

**SONOMA COUNTY TRANSPORTATION AUTHORITY**

**ANNUAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2006**

**SONOMA COUNTY TRANSPORTATION AUTHORITY**

**Annual Report  
For the Fiscal Year Ended  
June 30, 2006**

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**RODNEY A. DOLE**  
AUDITOR-CONTROLLER  
TREASURER -TAX COLLECTOR



**DONNA M. DUNK**  
ASSISTANT  
AUDITOR-CONTROLLER

**ROBERT BOITANO**  
ASSISTANT  
TREASURER

**PAM JOHNSTON**  
ASSISTANT  
TAX COLLECTOR / AUDITOR

Board of Directors  
Sonoma County Transportation Authority  
Santa Rosa, CA

### **Auditor-Controller's Report**

We have audited the accompanying financial statements of the Sonoma County Transportation Authority, (SCTA) as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of SCTA's management. Our responsibility is to express an opinion on the financial statements based on our audit. We did not audit the financial statements of the Measure M special revenue fund, whose statements reflect total assets of \$13,863,651 and total revenues of \$17,013,092 for the fiscal year ending June 30, 2006. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the Measure M special revenue fund, is based solely on the report of the other auditors.

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 misstatements. 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 and the report of the other auditors provide a reasonable basis for our opinion.

As described in Note IV.C of the Notes to the Basic Financial Statements, the Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

In our opinion, except for the effects, if any, of the impairment to auditor independence, the basic financial statements referred to above present fairly, in all material respects, the financial position of SCTA as of June 30, 2006, and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Sonoma County Auditor-Controller*

Sonoma County Auditor-Controller

February 26, 2007

## Management's Discussion and Analysis

As management of the Sonoma County Transportation Authority (SCTA), we offer readers of SCTA's financial statements this narrative overview and analysis of the financial activities of SCTA for the fiscal years ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with SCTA's financial statements (pages 7 to 15) and the accompanying notes to the financial statements (pages 16 to 26).

### Financial Highlights

- The assets of SCTA exceeded their liabilities at the close of the most recent fiscal year by \$13,840,566 (*net assets*).
- SCTA's total net assets increased by \$9,329,191 from 2005. This increase is the result of increased Measure M sales tax revenue.
- As of the close of the current fiscal year, SCTA reported an ending fund balance of \$13,875,177 an increase of \$9,344,038 in comparison with 2005.
- Unreserved fund balance for SCTA has a deficit balance as of June 30, 2006 of (\$295,784) due primarily to \$437,764 in fund balance that is reserved for encumbrances. Expenses resulting from these encumbrances are fully reimbursable by the State.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to SCTA's basic financial statements. SCTA's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of SCTA's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of SCTA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of SCTA is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements can be found on pages 7 - 8 of this report.

## **Fund financial statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective, SCTA like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of SCTA are governmental funds.

*Governmental funds* are used to account for essentially the same functions reported in governmental *activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The SCTA maintains three individual governmental funds; a general fund and two special revenue funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, and for the special revenue funds and adopts an annual appropriated budget for those funds.

The basic governmental fund financial statements can be found on pages 9 - 12 of this report.

## **Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 - 26.

## **Other information**

Schedules presenting budgetary comparison information for the SCTA's governmental funds can be found on pages 13 - 15.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of SCTA, assets exceeded liabilities by \$13,840,566 at the close of the most recent fiscal year.

A large portion of the SCTA's net assets (77.8%) reflects amounts restricted for Measure M, the ¼ cent sales tax initiative approved by Sonoma County voters in 2004 for various transportation improvement projects. The SCTA provides oversight and administrative services for all Measure M related activity.

**Sonoma County Transportation Authority's Net Assets**

	2004-05	2005-06
Current and Other Assets	\$ 5,403,946	\$ 15,527,444
Non-current assets	205,288	-
Capital Assets	11,314	8,810
<b>Total Assets</b>	<b>5,620,548</b>	<b>15,536,254</b>
Current Liabilities	872,807	1,652,267
Non-Current Liabilities	236,366	43,421
<b>Total Liabilities</b>	<b>1,109,173</b>	<b>1,695,688</b>
Invested in Capital Assets	11,314	8,810
Restricted for TFCA	383,582	477,524
Restricted for Measure M	3,124,807	10,764,857
Restricted for encumbrances	1,829,185	2,928,580
Unrestricted	(837,513)	(339,205)
<b>Total Net Assets</b>	<b>\$ 4,511,375</b>	<b>\$ 13,840,566</b>

SCTA's unrestricted net assets as of June 30, 2006 have a deficit balance of (\$339,205) due primarily to net assets restricted for encumbrances.

The government's net assets increased to \$13,840,566 during the current fiscal year. This increase is primarily the result of an increase in restricted assets for Measure M due to increased sales tax revenue collected.

**Governmental Activities**

Governmental activities increased the SCTA's net assets by \$9,329,191. Key elements of these governmental activities are identified below:

- SCTA recognized sales tax revenues for Measure M totaling \$17,013,092 for fiscal year 2005-06. This amount represents an increase of \$13,579,837 from 2004-2005, which is the result of 2005-06 being the first year that the ¼ cent sales tax was collected for a full 12 months.

- SCTA received \$685,910 from state and federal sources towards various transportation improvement projects, including Highway 101.
- SCTA's Transportation Fund for Clean Air received \$634,293 from the Bay Area Air Quality Management District towards various projects.
- SCTA recognized expenses totaling \$8,997,215, which are primarily related to various Measure M projects.

### **Sonoma County Transportation Authority's Changes in Net Assets**

	2004-05	2005-06
<b>Revenues:</b>		
Program Revenues:		
Operating Grants and Contributions		
Transportation Improvement	\$ 2,197,488	\$ 685,910
Transportation Fund for Clean Air	608,056	634,293
Measure M	3,433,255	17,013,092
General Revenues:		
Investment earnings	(8,947)	(6,889)
<hr/>		
Total revenues	6,299,852	18,326,406
<b>Expenses:</b>		
Transportation Improvement	\$ 2,159,499	\$ 598,121
Transportation Fund for Clean Air (TFCA)	327,997	542,254
Measure M	308,448	7,856,840
<hr/>		
Total expenses	2,795,944	8,997,215
Net revenue (expenses)	3,433,908	9,329,191
<hr/>		
Net assets - beginning of year	1,077,467	4,511,375
Net assets - end of year	\$ 4,511,375	\$ 13,840,566

### **Financial Analysis of the Government's Funds**

As noted earlier, SCTA uses fund accounting to ensure and demonstrate compliance with legal and governmental accounting requirements.

## Governmental funds

The focus of SCTA's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing SCTA's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, SCTA's governmental funds reported ending fund balances of \$13,875,177 an increase of \$9,344,038 in comparison with the prior year. SCTA has a deficit unreserved fund balance of (\$295,784) primarily the result of fund balance reserved for encumbrances.

The general fund is the chief operating fund of the SCTA. At the end of the current fiscal year, unreserved fund balance of the general fund was deficit (\$295,784) while total general fund balance was \$141,980.

## General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget for fiscal year 2005-2006.

## Capital Asset and Debt Administration

### Capital assets

SCTA's investment in capital assets as of June 30, 2006 amounts to \$8,810 (net of accumulated depreciation). This investment in capital assets represents equipment. No capital assets were purchased or retired during the fiscal year.

### Sonoma County Transportation Authority's Capital Assets

	2004-05	2005-06
Equipment	\$ 18,970	\$ 18,970
Accumulated depreciation	(7,656)	(10,160)
Total	\$ 11,314	\$ 8,810

Additional information on SCTA's capital assets can be found in Note III.B on page 22 of the financial statement footnotes.

## Long-term Debt

At the end of fiscal year 2005-06, SCTA had long-term obligations outstanding of \$43,421 for

compensated absences. This was a decrease of \$192,945 from the fiscal year 2004-05 amount of \$236,366, which consisted of \$205,288 retention payable and compensated absences of \$31,078.

**Economic Factors and Next Year's Budgets**

SCTA activities are primarily funded from both federal and state programs, which can be significantly impacted by potential budget crises at both the federal and state level. Measure M, a local ¼ cent sales tax, will provide an additional funding source towards Highway 101 improvement expenses incurred by SCTA.

SCTA's general fund unreserved fund balance at the end of fiscal year 2005-06 was deficit (\$295,784) due to outstanding encumbrances of \$2,928,580. The 2006-07 final budget reflects the anticipated expense of the encumbrances along with the associated reimbursements from Federal and State programs and the local sales tax measure.

**Request for Additional Information:**

This financial report is designed to provide a general overview of SCTA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Transportation Authority, 490 Mendocino Avenue, Suite 206, Santa Rosa, CA 95401.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Statement of Net Assets**  
**June 30, 2006**

**Assets**

Restricted Cash and Investments	\$ 14,192,723
Sales Tax Receivable	537,816
Due from other governments	793,727
Due from other funds	3,178
Non-current assets:	
Capital assets (net of accumulated depreciation)	
Equipment	8,810
Total assets	15,536,254

**Liabilities**

Accounts payable	1,142,947
Due to other governments	455,499
Due to other funds	53,821
Non-current liabilities:	
Due in more than one year	43,421
Total liabilities	1,695,688

**Net Assets**

Invested in capital assets	8,810
Restricted for TFCA	477,524
Restricted for Measure M	10,764,857
Reserved for encumbrances	2,928,580
Unrestricted	(339,205)
Total net assets	\$ 13,840,566

The notes to the basic financial statements are an integral part of this statement.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2006**

<b>Functions / Programs</b>	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants</u> <u>and Contributions</u>	<u>Net (Expense)</u> <u>Revenue and</u> <u>Change in</u> <u>Net Assets</u>
<b>Primary Government</b>			
Governmental activities:			
Measure M	\$ 7,856,840	\$ 17,013,092	\$ 9,156,252
Transportation Fund for Clean Air (TFCA)	542,254	634,293	92,039
Transportation Improvement	<u>598,121</u>	<u>685,910</u>	<u>87,789</u>
General government	<u>\$ 8,997,215</u>	<u>\$ 18,333,295</u>	<u>\$ 9,336,080</u>
<b>General revenues:</b>			
Unrestricted investment earnings			<u>(6,889)</u>
Total general revenues			<u>(6,889)</u>
Change in net assets			9,329,191
Net assets, beginning of year			<u>4,511,375</u>
Net assets, end of year			<u>\$ 13,840,566</u>

The notes to the basic financial statements are an integral part of this statement.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<u>General</u>	<u>TFCA Special Revenue</u>	<u>Measure M Special Revenue</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Restricted cash and investments \$		\$ 1,448,960	\$ 12,743,763	\$ 14,192,723
Sales Tax Receivable			537,816	537,816
Due from other governments	211,655		582,072	793,727
Due from other funds		3,178		3,178
Total assets	<u>\$ 211,655</u>	<u>\$ 1,452,138</u>	<u>\$ 13,863,651</u>	<u>\$ 15,527,444</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 15,854		\$ 1,127,093	\$ 1,142,947
Due to other funds	<u>53,821</u>		<u>455,499</u>	<u>509,320</u>
Total liabilities	<u>\$ 69,675</u>	<u>\$ 0</u>	<u>\$ 1,582,592</u>	<u>\$ 1,652,267</u>
Fund balances:				
Unreserved	\$ (295,784)			\$ (295,784)
Reserved for TFCA		477,524		477,524
Reserved for Measure M			10,764,857	10,764,857
Reserved for encumbrances	<u>437,764</u>	<u>974,614</u>	<u>1,516,202</u>	<u>2,928,580</u>
Total fund balances	<u>141,980</u>	<u>1,452,138</u>	<u>12,281,059</u>	<u>13,875,177</u>
Total liabilities and fund balances	<u>\$ 211,655</u>	<u>\$ 1,452,138</u>	<u>\$ 13,863,651</u>	<u>\$ 15,527,444</u>

The notes to the basic financial statements are an integral part of this statement.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**June 30, 2006**

Fund balances - total government funds	\$ 13,875,177
Amount reported for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	8,810
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(43,421)</u>
Net assets of governmental activities	<u>\$ 13,840,566</u>

The notes to the basic financial statements are an integral part of this statement.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2006**

	<u>General</u>	<u>TFCA Special Revenue</u>	<u>Measure M Special Revenue</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Intergovernmental revenue	\$ 650,910	\$ 581,455	\$ 1,247,546	\$ 2,479,911
Sales tax revenue			15,480,401	15,480,401
Investment income	(6,889)	52,838	285,145	331,094
Charges for services	35,000			35,000
Total revenues	<u>679,021</u>	<u>634,293</u>	<u>17,013,092</u>	<u>18,326,406</u>
<b>Expenditures</b>				
Current:				
Salaries and employee benefits	470,465		206,779	677,244
Services and supplies	222,945	12,908	1,995,706	2,231,559
Cost applied	(110,136)			(110,136)
Administration		16,164		16,164
Contributions to other governments		513,182	5,654,355	6,167,537
Total expenditures	<u>583,274</u>	<u>542,254</u>	<u>7,856,840</u>	<u>8,982,368</u>
Net change in fund balances	95,747	92,039	9,156,252	9,344,038
Fund balance, beginning of year	<u>46,233</u>	<u>1,360,099</u>	<u>3,124,807</u>	<u>4,531,139</u>
Fund balance, end of year	<u>\$ 141,980</u>	<u>\$ 1,452,138</u>	<u>\$ 12,281,059</u>	<u>\$ 13,875,177</u>

The notes to the basic financial statements are an integral part of this statement.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balance of Governmental Funds to the**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2006**

**Amount reported for governmental activities in the statement of activities  
is different because:**

Net change in fund balance - governmental funds	\$ 9,344,038
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Current year depreciation	(2,504)
<p>Change in compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.</p>	
	<u>(12,343)</u>
Change in net assets of governmental activities	<u>\$ 9,329,191</u>

The notes to the basic financial statements are an integral part of this statement.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Statement of Revenues, Expenditures and Changes in Fund Balance-**  
**Budgets and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental revenue	\$ 1,442,000	\$ 1,442,000	\$ 650,910	\$ (791,090)
Investment income			(6,889)	(6,889)
Charges for services	35,000	35,000	35,000	0
Total revenues	1,477,000	1,477,000	679,021	(797,979)
<b>Expenditures</b>				
Current:				
Salaries and employee benefits	684,480	684,480	470,465	214,015
Services and supplies	1,705,368	1,705,368	660,709	1,044,659
Cost applied	(95,000)	(95,000)	(110,136)	15,136
Total expenditures	2,294,848	2,294,848	1,021,038	1,273,810
Net change in fund balance	(817,848)	(817,848)	(342,017)	475,831
Fund balance, beginning of year	46,233	46,233	46,233	0
Fund balance, end of year, budgetary basis	\$ (771,615)	\$ (771,615)	\$ (295,784)	\$ 475,831

The notes to the basic financial statements are an integral part of this statement.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Statement of Revenues, Expenditures and Changes in Fund Balance -**  
**Budgets and Actual**  
**Special Revenue Fund (TFCA)**  
**For the Fiscal Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with
<b>Revenues</b>	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Intergovernmental revenue	\$ 576,424	\$ 576,424	\$ 581,455	\$ 5,031
Investment income			52,838	52,838
Total revenues	576,424	576,424	634,293	57,869
 <b>Expenditures</b>				
Current:				
Salaries and employee benefits			12,908	(12,908)
Administration	15,000	15,000	16,164	(1,164)
Contributions to other government	1,579,906	1,579,906	1,487,796	92,110
Total expenditures	1,594,906	1,594,906	1,516,868	78,038
Net change in fund balance	(1,018,482)	(1,018,482)	(882,575)	135,907
Fund balance, beginning of year	1,360,099	1,360,099	1,360,099	0
Fund balance, end of year	\$ 341,617	\$ 341,617	\$ 477,524	\$ 135,907

The notes to the basic financial statements are an integral part of this statement.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Statement of Revenues, Expenditures and Changes in Fund Balance -**  
**Budgets and Actual**  
**Special Revenue Fund (Measure M)**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u> Amounts	Variance with Final Budget - Positive
	<u>Original</u>	<u>Final</u>		(Negative)
<b>Revenues</b>				
Sales tax revenue	\$ 17,500,000	17,500,000	15,480,401	(2,019,599)
Investment income			285,145	285,145
Intergovernmental revenue			1,247,546	1,247,546
Total revenues	<u>17,500,000</u>	<u>17,500,000</u>	<u>17,013,092</u>	<u>(486,908)</u>
<b>Expenditures</b>				
Current:				
Salaries and employee benefits			206,779	(206,779)
Services and supplies	258,430	258,430	3,511,908	(3,253,478)
Contributions to Other Governmen	<u>17,249,999</u>	<u>17,249,999</u>	<u>5,654,355</u>	<u>11,595,644</u>
Total expenditures	<u>17,508,429</u>	<u>17,508,429</u>	<u>9,373,042</u>	<u>8,135,387</u>
Net change in fund balance	(8,429)	(8,429)	7,640,050	7,648,479
Fund balance, beginning of year	<u>3,124,807</u>	<u>3,124,807</u>	<u>3,124,807</u>	<u>0</u>
Fund balance, end of year	<u>\$ 3,116,378</u>	<u>\$ 3,116,378</u>	<u>\$ 10,764,857</u>	<u>\$ 7,648,479</u>

The notes to the basic financial statements are an integral part of this statement.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
**June 30, 2006**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Sonoma County Transportation Authority (SCTA) was created by the Sonoma County Board of Supervisors, under Resolution No. 90-1522 on August 7, 1990 in accordance with California Public Utilities Code Section 180000 et seq. The Sonoma County Transportation Authority's Board of Directors consists of one council member from each of the County's nine cities and three members of the Sonoma County Board of Supervisors.

The Sonoma County Transportation Authority was established to accomplish the stated purpose and goals of the Public Utilities Code Section 180000 et seq, also known as the "Local Transportation Authority and Improvement Act" (the "Act").

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**SONOMA COUNTY TRANSPORTATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
**June 30, 2006**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered available when they are collectible within the period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims judgments are recorded only when payment is due.

Amounts recorded as program revenues include operating grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues.

**D. Assets, Liabilities, and Net Assets or Equity**

**1. Cash and Investments**

SCTA adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, SCTA has stated certain investments at fair value.

**2. Capital Assets**

Capital assets, equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by SCTA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The cost of a capital asset may include not only its purchase or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Ancillary costs may include costs of freight and transportation charges, site preparation expenses, professional fees, legal fees and interest cost directly attributable to asset acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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SCTA's equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	5 – 20 years

**3. Compensated Absences**

It is SCTA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

**4. Net Assets**

Net assets are classified into three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt related to financing the acquisition of capital assets.
- Restricted net assets – This component of net assets consists of net assets with limits on their use that are imposed by outside parties.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debt".

When both restricted and unrestricted net assets are available, restricted resources are used only after unrestricted resources are depleted.

**5. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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**E. Implementation of Governmental Accounting Standards Board  
(GASB) Statement No. 42**

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

Budgetary revenue estimates represent original estimates modified for any authorized adjustment which was contingent upon new or additional revenue sources. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. All budgets are adopted on a non-GAAP basis.

**III. DETAILED NOTES**

**A. Cash and Investments**

Investment in the Sonoma County Treasurer's Investment Pool

The SCTA's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for the Authority. The fair value of the SCTA's investment in this pool is reported in the accompanying financial statements at amounts based upon the SCTA's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

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Investment Guidelines

The SCTA's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100-F, Santa Rosa, California, 95403-2871.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2006, approximately 64 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, 5% had a maturity of more than five years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits

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or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2006 Sonoma County CAFR.

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**B. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &amp;</u> <u>Adjustments</u>	<u>Ending</u> <u>Balance</u>
Capital assets, not being depreciated:					
Land	\$ 0	\$	\$	\$	\$ 0
Total capital assets, not being depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital assets, being depreciated:					
Buildings and improvements	0	0			0
Equipment	18,970	0			18,970
Total capital assets, being depreciated	<u>18,970</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>18,970</u>
Less accumulated depreciation for:					
Equipment	<u>(7,656)</u>	<u>(2,504)</u>			<u>(10,160)</u>
Total accumulated depreciation	<u>(7,656)</u>	<u>(2,504)</u>	<u>0</u>	<u>0</u>	<u>(10,160)</u>
Total capital assets, being depreciated, net	<u>11,314</u>	<u>(2,504)</u>	<u>0</u>		<u>8,810</u>
Capital assets, net	<u>\$ 11,314</u>	<u>\$ (2,504)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,810</u>

Depreciation expense was charged to functions/programs of the Sonoma County Transportation Authority government as follows:

Governmental activities:

Transportation improvements	<u>\$ 2,504</u>
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**C. Long-term Debt**

Changes in long-term debt

Long-term liability activity for the year ended June 30, 2006, was as follows:

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	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due within</u> <u>One Year</u>
Long-term liabilities:					
Due to other governments	\$ 205,288	\$	\$ (205,288)	\$ -	\$ 0
Compensated absences	<u>31,078</u>	<u>12,343</u>	<u></u>	<u>43,421</u>	<u>0</u>
Total long-term liabilities	<u>\$ 236,366</u>	<u>\$ 12,343</u>	<u>\$ (205,288)</u>	<u>\$ 43,421</u>	<u>\$ 0</u>

**D. Intergovernmental Revenues**

Intergovernmental revenues represent sales tax revenues generated by funds passed through the Metropolitan Transportation Commission, TFCA funding received from the Bay Area Air Quality Management District and contributions from SCTA member governments.

**E. Sales Tax Revenues**

Sales tax revenues represent tax revenues generated by Measure M.

**F. Reconciliation of Unreserved Fund Balance to GAAP**

SCTA, as a whole, had encumbrances at June 30, 2006 of \$2,928,580. These encumbrances represent commitments by SCTA for services related to TFCA and transportation improvement projects.

The allocation of encumbrances is as follows:

**General Fund**

Net change in fund balance, budgetary basis	<u>Actual</u> <u>Amounts</u> (342,017)
Budgetary adjustments:	
Encumbrances	<u>437,764</u>
Net change in fund balance, GAAP basis	<u>95,747</u>
Fund balance, beginning of year	<u>46,233</u>
Fund balance, end of year	<u><u>141,980</u></u>

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**TFCA Fund**

	<u>Actual Amounts</u>
Net change in fund balance, budgetary basis	(882,575)
Budgetary adjustments:	
Encumbrances	<u>974,614</u>
Net change in fund balance, GAAP basis	92,039
Fund balance, beginning of year	<u>1,360,099</u>
Fund balance, end of year	<u><u>1,452,138</u></u>

**Measure M**

	<u>Actual Amounts</u>
Net change in fund balance, budgetary basis	7,640,050
Budgetary adjustments:	
Encumbrances	<u>1,516,202</u>
Net change in fund balance, GAAP basis	9,156,252
Fund balance, beginning of year	<u>3,124,807</u>
Fund balance, end of year	<u><u>12,281,059</u></u>

**IV. OTHER INFORMATION**

**A. Risk Management**

SCTA is covered for general, automobile and crime and errors and omissions liability through Driver Alliant Insurance Services. Limits of these coverages are \$1,000,000 per occurrence.

SCTA participates in the County of Sonoma self-insurance program providing \$300,000 per occurrence for workers' compensation claims.

The County of Sonoma is covered for amounts in excess of \$300,000 per occurrence for worker's compensation claims within statutory limits through participation in the CSAC Excess Insurance Authority-Excess Workers' Compensation Program.

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**B. Employee Retirement Plan**

Plan Description

SCTA participates in a cost sharing multiple-employer Defined Benefit Pension Plan (DBPP) and a Post-employment Healthcare Plan (PHP) administered by the Sonoma County Employees' Retirement Association (SCERA). The County of Sonoma is the primary government (employer) for the multiple-employer plans. The SCERA was organized on January 1, 1946, under the provision of the 1937 County Employees Retirement Act, and is financially independent of the County of Sonoma.

DBPP members include all permanent full employees of a participating employer who have been appointed to a permanent position of at least half time. The plan provides benefits as defined by the law upon retirement, death, or disability of members.

In addition to the pension benefits described above, post-retirement health care benefits are provided to all active, covered employees who retire on or after attaining the age of 50 with at least 10 years of service. The employer pays approximately 85% of the health care insurance premium for retirees and their eligible dependents. The retiree can choose one of three health care providers. The employer reimburses a fixed amount per month for Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B.

SCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. That report may be obtained by writing to Sonoma County Employee's Retirement Association, 433 Aviation Blvd., Suite 100, Santa Rosa, CA 95403-1069 or by calling 707-565-8100.

Funding Policy

Contribution rates for the employers and their covered employees are adopted by the Board of Supervisors upon recommendation by the SCERA Board of Retirement. Pension plan members are required to contribute 5% to 12% of their annual covered salary, depending upon their age of entry into the system. The employer is required to contribute an amount necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates. Contributions to the DBPP for the fiscal years ended June 30, 2006, 2005 and 2004 were \$54,582, \$39,855, and \$30,238 respectively.

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Post employment healthcare benefits are funded by employer contributions made on a periodic basis. The rate is determined annually by SCERA and approved by the Board of Supervisors. The rate is determined by dividing the estimated annual premium cost by the annual covered payroll. The financial statements of the County of Sonoma (the primary government) contain the financial information for the post-employment benefits, which are not presented here because SCTA's portion cannot be separated from the whole.

**C. Auditor Independence**

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. Specifically, "Auditors should not audit their own work or provide non audit services in situations where the amounts or services involved are significant or material to the subject matter of the audit." Although the office of the Auditor-Controller is statutorily obligated to maintain accounts of departments, districts or funds that are contained within the County Treasury, we believe that adequate safeguards and divisions of responsibility exist. Therefore, we believe that subject to this qualification and disclosure, the reader can rely on the auditor's opinion contained in this report.

# SONOMA COUNTY TRANSPORTATION AUTHORITY

## Roster of Board Members

The following is a roster of the Sonoma County Transportation Authority Board of Directors and the Executive Director at February 26, 2007.

<b>Board of Directors</b>	<b>City</b>
Robert Jehn, Chair	City of Cloverdale
Mike Kerns, V. Chair	Sonoma County
Bob Blanchard	City of Santa Rosa
Stanley Cohen	City of Sonoma
Patricia Gilardi	City of Cotati
Mike Harris	City of Petaluma
Sam Pierce	City of Sebastopol
Paul Kelley	Sonoma County
Jake Mackenzie	City of Rohnert Park
Warin Parker	Town of Windsor
Mike Reilly	Sonoma County
Lisa Witke Schaffner	City of Healdsburg
Alternate Geoff Fox	City of Cotati
Alternate Craig Litwin	City of Sebastopol
Alternate Mike McGuire	City of Healdsburg
Alternate Sam Salmon	Town of Windsor
Alternate John Sawyer	City of Santa Rosa
Alternate August Sebastiani	City of Sonoma
Alternate Tim Smith	City of Rohnert Park
Alternate Pam Torliatt	City of Petaluma
Alternate Gus Wolter	City of Cloverdale
Suzanne Smith	Executive Director