

SONOMA COUNTY TRANSPORTATION AUTHORITY

**ANNUAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

SONOMA COUNTY TRANSPORTATION AUTHORITY

**Annual Report
For the Fiscal Year Ended
June 30, 2008**

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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, 2008, 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 \$79,495,798 and total revenues of \$20,685,140 for the fiscal year ending June 30, 2008. 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 III.D 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, 2008, 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) 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

November 3, 2008

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 year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with SCTA's financial statements and the accompanying notes to the financial statements.

Financial Highlights

- The assets of SCTA exceeded their liabilities at the close of the most recent fiscal year by \$29,735,359 (*net assets*).
- SCTA's total net assets increased by \$8,110,676 from 2006-2007. This increase is the result of reduced reimbursement requests from eligible entities for Measure M projects.
- As of the close of the current fiscal year, SCTA reported an ending fund balance of \$79,722,571; an increase of \$58,067,412 in comparison with 2006-07. This increase is a result of the issuance of 2008 Series Revenue Bonds for the Highway 101 projects.
- Unrestricted net assets for SCTA as of June 30, 2008 are \$204,872. This is a decrease of \$5,533,799 compared with 2006-2007.

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 and 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 13 - 23.

Required supplementary information

Schedules presenting budgetary comparison information for the SCTA's governmental funds can be found on pages 24 - 26. The notes to required supplementary information can be found on pages 27.

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 \$29,735,359 at the close of the most recent fiscal year.

A large portion of the SCTA's net assets (94.5%) 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

	2006-07	2007-08
Current and Other Assets	\$ 23,832,725	\$ 81,801,718
Capital Assets	12,945	9,113
Total Assets	23,845,670	81,810,831
Current Liabilities	2,177,566	1,593,529
Non-Current Liabilities	43,421	50,481,943
Total Liabilities	2,220,987	52,075,472
Invested in Capital Assets	12,945	9,113
Restricted for TFCA	254,581	1,401,683
Restricted for Measure M	15,618,486	28,119,691
Unrestricted	5,738,671	204,872
Total Net Assets	\$ 21,624,683	\$ 29,735,359

Governmental Activities

Governmental activities increased the SCTA's net assets by \$8,110,676. Key elements of these activities are identified below:

- SCTA recognized revenues for Measure M totaling \$20,685,140 for fiscal year 2007-08. This amount represents a decrease of \$828,206 from 2006-2007 revenues.
- SCTA received \$1,663,100 from state and federal sources towards various transportation improvement projects, including Planning and Program Management for Highway 101. This amount represents an increase of \$416,641 from 2006-2007.
- The Transportation Fund for Clean Air received \$647,410 from the Bay Area Air Quality Management District towards various projects.
- Expenses for transportation improvement projects, including Planning and Program

Management for Highway 101 totaled, \$1,683,944 for fiscal year 2007-2008, an increase of \$555,751 from 2006-2007.

- Measure M expenses totaled \$12,645,450 for fiscal year 2007-2008, a reduction of \$1,068,954 from prior year.
- Expenses related to the Transportation Fund for Clean Air program totaled \$558,315 for fiscal year 2007-2008, a decrease of \$230,134 from 2006-2007.

Sonoma County Transportation Authority's Changes in Net Assets

	2006-07	2007-08
Revenues:		
Program Revenues:		
Operating Grants and Contributions		
Transportation Improvement	\$ 1,246,459	\$ 1,663,100
Transportation Fund for Clean Air (TFCA)	648,899	647,410
Measure M	1,742,818	1,821,079
General Revenues:		
Sales tax revenue	19,770,528	18,864,061
Investment earnings	6,459	2,735
Total revenues	23,415,163	22,998,385
Expenses:		
Transportation Improvement	\$ 1,128,193	\$ 1,683,944
Transportation Fund for Clean Air (TFCA)	788,449	558,315
Measure M	13,714,404	12,645,450
Total expenses	15,631,046	14,887,709
Net revenue (expenses)	7,784,117	8,110,676
Net assets - beginning of year	13,840,566	21,624,683
Net assets - end of year	\$ 21,624,683	\$ 29,735,359

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 \$79,722,571. This is an increase of \$58,067,412 due to the issuance of sales tax revenue bonds in comparison with the prior years fund balance. SCTA has an unreserved fund balance of \$70,557,128 and a fund balance reserve for encumbrances of \$9,165,443.

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 is \$178,455 while total general fund balance was \$320,991.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget for fiscal year 2007-2008.

Capital Asset and Debt Administration

Capital assets

SCTA's investment in capital assets as of June 30, 2008 amounts to \$9,113 (net of accumulated depreciation). This investment in capital assets represents equipment. No additional equipment was either purchased or retired during the fiscal year.

Sonoma County Transportation Authority's Capital Assets

	2006-07	2007-08
Equipment	\$ 25,609	\$ 25,609
Accumulated depreciation	(12,664)	(16,496)
Total Capital Assets	\$ 12,945	\$ 9,113

Additional information on SCTA's capital assets can be found in Note II.B on page 19 of the notes to the basic financial statement.

Long-term Debt

At the end of fiscal year 2007-08, SCTA had long-term liabilities of \$50,481,943. The increase from the prior fiscal year is primarily the result of the issuance of the 2008 Series sales tax revenue bonds of \$50,365,824 specifically issued for the Highway 101 projects and \$116,119 for employees' compensated absences.

Sonoma County Transportation Authority's Long-Term Liabilities

	2006-07	2007-08
Series 2008 Revenue Bonds	\$ 0	\$ 46,075,000
Bond Issuance Premium	0	4,290,824
Compensated Absences	43,421	116,119
Total Long-term Liabilities	\$ 43,421	\$ 50,481,943

Additional information on SCTA's long-term liabilities can be found in Note II.D on page 20 of the notes to the basic financial statement.

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 revenues, a local ¼ cent sales tax, are expected to be either flat or even experience a negative growth factor, which will impact the Transit, Local Street Projects (LSP) and Local Street Repairs (LSR) programs. The Highway 101 project will be primarily funded through use of the bond proceeds and not be as impacted by the possible decrease in sales tax revenues as the other programs.

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, 2008

Assets

Cash and investments	\$ 79,976,683
Restricted cash and investments	185,751
Sales Tax Receivable	763,539
Due from other governments	390,127
Non-current assets:	
Deferred charges	485,618
Capital assets (net of accumulated depreciation)	
Equipment	9,113
Total assets	<u>81,810,831</u>

Liabilities

Accounts payable	890,650
Due to other governments	360,560
Contract retention payable	342,319
Non-current liabilities:	
Sales tax revenue bonds payable, net	50,365,824
Compensated absences payable	116,119
Total liabilities	<u>52,075,472</u>

Net Assets

Invested in capital assets	9,113
Restricted for:	
Transportation for clean air	1,401,683
Measure M	28,119,691
Unrestricted	204,872
Total net assets	<u>\$ 29,735,359</u>

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, 2008

Functions / Programs	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
Primary Government			
Governmental activities:			
Measure M	\$ 12,645,450	\$ 1,821,079	\$ (10,824,371)
Transportation Fund for Clean Air (TFCA)	558,315	647,410	89,095
Transportation Improvement	<u>1,683,944</u>	<u>1,663,100</u>	<u>(20,844)</u>
General government	<u>\$ 14,887,709</u>	<u>\$ 4,131,589</u>	<u>\$ (10,756,120)</u>
General revenues:			
			18,864,061
			<u>2,735</u>
			<u>18,866,796</u>
			8,110,676
			<u>21,624,683</u>
			<u>\$ 29,735,359</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, 2008

	General	TFCAspecial Revenue	Measure M Special Revenue	Total Governmental Funds
Assets				
Cash and investments	\$ 28,492	\$ 1,401,683	\$ 78,546,508	\$ 79,976,683
Restricted cash and investments	-	-	185,751	185,751
Sales tax receivable	-	-	763,539	763,539
Due from other governments	390,127	-	-	390,127
Total assets	\$ 418,619	\$ 1,401,683	\$ 79,495,798	\$ 81,316,100
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 97,628	\$ -	\$ 793,022	\$ 890,650
Due to other governments	-	-	360,560	360,560
Contract retention payable	-	-	342,319	342,319
Total liabilities	97,628	0	1,495,901	1,593,529
Fund balances:				
Unreserved	178,455	299,815	70,078,858	70,557,128
Reserved for encumbrances	142,536	1,101,868	7,921,039	9,165,443
Total fund balances	320,991	1,401,683	77,999,897	79,722,571
Total liabilities and fund balances	\$ 418,619	\$ 1,401,683	\$ 79,495,798	\$ 81,316,100

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, 2008

Fund balances - total government funds	\$ 79,722,571
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.	9,113
Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period which the debt is outstanding. The costs are reported as expenditures of the current period in the governmental funds.	485,618
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	(116,119)
Sales tax revenue bonds payable, net	<u>(50,365,824)</u>
Net assets of governmental activities	<u>\$ 29,735,359</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, 2008

	<u>General</u>	<u>TFCA Special Revenue</u>	<u>Measure M Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues				
Intergovernmental revenue	\$ 1,663,100	\$ 594,059	\$	\$ 2,257,159
Sales tax revenue	-	-	18,864,061	18,864,061
Investment income	2,735	53,351	1,770,125	1,826,211
Charges for services	-	-	50,954	50,954
Total revenues	<u>1,665,835</u>	<u>647,410</u>	<u>20,685,140</u>	<u>22,998,385</u>
Expenditures				
Current:				
Salaries and employee benefits	878,182	-	-	878,182
Services and supplies	971,827	-	3,347,597	4,319,424
Cost applied	(242,595)	-	-	(242,595)
Administration	-	27,174	-	27,174
Contributions to other governments	-	531,141	8,786,870	9,318,011
Debt service:				
Interest	-	-	711,257	711,257
Bond issuance costs	-	-	511,177	511,177
Total expenditures	<u>1,607,414</u>	<u>558,315</u>	<u>13,356,901</u>	<u>15,522,630</u>
Excess (deficiency) of revenues over (under) expenditures	<u>58,421</u>	<u>89,095</u>	<u>7,328,239</u>	<u>7,475,755</u>
Other Financing Sources				
Sales tax revenue bonds issued	-	-	46,075,000	46,075,000
Premium on bonds issued	-	-	4,516,657	4,516,657
Total other financing sources	<u>-</u>	<u>-</u>	<u>50,591,657</u>	<u>50,591,657</u>
Net change in fund balances	58,421	89,095	57,919,896	58,067,412
Fund balance, beginning of year	<u>262,570</u>	<u>1,312,588</u>	<u>20,080,001</u>	<u>21,655,159</u>
Fund balance, end of year	<u>\$ 320,991</u>	<u>\$ 1,401,683</u>	<u>\$ 77,999,897</u>	<u>\$ 79,722,571</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 Balances of Governmental Funds to the
Statement of Activities
For the Fiscal Year Ended June 30, 2008

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

Net change in fund balance - governmental funds	\$ 58,067,412
<p>Governmental funds report capital outlay 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	(3,832)
<p>Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized through the period during which the related debt is outstanding.</p>	
Issuance of long-term debt	(46,075,000)
Premium on long-term debt	(4,516,657)
Bond issuance costs	511,177
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	
Change in compensated absences	(72,698)
Amortization of issuance costs	(25,559)
Amortization of bond premium	225,833
Change in net assets of governmental activities	<u>\$ 8,110,676</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, 2008

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 is 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.

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

SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
June 30, 2008

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.

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

SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
June 30, 2008

3. Long-term obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

In the fund financial statements bond premiums, discounts, and issuance costs are recognized in the period incurred. The face amount of the debt issued and premiums are reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. 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.

5. 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.

SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
June 30, 2008

6. 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.

II. 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.

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 Auditor-Controller Treasurer-Tax Collector at 585 Fiscal Drive, Room 100-F, Santa Rosa, California, 95403-2871.

SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
June 30, 2008

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, 2007, approximately 70 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 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.

SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
June 30, 2008

➤ 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 2007 Sonoma County CAFR.

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &</u> <u>Adjustments</u>	<u>Ending</u> <u>Balance</u>
Capital assets, being depreciated:					
Equipment	\$ 25,609	\$ 0	\$ 0	\$ 0	\$ 25,609
Total capital assets, being depreciated	<u>25,609</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>25,609</u>
Less accumulated depreciation for:					
Equipment	12,664	3,832			16,496
Total accumulated depreciation	<u>12,664</u>	<u>3,832</u>	<u>0</u>	<u>0</u>	<u>16,496</u>
Capital assets, net	<u>\$ 12,945</u>	<u>\$ (3,832)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,113</u>

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

Governmental activities:

Transportation improvements	<u>\$ (3,832)</u>
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SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
June 30, 2008

C. Operating lease

The Authority is obligated under a 5 year lease agreement for the use of office space. The Authority may terminate the lease by giving 180 days notice and by paying \$6,071 times the number of whole months between the effective date of the termination and the expiration date of the lease. Lease expenditures for the fiscal year ended June 30, 2008 were \$84,432. Future minimum lease payments required by this lease agreement are as follows:

Fiscal Year Ending June 30:	<u>Balance</u>
2009	\$ 83,355
2010	72,852
2011	72,852
2012	<u>54,639</u>
Total future minimum lease payments	<u>\$ 283,698</u>

D. Long-term liabilities

Long-term liability activity for the year ended June 30, 2008 was as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Revenue bonds:					
Series 2008 Revenue Bonds	\$ 0	\$ 46,075,000	\$ 0	\$ 46,075,000	\$ 0
Less deferred amounts:					
For issuance premiums	<u>0</u>	<u>4,516,657</u>	<u>(225,833)</u>	<u>4,290,824</u>	<u>225,833</u>
Subtotal revenue bonds	<u>0</u>	<u>50,591,657</u>	<u>(225,833)</u>	<u>50,365,824</u>	<u>225,833</u>
Other long-term liabilities					
Compensated absences	<u>43,421</u>	<u>72,698</u>		<u>116,119</u>	<u>0</u>
Total long-term liabilities	<u>\$ 43,421</u>	<u>\$ 50,664,355</u>	<u>\$ (225,833)</u>	<u>\$ 50,481,943</u>	<u>\$ 225,833</u>

E. Sales Tax Revenue Bonds

The Authority issued \$46,075,000 in Sales Tax Revenue Bonds (Limited Tax Bonds) on January 24, 2008, with a maturity date of December 1, 2024. The bonds were issued at a premium of \$4,516,657 and bond issuance costs paid were \$511,177. The bonds are limited obligations of the Authority secured solely by a pledge of approximately \$71,214,025 from measure M sales Tax Revenues. Pledged sales Tax

SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
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Revenues represent approximately 17% of estimated total revenues from the measure M sale Tax. The bonds carry interest rates ranging from 4% to 5%, the bonds were issued for the purpose of financing certain transportation projects included in the Measure M Expenditure Plan. Total debt service payments made during Fiscal Year 2007-2008 represent 4% of measure M sales Tax Revenues (\$18,864,061) recognized during the same period. The first interest payment of \$711,257 was due June 1, 2008. The annual debt service requirements are as follows:

Fiscal Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2009	\$ 0	\$ 2,207,350	\$ 2,207,350
2010	0	2,207,350	2,207,350
2011	0	2,207,350	2,207,350
2012	0	2,207,350	2,207,350
2013	0	2,207,350	2,207,350
2014- 2018	15,950,000	9,122,500	25,072,500
2019- 2023	20,485,000	4,590,375	25,075,375
2024-2025	<u>9,640,000</u>	<u>389,400</u>	<u>10,029,400</u>
Total requirements	46,075,000	25,139,025	71,214,025
Plus: unamortized premium	<u>4,290,824</u>		<u>4,290,824</u>
Total	<u>\$ 50,365,824</u>	<u>\$ 25,139,025</u>	<u>\$ 75,504,849</u>

F. 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.

G. Sales Tax Revenues

Sales tax revenues represent tax revenues generated by Measure M.

SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
June 30, 2008

III. OTHER INFORMATION

A. Risk Management

SCTA is covered for general, automobile and crime and errors and omissions liability through 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.

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

SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
June 30, 2008

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, 2008, 2007, and 2006 were \$134,485, \$127,909, and \$54,582 respectively.

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. Commitments and Contingencies

SCTA has the following outstanding contract commitments related to its Activities as of June 30, 2008:

<u>Activity</u>	<u>Outstanding Commitment Balance</u>
Measure M	\$ 93,415,132
Transportation Fund for Clean Air (TFCA)	1,101,868
Transportation Improvement	241,312
Total	<u><u>\$ 94,758,312</u></u>

D. 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

SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to the Basic Financial Statements
June 30, 2008

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
Schedule of Revenues, Expenditures and Changes in Fund Balance-
Budgets and Actual
General Fund
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
Revenues	Original	Final	Amounts	Final Budget - Positive (Negative)
Intergovernmental revenue	\$ 1,905,000	\$ 1,905,000	\$ 1,663,100	\$ (241,900)
Investment income	7,500	7,500	2,735	(4,765)
Total revenues	1,912,500	1,912,500	1,665,835	(246,665)
 Expenditures				
Current:				
Salaries and employee benefits	967,000	967,000	878,182	88,818
Services and supplies	1,266,596	1,266,596	1,114,363	152,233
Cost applied	(277,000)	(277,000)	(242,595)	(34,405)
Total expenditures	1,956,596	1,956,596	1,749,950	206,646
Net change in fund balance, budgetary basis	\$ (44,096)	\$ (44,096)	(84,115)	\$ 40,019
 Budget adjustments				
Encumbrances			142,536	
Net change in fund balance, GAAP basis			\$ 58,421	

The notes to required supplementary information are an integral part of this schedule.

SONOMA COUNTY TRANSPORTATION AUTHORITY
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budgets and Actual
Special Revenue Fund (TFCA)
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
Revenues	Original	Final	Amounts	(Negative)
Intergovernmental revenue	\$ 614,462	\$ 614,462	\$ 594,059	\$ (20,403)
Charges for services			0	0
Investment income			53,351	53,351
Total revenues	614,462	614,462	647,410	32,948
 Expenditures				
Current:				
Administration	24,174	27,174	27,174	0
Contributions to other governments	1,673,009	1,673,009	1,633,009	40,000
Total expenditures	1,697,183	1,700,183	1,660,183	40,000
Net change in fund balance, budgetary basis	\$ (1,082,721)	\$ (1,085,721)	(1,012,773)	\$ 72,948
 Budget adjustments				
Encumbrances			1,101,868	
Net change in fund balance, GAAP basis			\$ 89,095	

The notes to required supplementary information are an integral part of this schedule.

SONOMA COUNTY TRANSPORTATION AUTHORITY
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budgets and Actual
Special Revenue Fund (Measure M)
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive
	Original	Final		(Negative)
Revenues				
Sales tax revenue	\$ 20,400,000	\$ 20,400,000	\$ 18,864,061	\$ (1,535,939)
Investment income	973,068	973,068	1,770,125	797,057
Charges for services	-	-	50,954	50,954
Total revenues	<u>21,373,068</u>	<u>21,373,068</u>	<u>20,685,140</u>	<u>(687,928)</u>
Expenditures				
Current:				
Services and supplies	9,151,690	9,151,690	4,315,836	4,835,854
Contributions to other governments	32,193,000	32,193,000	15,739,670	16,453,330
Debt service:				
Interest	2,500,000	2,500,000	711,257	1,788,743
Bond issuance costs	-	-	511,177	(511,177)
Total expenditures	<u>43,844,690</u>	<u>43,844,690</u>	<u>21,277,940</u>	<u>22,566,750</u>
Other Financing Sources				
Sales tax revenue bonds issued	55,000,000	55,000,000	46,075,000	(8,925,000)
Premium on bonds issued	-	-	4,516,657	4,516,657
Total other financing sources	<u>55,000,000</u>	<u>55,000,000</u>	<u>50,591,657</u>	<u>(4,408,343)</u>
Net change in fund balance, budgetary basis	<u>\$ 32,528,378</u>	<u>\$ 32,528,378</u>	49,998,857	<u>\$ 17,470,479</u>
Budget adjustments				
Encumbrances			<u>7,921,039</u>	
Net change in fund balance, GAAP basis			<u>\$ 57,919,896</u>	

The notes to required supplementary information are an integral part of this schedule.

SONOMA COUNTY TRANSPORTATION AUTHORITY
Notes to Required Supplementary Information
June 30, 2008

I. 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. The Authority's budgetary information was amended during the year by resolution of the Board of Directors.

B. Encumbrances

SCTA, as a whole, had encumbrances at June 30, 2008 of \$9,165,443. These encumbrances represent commitments by SCTA for services related to the General Fund, TFCA Fund and Measure M.

The allocation of encumbrances is as follows:

General Fund	\$ 142,536
TFCA	1,101,868
Measure M	7,921,039
	<u>\$ 9,165,443</u>

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 November 3, 2008.

Board of Directors	City
Mike Kerns, Chair	Sonoma County
Lisa Wittke Schaffner, V. Chair	City of Healdsburg
John Sawyer	City of Santa Rosa
Valerie Brown	County of Sonoma
Stanley Cohen	City of Sonoma
Patricia Gilardi	City of Cotati
Mike Harris	City of Petaluma
Carol Russell	City of Cloverdale
Paul Kelley	Sonoma County
Sarah Gurney	City of Sebastopol
Jake Mackenzie	City of Rohnert Park
Sam Salmon	Town of Windsor
Alternate Geoff Fox	City of Cotati
Alternate Jen Thille	City of Sebastopol
Alternate Mike McGuire	City of Healdsburg
Alternate Steve Allen	Town of Windsor
Alternate Vacant	City of Santa Rosa
Alternate August Sebastiani	City of Sonoma
Alternate Tim Smith	City of Rohnert Park
Alternate Samantha Freitas	City of Petaluma
Alternate Joe Palla	City of Cloverdale
Suzanne Smith	Executive Director