, End of Year	<u>\$ 1,495</u>	<u>\$ 1,466</u>

See Accompanying Notes to Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
CONGESTION MANAGEMENT PROGRAM
Statements of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008 and 2007
(in thousands)

	<u>2008</u>	<u>2007</u>
Restricted assets		
Equity in VTA's cash and investment pool	\$ 2,043	\$ 2,481
Liabilities payable from restricted assets		
Accounts payable	\$ 1,991	\$ 2,420
Due to CMP Special Revenue Fund	52	61
Total liabilities payable from restricted assets	\$ 2,043	\$ 2,481

See Accompanying Notes to Financial Statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
CONGESTION MANAGEMENT PROGRAM
Notes to Financial Statements
For the Year Ended June 30, 2008**

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. In January 1995, the Santa Clara County Transit District was designated the Congestion Management Agency for Santa Clara County. At the same time, the Transit District was legislatively reformed as the Santa Clara 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, which are the 15 municipalities within the county and the County of Santa Clara. 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.

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.

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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
CONGESTION MANAGEMENT PROGRAM
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fiscal year 2008 Special Revenue Fund was \$65,000 of administrative fees related to this program.

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 \$600,000 representing receipt of Lifeline Grant Award from the Metropolitan Transit Commission (MTC). The grant revenues are expected to be recognized when the qualifying expenditures incur during fiscal year 2009.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
CONGESTION MANAGEMENT PROGRAM
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 2 – SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

G. Due To Other Government Agencies

Due to other government agencies at year end of \$1,105,000 was comprised of the undisbursed portion of the grant for the Best Practices Planning Program received during the fiscal year 2003 in the amount of \$1,408,000. Qualifying expenditures of \$220,000 were incurred in the fiscal year 2008.

H. Member Agency Assessment Revenue

Assessments of \$2,410,000 from fuel tax subventions pursuant to Proposition 111 were invoiced to member agencies during fiscal year 2008.

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 fiscal year 2008, expenditures of federal technical studies operating assistance grants of approximately \$1,102,000 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.

J. VTA Labor and Overhead Costs

Beginning with fiscal year 2006, 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 fiscal year 2008, CMP was charged \$3,337,000 in labor and overhead costs for services provided by VTA to CMP.

K. 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.

L. Comparative Data

The comparative data for fiscal year ended June 30, 2007 provided in these financial statements is not required for a fair presentation of the financial statements, but is presented as additional analytical data.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
CONGESTION MANAGEMENT PROGRAM
Notes to Financial Statements
For the Year Ended June 30, 2008

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, 2008, the balance of the CMP's equity in the VTA's cash and investment pool was \$5,143,000 (CMP \$3,100,000 and BAAQ \$2,043,000). 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 GOVERNMENTAL AGENCIES

At June 30, 2008, due from other governmental agencies in the Special Revenue Fund was \$217,000. This amount represents the first three quarters of fiscal year 2008 revenue billable to Metropolitan Transportation Commission. Payment has since been received.

NOTE 5 – FUND BALANCE

At June 30, 2008, total fund balance for CMP was \$1,495,000. The fund balance includes \$65,000 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, 2008. The remaining \$1,430,000 fund balance is unreserved and available for future activities.

SUPPLEMENTARY INFORMATION

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 CONGESTION MANAGEMENT PROGRAM
 Budgetary Comparison Schedule
 Special Revenue Fund
 For The Year Ended June 30, 2008
 (in thousands)**

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Assessments to member agencies	\$ 2,410	\$ 2,410	\$ 2,410	\$ -
Federal grant revenues	905	905	1,102	197
Administrative fees	52	52	65	13
State operating assistance grants	1,000	1,000	1,091	91
Local Program Reserve	250	250	-	(250)
Other non-operating revenue	265	265	151	(114)
Total Revenue	<u>4,882</u>	<u>4,882</u>	<u>4,819</u>	<u>(63)</u>
Expenditures:				
VTA labor and overhead costs	3,938	3,938	3,337	601
Services and other:				
Professional services	1,415	1,415	557	858
Other services	6	6	14	(8)
Data processing	30	30	34	(4)
Office expense	19	19	16	3
Project expenditures	850	850	805	45
Total expenditures	<u>6,258</u>	<u>6,258</u>	<u>4,763</u>	<u>1,495</u>
Change in fund balance, on a budgetary basis	<u>\$(1,376)</u>	<u>\$(1,376)</u>	56	<u>\$1,432</u>
Revenues and Expenditure not budgeted:				
Investment earnings			122	
Employee related expense			(3)	
Miscellaneous expenses			(146)	
Change in fund balance, on a GAAP basis			29	
Fund Balance, Beginning of Year			<u>1,466</u>	
Fund Balance, End of Year			<u>\$1,495</u>	

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

**Note to Supplementary Information
For the Year Ended June 30, 2008**

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