

**NORTH COUNTY CORRIDOR  
TRANSPORTATION EXPRESSWAY AUTHORITY**

**ITEM: 3a**

**SUBJECT:**

Annual Financial Audit

**STAFF RECOMMENDATIONS:**

Accept the North County Corridor Fiscal Year 2008-2009 Financial Audit

**FISCAL IMPACT:**

The cost of the audit was \$5,200 and was included in the North County Corridor's Fiscal Year 2009-2010 budget.

**DISCUSSION:**

Section 17 of the Joint Exercise of Powers Agreement for the Route Adoption of the North County Corridor Transportation Expressway requires an independent audit of the accounts and records of the Authority. The firm of Brown Armstrong, Certified Public Accountants, conducted the 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.

The audit is performed to provide reasonable assurance about whether the financial statements are free of material misstatement. The audit examines, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In the opinion of Brown Armstrong, the financial statements present fairly, in all material respects, the respective financial position of the North County Corridor Transportation Expressway Authority as of June 30, 2009, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**NORTH COUNTY CORRIDOR  
TRANSPORTATION EXPRESSWAY AUTHORITY**

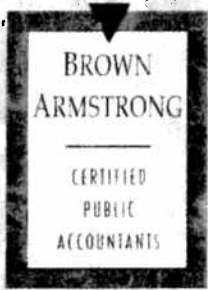
**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2009**

**NORTH COUNTY CORRIDOR  
TRANSPORTATION EXPRESSWAY AUTHORITY  
JUNE 30, 2009**

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**BROWN ARMSTRONG**  
**PAULDEN McCOWN STARBUCK THORNBURGH & KEETER**  
 CERTIFIED PUBLIC ACCOUNTANTS

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- Peter C. Brown, CPA
- Burton H. Armstrong, CPA, MST
- Steven R. Starbuck, CPA
- Aileen K. Keeter, CPA
- Chris M. Thornburgh, CPA
- Eric H. Xin, MBA, CPA
- Richard L. Halle, CPA, MST

**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Members  
 of the Governing Board  
 North County Corridor  
 Transportation Expressway Authority  
 Modesto, California

- Harvey J. McCown, MBA, CPA
- Lynn R. Krausse, CPA, MST
- Rosalva Flores, CPA
- Connie M. Perez, CPA
- Diana H. Branthoover, CPA
- Thomas M. Young, CPA
- Alicia Dias, CPA, MBA
- Matthew R. Gilligan, CPA
- Hanna J. Sheppard, CPA
- Ryan L. Nielsen, CPA
- Jian Ou-Yang, CPA
- Jialan Su, CPA
- Ariadne S. Prunes, CPA
- Samuel O. Newland, CPA
- Brooke N. DeCuir, CPA
- Kenneth J. Witham, CPA
- Clint W. Baird, CPA
- Adrian Rich, CPA
- Craig A. Rickett, CPA

We have audited the accompanying financial statements of the Capital Project Fund of the North County Corridor Transportation Expressway Authority (Authority), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

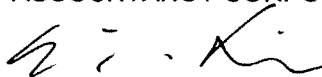
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Capital Project Fund of North County Corridor Transportation Expressway Authority as of June 30, 2009, and the respective changes in financial position and cash flows thereof 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 September 15, 2009, on our consideration of the Authority's internal control over financial reporting 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.

The Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "B. A. Paulden", is written below the printed name of the accounting firm.

Bakersfield, California  
September 15, 2009

**BASIC FINANCIAL STATEMENTS**

**NORTH COUNTY CORRIDOR  
TRANSPORTATION EXPRESSWAY AUTHORITY  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2009**

<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 3,714,629
Accounts Receivable	<u>1,021,457</u>
<b>Total Assets</b>	<u><u>4,736,086</u></u>
<b>LIABILITIES</b>	
Accounts Payable	<u>782,600</u>
<b>Total Liabilities</b>	<u><u>782,600</u></u>
<b>FUND BALANCE</b>	
Reserved for Capital Projects	<u>3,953,486</u>
<b>TOTAL FUND BALANCE</b>	<u><u>3,953,486</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 4,736,086</u></u>

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

**NORTH COUNTY CORRIDOR  
TRANSPORTATION EXPRESSWAY AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE (BY OBJECT)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<b>REVENUES</b>	
State Revenues	\$ 1,021,457
Local Revenues	4,900,000
Other Local Revenues	<u>147,050</u>
Total Revenues	<u>6,068,507</u>
<b>EXPENDITURES</b>	
Services and Other Operating Expenditures	12,265
Capital Outlay	<u>2,102,756</u>
Total Expenditures	<u>2,115,021</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,953,486</u>
Fund Balances at Beginning of Year	<u>-</u>
Fund Balances at End of Year	<u>\$ 3,953,486</u>

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



**NORTH COUNTY CORRIDOR  
TRANSPORTATION EXPRESSWAY AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (BY OBJECT)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
State Revenues	\$ 3,365,600	\$ 3,365,600	\$ 1,021,457	\$ (2,344,143)
Local Revenues	-	-	4,900,000	4,900,000
Other Local Revenues	-	-	147,050	147,050
<b>TOTAL REVENUES</b>	<u>3,365,600</u>	<u>3,365,600</u>	<u>6,068,507</u>	<u>2,702,907</u>
<b>EXPENDITURES</b>				
Salaries and Benefits	12,000	12,000	-	12,000
Services and Other Operating Expenditures	18,600	18,600	12,265	6,335
Capital Outlay	6,194,000	6,194,000	2,102,756	4,091,244
<b>TOTAL EXPENDITURES</b>	<u>6,224,600</u>	<u>6,224,600</u>	<u>2,115,021</u>	<u>4,109,579</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,859,000)</u>	<u>(2,859,000)</u>	<u>3,953,486</u>	<u>6,812,486</u>
Fund Balances at Beginning of Year	-	-	-	-
Fund Balances at End of Year	<u>\$ (2,859,000)</u>	<u>\$ (2,859,000)</u>	<u>\$ 3,953,486</u>	<u>\$ 6,812,486</u>

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

**NORTH COUNTY CORRIDOR  
TRANSPORTATION EXPRESSWAY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The North County Corridor Transportation Expressway Authority (the Authority) was established May 14, 2008. The role of the Authority is to complete the Project Approval and Environmental Documentation (PA&ED) phase of the State Route 108 project which will provide a high capacity and high speed expressway to accommodate anticipated traffic growth in northern Stanislaus County. The Authority consists of the Stanislaus Council of Governments; the cities of Modesto, Oakdale, and Riverbank; and the County of Stanislaus.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

Capital Project Funds are used to account for the acquisition and/or construction of all major governmental capital assets. The Authority is considered to be a Capital Project Fund.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

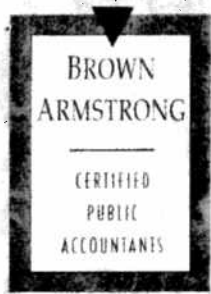
**NOTE 2 – CASH AND CASH EQUIVALENTS**

The Authority's cash is invested in the County of Stanislaus cash and investment pool. The County of Stanislaus cash and investment pool is invested in accordance with California State Government Code Section 53600 et. seq. In addition, the cash and investment pool is further restricted to those investments deemed acceptable per the investment policy guidelines prepared by the County Treasurer and approved by the Board of Supervisors of the County.

Cash and investments held as of June 30, 2009 were invested in certificate of deposits, commercial paper, bankers acceptance, money market funds, federal notes, treasury notes and bills, corporate notes and an external investment pool.

Interest earned on the cash and investment pool is apportioned on a quarterly basis. Per GASB No. 31, investment losses and gains are recorded at market value on the Statement of Net Assets and as income for the period. The changes resulting from investment losses and gains are shared by the various participants of the pool. For further information regarding the cash and investment pool, the audit report of the County of Stanislaus may be obtained by writing the County of Stanislaus, 1010 10<sup>th</sup> Street, Suite 5100, Modesto, CA 95354.

Cash and investment balance as of June 30, 2009 was \$3,714,629.



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 Richard L. Halle, CPA, MST

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
 AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
 OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
 WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Members  
 of the Governing Board  
 North County Corridor  
 Transportation Expressway Authority  
 Modesto, California

Harvey J. McCown, MBA, CPA  
 Lynn R. Krausse, CPA, MST  
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We have audited the financial statements of the North County Corridor Transportation Expressway Authority (Authority), as of and for the year ended June 30, 2009, and have issued our report thereon dated September 15, 2009. 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 Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

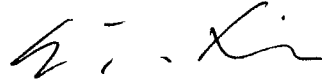
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

Compliance and Other Matters

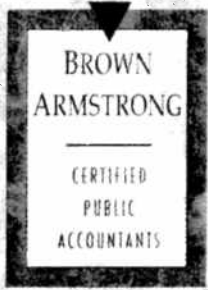
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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*.

The report is intended solely for the information of management and the Governing Board of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "S. Ki", is written below the firm's name.

Bakersfield, California  
September 15, 2009



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**PAULDEN McCOWN STARBUCK THORNBURGH & KEETER**  
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To the Honorable Members of the Governing Board  
North County Corridor Transportation Expressway Authority  
Modesto, California

We have audited the financial statements of the Capital Project Fund of the North County Corridor Transportation Expressway Authority (the Authority) for the year ended June 30, 2009, and have issued our report thereon dated September 15, 2009. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with our oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 6, 2009.

**Significant Audit Findings**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008-2009. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

Harvey J. McCown, MBA, CPA  
Lynn R. Krausse, CPA, MSF  
Rosalba Flores, CPA  
Connie M. Perez, CPA  
Diana H. Branthoover, CPA  
Thomas M. Young, CPA  
Alicia Dias, CPA, MBA  
Matthew R. Gilligan, CPA  
Hanna J. Sheppard, CPA  
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Kenneth J. Witham, CPA  
Clint W. Baird, CPA  
Adrian Rich, CPA  
Craig A. Rickett, CPA

Management's estimate of the accounts receivable and accounts payable balances are based on the Authority's estimated collections and disbursements. We evaluated the key factors and assumptions used to develop the accounts receivable and accounts payable balances in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 15, 2009.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

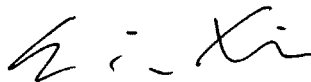
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

\*\*\*\*\*

This information is intended solely for the use of Board of Commissioner and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION



By: Eric H. Xin

Bakersfield, California  
September 15, 2009