



SCTA

Sonoma
County
Transportation
Authority

Keeping Sonoma County Moving

Directors

January 2, 2007

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Lisa Schaffner
Healdsburg

Dear Interested Parties:

The Citizen's Advisory Committee (CAC) of the Sonoma County Transportation Authority is pleased to present the 2005/2006 audit report on the financial standing the Sonoma County Transportation Authority Measure M Sales Tax Program as well as the 2005/2006 Measure M Annual Report. These documents represent the first comprehensive report to the public since the passage of the transportation sales tax measure in November 2004.

The CAC recommended and the Board approved hiring an outside consultant to perform the Measure M audit. The firm Williams, Adely and Company, LLC was retained to perform a financial and compliance audit of the Measure M program. The audit report covers the period of April 1, 2005 through June 30, 2006. The audit was completed in November and approved by the CAC in December 2006. Subsequent audit reports will correspond to the fiscal year, which extends from July 1 to June 30.

The financial and compliance audits found the SCTA financial statements are in good standing and that the SCTA has complied with all requirements.

The audit did recommend strengthening internal controls related to the accuracy in tracking how costs are recorded and how encumbrances are released. The SCTA accounting staff has taken steps to improve these processes and the CAC is satisfied with the action taken.

The CAC is unanimous in concluding that the Measure M program is being implemented in such a manner that is in keeping with the ordinance approved by the voters and with the Strategic Plan approved by the SCTA Board of Directors. The SCTA is doing a fine job of caring for the public's interests in allocating and controlling the expenditure of the funds received from Measure M.

The full audit report and the annual report can be found at the SCTA web site www.sctainfo.org.

Sincerely,

Robert Anderson
Chairman, CAC

Suzanne Smith
Executive Director

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**SONOMA COUNTY TRANSPORTATION AUTHORITY
MEASURE M FUND**

Financial Statements

As of June 30, 2006 and for the Period April 1, 2005 through June 30, 2006

(With Independent Auditors' Report Thereon)

WILLIAMS, ADLEY & COMPANY, LLP

Certified Public Accountants
and
Management Consultants



WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

**SONOMA COUNTY TRANSPORTATION AUTHORITY
MEASURE M FUND**

Financial Statements

As of June 30, 2006 and for the Period April 1, 2005 through June 30, 2006

(With Independent Auditors' Report Thereon)

SONOMA COUNTY TRANSPORTATION AUTHORITY – MEASURE M FUND
Financial Statements
June 30, 2006

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WILLIAMS, ADLEY & COMPANY, LLP

Certified Public Accountants
Management Consultants

INDEPENDENT AUDITORS' REPORT

To the Citizen's Advisory Committee
Sonoma County Transportation Authority

We have audited the accompanying financial statements of the Sonoma County Transportation Authority Measure M Fund as of June 30, 2006, and for the period from April 1, 2005 through June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the Sonoma County Transportation Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sonoma County Transportation Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Sonoma County Transportation Authority Measure M Fund, and do not purport to, and do not, present fairly the financial position of the Sonoma County Transportation Authority, as of June 30, 2006 and the changes in its financial position for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sonoma County Transportation Authority's Measure M Fund as of June 30, 2006, and the changes in financial position thereof and the budgetary comparison for the fifteen month period then ended, in conformity with accounting principles generally accepted in the United States of America.

Williams, Adley & Company, LLP

November 10, 2006

SONOMA COUNTY TRANSPORTATION AUTHORITY - MEASURE M FUND

Balance Sheet (By Activity)

June 30, 2006

| | Local Streets- Repairs | Local Streets- Projects | Highway 101 | Transit | Passenger Rail | Bicycle & Pedestrian | Administration | Total |
|---|---------------------------|----------------------------|---------------------|-------------------|-------------------|-------------------------|------------------|----------------------|
| ASSETS: | | | | | | | | |
| Cash and investments | \$ 428,042 | \$ 3,717,834 | \$ 6,872,294 | \$ 190,092 | \$ 760,860 | \$ 743,585 | \$ 31,055 | \$ 12,743,763 |
| Sales tax receivable | 107,563 | 107,563 | 215,126 | 53,782 | 26,891 | 21,513 | 5,378 | 537,816 |
| Intergovernmental receivable | - | - | 582,072 | - | - | - | - | 582,072 |
| Total Assets | \$ 535,605 | \$ 3,825,397 | \$ 7,669,492 | \$ 243,873 | \$ 787,751 | \$ 765,098 | \$ 36,433 | \$ 13,863,651 |
| LIABILITIES AND FUND BALANCE | | | | | | | | |
| Liabilities: | | | | | | | | |
| Intergovernmental payable | \$ - | \$ - | \$ 267,472 | \$ 188,027 | \$ - | \$ - | \$ - | \$ 455,499 |
| Accounts payable | - | - | 706,540 | - | 419,818 | - | 735 | 1,127,093 |
| Total Liabilities | - | - | 974,012 | 188,027 | 419,818 | - | 735 | 1,582,591 |
| Fund Balance: | | | | | | | | |
| Unreserved/undesignated fund | 535,605 | 3,825,397 | 5,179,833 | 55,846 | 367,933 | 765,098 | 35,143 | 10,764,857 |
| Reserved for encumbrances | - | - | 1,515,647 | - | - | - | 555 | 1,516,202 |
| Total Fund Balance | 535,605 | 3,825,397 | 6,695,481 | 55,846 | 367,933 | 765,098 | 35,698 | 12,281,059 |
| Total Liabilities and Fund Balance | \$ 535,605 | \$ 3,825,397 | \$ 7,669,492 | \$ 243,873 | \$ 787,751 | \$ 765,098 | \$ 36,433 | \$ 13,863,651 |

See accompanying notes to financial statements.

SONOMA COUNTY TRANSPORTATION AUTHORITY- MEASURE M FUND
 Statement of Revenues, Expenditures and Changes in Fund Balance (By Activity)
 For the Period April 1, 2005 Through June 30, 2006

| | Local Streets- Repairs | Local Streets- Projects | Highway 101 | Transit | Passenger Rail | Bicycle & Pedestrian | Administration | Total |
|---|---------------------------|----------------------------|---------------------|------------------|-------------------|-------------------------|------------------|----------------------|
| REVENUES: | | | | | | | | |
| Measure M taxes | \$ 3,801,443 | \$ 3,801,443 | \$ 7,602,884 | \$ 1,808,945 | \$ 950,361 | \$ 760,288 | \$ 190,072 | \$ 18,915,434 |
| Interest on investments | 33,310 | 69,702 | 136,106 | 12,152 | 17,426 | 13,940 | 730 | 283,367 |
| Charges for services | - | - | 1,193,599 | - | - | - | - | 1,193,599 |
| Other | 10,789 | 10,789 | 21,579 | 5,395 | 2,697 | 2,158 | 539 | 53,947 |
| Total Revenues | <u>3,845,542</u> | <u>3,881,934</u> | <u>8,954,168</u> | <u>1,826,491</u> | <u>970,484</u> | <u>776,386</u> | <u>191,341</u> | <u>20,446,347</u> |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| Highways, streets and transportation projects | 3,309,936 | 56,536 | 2,258,688 | 1,770,646 | 602,550 | 11,288 | 155,643 | 8,165,286 |
| Total Expenditures | <u>3,309,936</u> | <u>56,536</u> | <u>2,258,688</u> | <u>1,770,646</u> | <u>602,550</u> | <u>11,288</u> | <u>155,643</u> | <u>8,165,286</u> |
| NET CHANGE IN FUND BALANCE: | 535,606 | 3,825,397 | 6,695,481 | 55,846 | 367,933 | 765,098 | 35,698 | 12,281,059 |
| FUND BALANCE: | | | | | | | | |
| Beginning of Period | - | - | - | - | - | - | - | - |
| End of Period | <u>\$ 535,606</u> | <u>\$ 3,825,397</u> | <u>\$ 6,695,481</u> | <u>\$ 55,846</u> | <u>\$ 367,933</u> | <u>\$ 765,098</u> | <u>\$ 35,698</u> | <u>\$ 12,281,059</u> |

See accompanying notes to financial statements.

SONOMA COUNTY TRANSPORTATION AUTHORITY- MEASURE M FUND
 Statement of Revenues, Expenditures and Changes in Fund Balance -
 Budget and Actual
 For the Period April 1, 2005 Through June 30, 2006

| | Budgeted Amounts | | Actual | Variance with |
|---|---------------------|---------------------|----------------------|---------------------|
| | Original | Final | Amounts | Final Budget - |
| | | | | Positive |
| | | | | (Negative) |
| REVENUES: | | | | |
| Measure M taxes | \$ 21,914,662 | \$ 21,914,662 | \$ 18,915,434 | \$ (2,999,228) |
| Interest on investments | - | - | 283,367 | 283,367 |
| Charges for services | - | - | 1,193,599 | 1,193,599 |
| Other | - | - | 53,947 | 53,947 |
| Total Revenues | <u>21,914,662</u> | <u>21,914,662</u> | <u>20,446,347</u> | <u>(1,468,315)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Highways, streets and transportation projects | 17,817,934 | 17,826,363 | 8,165,286 | 9,661,077 |
| Total Expenditures | <u>17,817,934</u> | <u>17,826,363</u> | <u>8,165,286</u> | <u>9,661,077</u> |
| NET CHANGE IN FUND BALANCE: | 4,096,728 | 4,088,299 | 12,281,059 | 8,192,760 |
| FUND BALANCE: | | | | |
| Beginning of Period | - | - | - | - |
| End of Period | <u>\$ 4,096,728</u> | <u>\$ 4,088,299</u> | <u>\$ 12,281,059</u> | <u>\$ 8,192,760</u> |

See accompanying notes to financial statements.

SONOMA COUNTY TRANSPORTATION AUTHORITY – MEASURE M FUND
Notes to Financial Statements
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Measure M Fund was created in November 2004 with the passage of the Traffic Relief Act for Sonoma County. Measure M is funded by a quarter cent sales tax and its activities are accounted for in a special revenue fund of the Sonoma County Transportation Authority ("SCTA"). Measure M creates a stable funding source for local transportation projects intended to make significant progress in widening Highway 101, maintaining local roads, improving local transit services, developing passenger rail service, providing safe bike and pedestrian routes, and making key local street improvements.

The Measure M 2005 Strategic Plan serves as the guiding policy and programming document for the implementation of Measure M projects. It covers a five year period and will be updated every two years in order to reflect the actual revenues received.

The allocation of Measure M funds is as follows:

- 20% of the funds will be used to fix pot holes and maintain local streets.
- 20% of the funds will be used for key local road projects throughout the County.
- 40% of the funds will be used to help fund Highway 101 widening throughout the County.
- 10% of the funds will go to improving local bus transit service.
- 5% of the funds will go to SMART for the development of passenger rail service.
- 4% of the funds will be used for bicycle and pedestrian routes.

There is an overall limitation of one percent on the administrative expenses of Measure M operations.

The financial statements of the Measure M Fund presents only the financial activities of the Measure M Fund in conformity with accounting principles generally accepted in the United States of America and are not intended to fairly present the financial position and changes in financial position of the Sonoma County Transportation Authority.

Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the SCTA considers revenues to be available if they are collected

SONOMA COUNTY TRANSPORTATION AUTHORITY – MEASURE M FUND
Notes to Financial Statements
June 30, 2006

within 60 days of the end of the current fiscal period. Expenditures are recorded when the liability is incurred and is expected to be liquidated with expendable available resources.

Fund Balances

Reservations of fund balances indicate those portions of fund equity that are not available for appropriation for expenditure or which have been legally restricted to a specific use. Encumbrances outstanding at fiscal year end are reported as reservation of fund balances and the related appropriation is automatically carried forward into the next fiscal year. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

When both restricted and unrestricted fund balances are available, restricted resources are used only after unrestricted resources are depleted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported balances. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Cash and investments for the Measure M Fund are maintained in the Sonoma County Treasury's cash and investment pool. Funds are invested according to the investment policy adopted by the County. The County Treasurer is the ex officio treasurer of each of the participating entities, which therefore are legally required to deposit their cash receipts and revenues in the County treasury. Under State law, withdrawals by such mandatory participants are allowed only to pay for expenses that have become due. Investments are generally carried at fair value. The market value of the portfolio as of June 30, 2006, was at 99.57% of cost. Market values were obtained from Sungard Financial Systems and Bloomberg. Relevant information about the separate portion of the investment pool related to the Measure M Fund is not available. Income earned or losses arising from the investment of pooled cash are allocated on a quarterly basis to the participating funds based on their proportionate share of the average daily cash balance. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury pool.

SONOMA COUNTY TRANSPORTATION AUTHORITY – MEASURE M FUND
Notes to Financial Statements
June 30, 2006

Permitted investments include the following:

- U. S. treasury and agency securities
- Bonds issued by the local agencies
- Registered state warrants and municipal notes
- Bankers acceptances
- Commercial paper
- Negotiable certificates of deposit
- Repurchase agreements
- Reverse repurchase agreements
- Medium term corporate notes
- Shares of a mutual fund
- Collateralized mortgage obligations
- Joint powers agreement

As of June 30, 2006, the pool had no reverse repurchase agreements.

Information regarding the characteristics of the entire investment pool can be found in the Sonoma County's web site at <http://sonoma-county.org/tax/quarterly.htm>. A copy of the treasury pool investment policy is available from the County's web site at http://sonoma-county.org/tax/about_treasurer.htm#investment. The SCTA Investment Policy is under development.

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:

SONOMA COUNTY TRANSPORTATION AUTHORITY – MEASURE M FUND
Notes to Financial Statements
June 30, 2006

- 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 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 Comprehensive Annual Financial Report (CAFR).

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, the weighted average days to maturity was 344 days.

SONOMA COUNTY TRANSPORTATION AUTHORITY – MEASURE M FUND
Notes to Financial Statements
June 30, 2006

3. INSURANCE COVERAGE

SCTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SCTA is covered for its general, automobile and crime and errors and omissions liability through Driver Alliant Insurance Services. SCTA participates in the County of Sonoma self-insurance program for workers' compensation claims and has excess reinsurance with the California State Association of Counties.

4. COMMITMENTS AND CONTINGENCIES

The SCTA has outstanding long-term (up to three years) construction contract and other commitments related to its programs. Following are the outstanding commitments as of June 30, 2006:

| Project | Outstanding Commitment Balance |
|-------------------------|-----------------------------------|
| Highway 101 | \$12,006,000 |
| Local Streets – Project | 1,312,000 |
| Bicycle & Pedestrian | 565,000 |
| Passenger Rail | 850,000 |
| <u>Total</u> | <u>\$14,733,000</u> |



WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

REPORT ON COMPLIANCE WITH MEASURE M

To the Citizens Advisory Committee
Sonoma County Transportation Authority

We have examined the Sonoma County Transportation Authority's (SCTA) compliance with requirements applicable to Measure M specified in the 2005 Measure M Strategic Plan related to the Measure M Fund for the period April 1, 2005 through June 30, 2006. Management is responsible for the SCTA's compliance with those requirements. Our responsibility is to express an opinion on SCTA's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about SCTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on SCTA's compliance with the specified requirements.

In our opinion SCTA has complied, in all material respects, with the aforementioned requirements for the period April 1, 2005 through June 30, 2006

This report is intended solely for the information and use of the Citizens Advisory Committee and SCTA's management and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company, LLP

November 10, 2006



WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

**SONOMA COUNTY TRANSPORTATION AUTHORITY-
MEASURE M FUND**

MANAGEMENT LETTER REPORT

FOR THE PERIOD APRIL 1, 2005 THROUGH JUNE 30, 2006



WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

**To the Citizens Advisory Committee
Sonoma County Transportation Authority:**

In planning and performing our audit of the financial statements of the Sonoma County Transportation Authority Measure M Fund (the Measure M Fund) as of June 30, 2006 and for the period April 1, 2005 through June 30, 2006 we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of opportunities for strengthening internal controls and improving operational efficiency. Our comments and suggestions regarding these matters follow. This letter does not affect our report dated November 10, 2006, on the financial statements of the Measure M Fund.

We have already discussed the comments and recommendations with the Citizens Advisory Committee and various Sonoma County Transportation Authority personnel.

Williams, Adley & Company, LLP
November 10, 2006

**SONOMA COUNTY TRANSPORTATION AUTHORITY-
MEASURE M FUND**

**MANAGEMENT LETTER REPORT
JUNE 30, 2006**

1. ALL SIGNIFICANT LIABILITIES SHOULD BE INCLUDED IN THE FINANCIAL STATEMENTS

Observation

As part of our search for unrecorded liabilities we noted that a \$267,472 amount due to California Department of Transportation was omitted from the financial statements. As a result we prepared an adjustment, which is included in the financial statements to reflect these costs.

Recommendation

We recommend that procedures be developed to ensure that all costs are properly recorded in the proper period.

Management Response

Current fiscal year end procedures are in place to ensure that all outstanding payables are recorded as of the end of the fiscal year. These procedures include maintaining a listing of all contracts with outside vendors and insuring that an invoice, or estimate, has been received from each vendor. Auditor-Controller staff will work closely with Measure M staff in future years to ensure that all applicable items are identified and recorded in the proper fiscal year.

**SONOMA COUNTY TRANSPORTATION AUTHORITY-
MEASURE M FUND**

**MANAGEMENT LETTER REPORT
JUNE 30, 2006**

2. RESERVATIONS FOR ENCUMBRANCES SHOULD BE RELEASED WHEN THE RELATED PAYABLES ARE RECORDED IN THE GENERAL LEDGER SYSTEM

Observation

Our test work of the reservation of fund balance for encumbrances and the accounts payable liabilities revealed that a reservation of fund balance for an encumbrance duplicated an invoice already recorded in the accounts payable system. As a result it was necessary to reduce the reserved fund balance for encumbrances to properly reflect the outstanding encumbrances. This resulted in a reclassification of \$170,605.

Recommendation

We recommend that procedures be developed to ensure that all encumbrances are properly released when the related liability is entered into the accounts payable system.

Management Response

Current procedures for the recording of payables at fiscal year end that are related to contract encumbrances includes the reduction of the encumbrance by the amount of any payables recorded at fiscal year end. Auditor-Controller staff will work closely with Measure M staff in future years to ensure that all encumbrances will be adjusted according to accepted procedures.