

**CITY OF SONOMA
CALIFORNIA**

ANNUAL FINANCIAL REPORT

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

City Council

Steve Barbose
August Sebastiani
Ken Brown
Joanne Sanders
Laurie Gallian

Mayor
Mayor Pro-Tem
Council Member
Council Member
Council Member

Appointed Officials

City Manager
Linda Kelly

CITY OF SONOMA, CALIFORNIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of City Council
City of Sonoma, California

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Sonoma (the "City"), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated April 8, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 – 9 and budgetary comparison information on pages 45 – 47 are not a required part of the basic financial statements, but is supplementary information required by the Governmental 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

C. G. Uhlenberg LLP

April 8, 2010
Redwood City, California

Management's Discussion and Analysis

Management's Discussion and Analysis

Fiscal Year 2008-2009

CITY OF SONOMA

Annually, the City is required to present a Management's Discussion and Analysis [MD&A] with the annual financial report in accordance with Governmental Accounting Standards Board [GASB] rule 34. MD&A is intended to introduce the City's financial statements to users and help assess whether the City's overall financial health has improved or deteriorated as a result of the past year's operations.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

The annual report is presented in a series of financial statements. The components are:

- The government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole.
- Fund financial statements describe how City services are financed in the short term as well as what resources are available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.
- Notes to the Financial Statements.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities [Government Wide]

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the City as a whole that helps answer this question. These statements include all assets and liabilities using the modified accrual basis of accounting.

These two statements report the City's net assets and changes thereto. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. It is also important to consider other non-financial factors such as changes in the City's property tax base or condition of City infrastructure assets to accurately assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities present information about the following:

Governmental Activities - All of the City's basic services are considered to be governmental functions, including City Council, City Manager, City Attorney, City Clerk, Administrative Services, Public Works, Planning and Community Development, Police, Fire, Community Services, General Services and EMS. These departments are supported by general City revenues such as taxes, and by specific program revenues such as fees.

Business-type Activities - The City's enterprise activities are reported here for Water and Cemetery Funds. Unlike governmental services, these services are supported by charges paid by users based on the amount of service they receive.

Component Unit - The City's governmental activities include the blending of one separate legal entity, the Sonoma Community Development Agency. Although legally separate, this "component unit" is important because the City is financially accountable for it.

Reporting the City's Most Significant Funds - Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, management establishes many other funds that aid in the administration of resources for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City has two fund types, governmental and proprietary, which use different accounting approaches as explained below.

Fund Financial Statements include Governmental and Proprietary Funds.

Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year end that are available for spending. The governmental fund statements provide a detailed short term view of the City's general government operations and the basic services it provides. Governmental fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds through a reconciliation statement.

Business Type (Proprietary) funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

FINANCIAL HIGHLIGHTS

- The City's total net assets at June 30, 2009 were \$58,384,480, an increase of \$831,274 over the prior year 2007-2008.
- Total City revenues, including program and general revenues, were \$21,460,000, a decrease of \$2,352,479 from the prior year. Total expenses were \$20,628,726, which was an increase of \$2,497,212 from the prior year.

- Governmental Activities Program Revenues were \$3,785,551, a decrease of \$374,080 from fiscal 2008's \$4,159,631.
- Governmental Activities Program Expenses were \$17,293,644 in fiscal 2009, an increase of \$2,176,522 from 2008's \$15,117,122.
- Program revenues from Business-Type Activities [Proprietary Funds] were \$3,847,084 in fiscal year 2009, a decrease of \$304,441 from the prior year.
- General Fund revenues and net other financing sources were \$8,418,491, a decrease of \$1,645,098 over the prior year.
- General Fund total expenditures were \$9,403,295, an increase of \$487,575 from prior year amounts.
- General fund balance was \$7,492,184 at fiscal year end compared with the budgeted fund balance and the prior year's actual fund balance of \$8,476,988. The fund balance is 80% of total General Fund expenditures.

Citywide Financial Statements – Governmental Activities

The following analysis focuses on the net assets and changes in net assets of the City's Governmental Activities, presented in the Citywide Statement of Net Assets and Statement of Activities.

	2009	2008
Current and other assets	25,161,585	26,641,956
Capital Assets	51,455,658	50,060,938
Total Assets	76,617,243	76,702,894
Long-term debt outstanding	31,659,497	32,458,176
Other Liabilities	1,829,073	1,575,437
Total Liabilities	33,488,570	34,033,613
Net assets:		
Invested in Capital Asset [net of debt]	19,475,360	17,872,558
Restricted for Debt Service	193,591	194,628
Restricted for Capital Projects	1,321,379	1,893,145
Restricted for LMI	3,467,714	3,473,753
Unrestricted	18,670,629	19,235,197
Total Net Assets	43,128,673	42,669,281

Total Net Assets increased approximately \$459,392 in FY 2009 as compared to FY 2008.

Governmental Activities – Revenues

<i>REVENUES</i> <i>Governmental Activities</i>		
<i>Revenues by Source</i>	<i>2009</i>	<i>%</i>
<i>Program revenues:</i>		
<i>Charges for Services</i>	<i>3,290,494</i>	<i>79%</i>
<i>Operating contributions & grants</i>	<i>495,057</i>	<i>21%</i>
<i>Capital contributions & grants</i>	<i>0</i>	<i>0%</i>
<i>Total Program Revenues</i>	<i>4,159,631</i>	
<i>General revenues</i>		
<i>Taxes and Assessments</i>	<i>13,581,877</i>	<i>98%</i>
<i>Use of money and property</i>	<i>385,608</i>	<i>2%</i>
<i>Other</i>	<i>0</i>	<i>0%</i>
<i>Total General Revenues</i>	<i>13,967,485</i>	
<i>Total Revenues, Transfers & Special Items</i>	<i>18,127,116</i>	

The table above shows that all Governmental Activity revenues totaled \$18,127,116 million in 2008-2009. This is in comparison to 19,825,924 in FY 2007-2008.

Program revenues include charges for service, operating grants and contributions, and capital grants and contributions generated from or restricted to each activity.

General revenues are composed of taxes and other revenues not specifically generated by or restricted to individual activities. All tax revenues, investment earnings, and rents for governmental facilities are included in general revenues.

Governmental Activities – Expenses

The table below presents the expenses and net revenue/(expense) for each of the City's Governmental Activities and interest on long-term debt. Net cost is defined as total program cost less the revenues generated by those specific activities.

EXPENSES & NET CHANGE <i>Governmental Activities</i>			
Department	Functions/ Expenses	Program Revenue	Revenue/ (Expenses)
General Government	2,155,118	158,413	[1,996,705]
Public Safety	8,960,544	2,537,527	[6,423,017]
Public Works	1,863,414	429,042	[1,434,372]
Community Development	2,593,115	637,952	[1,955,163]
Culture and Leisure	268,921	22,617	[246,304]
Interest on Long-term debt	1,452,532	-	[1,452,523]
Total Net Cost	17,293,644	3,785,551	[3,508,093]

The table above presents the net cost of each of the City's Governmental Activity. During the year, net cost is defined as total program cost less the revenues generated by those specific

activities. Total Governmental Activity expenses totaled \$17,293,644 in 2008-2009. In 2007-2008, the City's expense level was \$15,117,122

Citywide Financial Statements – Business-type Activities

The following analysis focuses on the net assets and changes in net assets of the City's Business-type Activities, presented in the Citywide Statement of Net Assets and Statement of Activities. Business-type activities include Cemetery and Water, as the Enterprise funds of the City.

Business-type Activities			
<i>Net Assets at June 30, 2009</i>			
	2009	2008	Increase/(Decrease) from FY 07-08
Cash and other assets	5,553,023	4,963,879	589,144
Capital assets	12,723,870	13,016,223	[292,353]
Total Assets	18,276,893	17,980,102	296,791
Long-term debt outstanding	2,603,889	2,737,133	[133,244]
Other Liabilities	417,197	359,044	58,154
Total Liabilities	3,021,086	3,096,177	[75,086]
Total Net Assets:			
Invested in capital assets, net of debt	10,085,311	10,325,460	[240,149]
Restricted	318,830	320,084	[1,254]
Unrestricted	4,851,866	4,238,381	613,485
Total Net Assets	15,255,807	14,883,925	371,882

The City's Business-type net assets increased \$371,882 to \$15.2 million in 2008-2009, from \$14.9 million in 2007-2008.

- ◆ Cash and investments in FY08-09 were higher by \$589,144 in comparison to prior year.
- ◆ Unrestricted net assets of \$4.9 million represent liquid assets available to finance day-to-day operations and other expenditures approved by City Council.

FUND FINANCIAL STATEMENTS

Performance of Governmental Funds

At June 30, 2009, the City's Governmental Funds reported combined fund balances of \$20 million, an increase of \$1 million as compared with last year.

Governmental Fund revenues decreased \$500,000 this fiscal year to a total of \$18.1 million as compared to \$19.4 million.

Governmental Fund expenditures increased approximately \$2.2 million this year to \$17.3 million. The major cause for the increase is the expenditure of CDA Project Funds.

General Fund – The General Fund ended the year with \$7.5 million fund balance, compared to \$8.5 in the prior year. The City's financial performance remained solid in 2008-2009. Expenditures were higher than in the current fiscal year, \$9.4 million in 08-09 as compared to \$8.9 in 07-08.

Sales tax, Transient Occupancy Tax and other miscellaneous taxes, decreased by approximately \$240,000 as compared to the prior year. Property taxes, sales tax and transient occupancy taxes reflected a moderate gains.

At June 30, 2009, the General Fund fund balance totaled \$7.5 million. The Council has designated approximately \$1.8 million as set-aside as business continuance for City services in the event of a major disaster or emergency and an additional \$1.5 million as operating reserve and the balance as reserve for special projects.

Emergency Medical Service (EMS) Fund – The Emergency Medical Service Fund ended the year with \$(392,171) fund balance, compared to \$(415,156) in the prior year. Revenues and transfers of \$2.1 million are derived directly from the emergency medical service operation income. EMS Fund expenditures and transfers were \$2.7 million in 2008-2009.

Low/Moderate Income (LMI) Housing Fund – The Low/Moderate Income Housing Fund ended the year with a \$3.5 million fund balance, compared to \$2.1 million in the prior year. LMI revenues, including transfers in, totaled \$1.2 million, which is predominately derived directly from the 20% tax increment set-aside and investment income. Low/Moderate Housing expenditures, including transfers out, were \$1.2 million in 2008-2009.

Community Development Agency (CDA) Capital Projects Fund – The CDA Projects Fund ended the year with a \$7.7 million fund balance, compared to \$6.3 million in the prior year. Revenues and transfers of \$5 million are derived directly from the tax increment and investment income. CDA Capital Projects Fund expenditures and transfers were \$3.4 million in 2008-2009. Several significant construction projects, including the Streets and sidewalks, were completed as a result of the 2003 bond proceeds.

Other Governmental/Non-major Funds – These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information. Total combined ending Fund Balance is \$1.9 million as compared to \$2.5 million in the prior year.

PERFORMANCE OF PROPRIETARY [ENTERPRISE & INTERNAL SERVICE] FUNDS

At June 30, 2009, the City's Proprietary Funds reported combined net assets of \$15.2 million, as compared to combined net assets in FY 07-08 of \$14.9 million.

Water Fund – The Water Fund ended the year with \$14.5 million net assets on June 30, 2009 as compared to 2007-2008 which ended the year with a \$13.9 million balance. The Water Fund posted a combined income of \$3.6 million, compared to \$3.7 in the prior year. Operating expenditures for 2008-2009 totaled \$2.6 million in comparison with 2007-2008 expenditures of \$2.5 million.

Cemetery Fund – The Cemetery Fund ended the year with \$759,535 net assets on June 30, 2009 as compared to 2007-2008, which ended the year with a \$1 million balance. Revenues were lower in 2008-2009 by \$70,420 from 2007-2008 fiscal year, which posted \$236,105 as compared to \$306,825 in 2007-2008. Operating expenditures were higher in 2008-2009 totaling \$457,272 in comparison with 2007-2008 expenditures of \$441,638.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and public officials with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, separate reports of the City's component units or need any additional financial information, contact the Carol E. Giovanatto, Assistant City Manager at City Hall, No. 1 the Plaza, Sonoma, California, 95476.

Basic Financial Statements

CITY OF SONOMA
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 20,639,908	\$ 4,537,553	\$ 25,177,461
Cash and investments - restricted	558,305	318,830	877,135
Accounts receivable - net	1,779,117	696,640	2,475,757
Deposits and other assets	4,363	-	4,363
Total current assets	<u>22,981,693</u>	<u>5,553,023</u>	<u>28,534,716</u>
Noncurrent assets:			
Notes receivable	1,139,621	-	1,139,621
Internal balances	18,991	(18,991)	-
Deferred charges - net	1,021,280	-	1,021,280
Capital assets:			
Nondepreciable	17,284,323	1,078,973	18,363,296
Depreciable, net of accumulated depreciation	34,171,335	11,663,238	45,834,573
Other noncurrent assets	-	650	650
Total noncurrent assets	<u>53,635,550</u>	<u>12,723,870</u>	<u>66,359,420</u>
Total Assets	<u>\$ 76,617,243</u>	<u>\$ 18,276,893</u>	<u>\$ 94,894,136</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,439,319	\$ 238,344	\$ 1,677,663
Accrued interest	108,576	-	108,576
Deposits payable and other liabilities	229,241	178,853	408,094
Unearned revenue	51,937	-	51,937
Total current liabilities	<u>1,829,073</u>	<u>417,197</u>	<u>2,246,270</u>
Long-term liabilities:			
Due within one year	897,035	143,511	1,040,546
Due in more than one year	30,762,462	2,460,378	33,222,840
Total long-term liabilities	<u>31,659,497</u>	<u>2,603,889</u>	<u>34,263,386</u>
Total Liabilities	<u>\$ 33,488,570</u>	<u>\$ 3,021,086</u>	<u>\$ 36,509,656</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 20,116,962	\$ 10,085,311	\$ 30,202,273
Restricted for debt service	193,591	141,664	335,255
Restricted for capital projects	1,321,379	177,166	1,498,545
Restricted for low/moderate income housing	3,467,714	-	3,467,714
Unrestricted	18,029,027	4,851,666	22,880,693
Total Net Assets	<u>\$ 43,128,673</u>	<u>\$ 15,255,807</u>	<u>\$ 58,384,480</u>

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

CITY OF SONOMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Grants and Contributions			
Governmental Activities:							
General government	\$ 2,155,118	\$ 153,413	\$ 5,000	\$ -	\$ (1,996,705)	\$ -	\$ (1,996,705)
Public safety	8,960,544	2,247,496	290,031	-	(6,423,017)	-	(6,423,017)
Public works	1,863,414	229,016	200,026	-	(1,434,372)	-	(1,434,372)
Community development	2,593,115	637,952	-	-	(1,955,163)	-	(1,955,163)
Culture and leisure	268,921	22,617	-	-	(246,304)	-	(246,304)
Interest on long-term debt	1,452,532	-	-	-	(1,452,532)	-	(1,452,532)
Total Governmental Activities	17,293,644	3,290,494	495,057	-	(13,508,093)	-	(13,508,093)
Business-type Activities:							
Water	2,680,161	3,610,979	-	19,280	-	950,098	950,098
Cemetery	536,691	236,105	-	-	-	(300,586)	(300,586)
Interest on long-term debt	118,230	-	-	-	-	(118,230)	(118,230)
Total Business-type Activities	3,335,082	3,847,084	-	19,280	-	531,282	531,282
Total	\$ 20,628,726	\$ 7,137,578	\$ 495,057	\$ 19,280	(13,508,093)	531,282	(12,976,811)
General Revenues:							
Taxes:							
General property taxes					7,362,450	-	7,362,450
Franchise taxes					393,309	-	393,309
Sales and use taxes					2,412,856	-	2,412,856
Transient occupancy taxes					2,220,336	-	2,220,336
Business license tax					314,888	-	314,888
Real property transfer taxes					58,341	-	58,341
Motor vehicle in lieu taxes					819,697	-	819,697
Investment earnings					122,201	128,549	250,750
Transfers					287,949	(287,949)	-
Miscellaneous					225,458	-	225,458
Special item: Loss from forgiveness of loan					(250,000)	-	(250,000)
Total General Revenues, Transfers and Special Items					13,967,485	(159,400)	13,808,085
Change in Net Assets					459,392	371,882	831,274
Net Assets - Beginning					42,669,281	14,883,925	57,553,206
Net Assets - Ending					\$ 43,128,673	\$ 15,255,807	\$ 58,384,480

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

CITY OF SONOMA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009

	General	Community Development Agency Low/Moderate Income/Housing Fund	Community Development Agency Capital Projects Fund	Emergency Medical Services Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 6,562,699	\$ 2,397,956	\$ 7,866,219	\$ 2,623	\$ 1,310,456	\$ 18,139,953
Cash and investments - restricted	-	-	-	-	558,305	558,305
Accounts receivable - net	1,085,811	15,307	61,229	560,189	54,223	1,776,759
Due from other funds	876,444	-	-	-	-	876,444
Advances to other funds	18,991	-	-	-	-	18,991
Deposits and other assets	-	-	-	-	4,363	4,363
Notes receivable	13,784	1,125,837	-	-	-	1,139,621
Total Assets	\$ 8,557,729	\$ 3,539,100	\$ 7,927,448	\$ 562,812	\$ 1,927,347	\$ 22,514,436
LIABILITIES AND FUND BALANCES (DEFICITS)						
Liabilities:						
Accounts payable	\$ 978,383	\$ 12,012	\$ 183,846	\$ 78,539	\$ 98,854	\$ 1,351,634
Due to other funds	-	-	-	876,444	-	876,444
Deposits payable and other liabilities	35,225	-	3,750	-	182,187	221,162
Deferred revenue	51,937	-	-	-	-	51,937
Total Liabilities	1,065,545	12,012	187,596	954,983	281,041	2,501,177
Fund Balances (Deficits):						
Reserved for:						
Notes receivable	13,784	1,125,837	-	-	-	1,139,621
Debt service	-	-	-	-	749,103	749,103
Capital projects	-	-	7,739,852	-	-	7,739,852
Low/Moderate income housing	-	2,401,251	-	-	1,066,463	3,467,714
Operating reserve	1,500,000	-	-	-	-	1,500,000
Unreserved designated for:						
Emergency services	2,099,975	-	-	-	-	2,099,975
Unreserved and undesignated:						
General fund	3,878,425	-	-	-	-	3,878,425
Special revenue funds	-	-	-	(392,171)	442,175	50,004
Capital projects funds	-	-	-	-	(593,445)	(593,445)
Debt service funds	-	-	-	-	(17,990)	(17,990)
Total Fund Balances (Deficits)	7,492,184	3,527,088	7,739,852	(392,171)	1,646,306	20,013,259
Total Liabilities and Fund Balances (Deficits)	\$ 8,557,729	\$ 3,539,100	\$ 7,927,448	\$ 562,812	\$ 1,927,347	\$ 22,514,436

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

CITY OF SONOMA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Fund Balance - Total Governmental Funds \$ 20,013,259

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.

Capital assets	\$ 61,917,915	
Less: accumulated depreciation	<u>(10,462,257)</u>	51,455,658

Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period during which the debt is outstanding. The costs are reported as expenditures of current financial resources in governmental funds.

Deferred charges	1,385,031	
Less: accumulated amortization	<u>(363,751)</u>	1,021,280

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.

Capital leases payable	379,500	
Notes payable	2,919,196	
Tax allocation bonds payable	28,040,000	
Compensated absences	<u>320,801</u>	(31,659,497)

Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet.

(108,576)

Internal service funds are used by management to charge the cost of management of certain activities, such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Assets.

2,406,549

Net Assets - Governmental Activities

\$ 43,128,673

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

CITY OF SONOMA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2009

	General	Community Development Agency Low/Moderate Income/Housing Fund	Community Development Agency Capital Projects Fund	Emergency Medical Services Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 7,665,187	\$ 1,144,697	\$ 4,578,790	\$ -	\$ 63,220	\$ 13,451,894
Fines and penalties	57,988	-	-	-	10,080	68,068
Intergovernmental revenues	357,978	-	-	15,360	299,026	672,364
Charges for services	136,539	-	-	2,057,230	-	2,193,769
License, permits and fees	256,246	-	16,135	-	2,127	274,508
Investment earnings (loss)	(175,080)	51,169	180,343	14,248	51,526	122,206
Rental income	74,027	-	18,900	-	610,515	703,442
Other revenue	2,508	95	-	452	225,781	228,836
Total Revenues	8,375,393	1,195,961	4,794,168	2,087,290	1,262,275	17,715,087
EXPENDITURES						
Current:						
General government	1,763,696	-	-	-	-	1,763,696
Public safety	5,646,552	-	-	2,663,249	21,740	8,331,541
Public works	1,700,153	-	-	-	27,241	1,727,394
Community development	-	219,174	-	-	415,988	635,162
Culture and leisure	268,921	-	-	-	-	268,921
Capital outlay	-	-	1,757,528	-	1,812,724	3,570,252
Debt service:						
Principal	23,780	-	-	-	825,904	849,684
Interest and fees	193	-	-	-	1,454,202	1,454,395
Total Expenditures	9,403,295	219,174	1,757,528	2,663,249	4,557,799	18,601,045
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,027,902)	976,787	3,036,640	(575,959)	(3,295,524)	(885,958)
OTHER FINANCING SOURCES (USES)						
Transfers in	849,333	69,217	24,456	619,404	2,627,998	4,190,408
Transfers (out)	(806,235)	(758,806)	(1,657,803)	(20,460)	(185,633)	(3,428,937)
Total Other Financing Sources (Uses)	43,098	(689,589)	(1,633,347)	598,944	2,442,365	761,471
NET CHANGES IN FUND BALANCES (DEFICITS)	(984,804)	287,198	1,403,293	22,985	(853,159)	(124,487)
FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS	8,476,988	2,114,053	6,336,559	(415,156)	2,499,465	19,011,909
	-	1,125,837	-	-	-	1,125,837
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	8,476,988	3,239,890	6,336,559	(415,156)	2,499,465	20,137,746
FUND BALANCES (DEFICITS) - ENDING	\$ 7,492,184	\$ 3,527,088	\$ 7,739,852	\$ (392,171)	\$ 1,646,306	\$ 20,013,259

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

CITY OF SONOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Net Change in Fund Balances - Total Governmental Funds **\$ (124,487)**

Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

Writeoff long-term loans does not affect the governmental fund balances, but is treated as expenses in the Statement of Activities.

Forgiveness of long-term loans		(250,000)
--------------------------------	--	-----------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital asset additions	\$ 2,373,423		
Current year depreciation	<u>(978,705)</u>		1,394,718

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repayment of capital lease obligations	\$ 108,780		
Repayment of notes payable	70,904		
Repayment of tax allocation bonds	<u>670,000</u>		849,684

Deferred charges represent costs associated with the issuance of long-term debt. The costs are reported as expenditures of current financial resources in governmental funds, whereas these costs are deferred and amortized over the period during which the debt is outstanding in the Statement of Activities.

(46,482)

The amounts below included in the Statement of Activities do not require the use of current financial resources and therefore is not reported as revenue or expenditures in governmental funds (net change):

Accrued interest payable	\$ 1,863		
Compensated absences	<u>(51,005)</u>		(49,142)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities.

(1,314,899)

Change in Net Assets - Governmental Activities **\$ 459,392**

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

CITY OF SONOMA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Water Fund	Cemetery Fund	Totals	Governmental Activities Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	\$ 4,638,563	\$ (101,010)	\$ 4,537,553	\$ 2,499,955
Cash and investments - restricted	318,830	-	318,830	-
Accounts receivable - net	696,235	405	696,640	2,358
Total current assets	5,653,628	(100,605)	5,553,023	2,502,313
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	871,197	207,776	1,078,973	-
Depreciable, net of accumulated depreciation	10,217,491	1,445,747	11,663,238	-
Total capital assets	11,088,688	1,653,523	12,742,211	-
Deposits and other assets	650	-	650	-
Total noncurrent assets	11,089,338	1,653,523	12,742,861	-
Total Assets	\$ 16,742,966	\$ 1,552,918	\$ 18,295,884	\$ 2,502,313
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 227,071	\$ 11,273	\$ 238,344	\$ 87,685
Advances from other funds	-	18,991	18,991	-
Deposits and other liabilities	56,679	122,174	178,853	8,079
Long term debt - current portion	50,000	93,511	143,511	-
Total current liabilities	333,750	245,949	579,699	95,764
Noncurrent liabilities:				
Long term debt - noncurrent portion	1,880,000	527,367	2,407,367	-
Compensated absences	32,944	20,067	53,011	-
Total noncurrent liabilities	1,912,944	547,434	2,460,378	-
Total Liabilities	\$ 2,246,694	\$ 793,383	\$ 3,040,077	\$ 95,764
NET ASSETS				
Invested in capital assets, net of related debt	\$ 9,158,688	\$ 1,032,645	\$ 10,191,333	\$ -
Restricted for capital projects (expendable)	177,166	-	177,166	-
Restricted for debt service (expendable)	141,664	-	141,664	-
Unrestricted	5,018,754	(273,110)	4,745,644	2,406,549
Total Net Assets	\$ 14,496,272	\$ 759,535	\$ 15,255,807	\$ 2,406,549

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

**CITY OF SONOMA
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

	Water Fund	Cemetery Fund	Totals	Governmental Activities Internal Service Funds
OPERATING REVENUES				
Sales and services	\$ 3,610,807	\$ 236,105	\$ 3,846,912	\$ 2,756,302
Miscellaneous	172	-	172	115,311
Total Operating Revenues	3,610,979	236,105	3,847,084	2,871,613
OPERATING EXPENSES				
Salaries and benefits	635,661	305,345	941,006	2,352,974
Services, supplies and maintenance	1,509,306	86,894	1,596,200	1,210,994
Insurance premiums and claims	-	-	-	265,374
Miscellaneous	70,096	16,985	87,081	1,846
Depreciation and amortization	427,143	48,048	475,191	-
Total Operating Expenses	2,642,206	457,272	3,099,478	3,831,188
OPERATING INCOME (LOSS)	968,773	(221,167)	747,606	(959,575)
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	109,125	19,424	128,549	824
Interest expense	(90,695)	(27,535)	(118,230)	-
Total Nonoperating Revenues (Expenses)	18,430	(8,111)	10,319	824
INCOME (LOSS) BEFORE CONNECTION FEES & TRANSFERS	987,203	(229,278)	757,925	(958,751)
CONNECTION FEES	19,280	-	19,280	-
TRANSFERS:				
Transfers in	55,216	56,156	111,372	-
Transfers (out)	(491,480)	(25,215)	(516,695)	(356,148)
CHANGES IN NET ASSETS	570,219	(198,337)	371,882	(1,314,899)
NET ASSETS - BEGINNING	13,926,053	957,872	14,883,925	3,721,448
NET ASSETS - ENDING	\$ 14,496,272	\$ 759,535	\$ 15,255,807	\$ 2,406,549

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

CITY OF SONOMA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

	Water Fund	Cemetery Fund	Totals	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 3,754,938	\$ 236,105	\$ 3,991,043	\$ -
Receipts from interfund services provided	-	-	-	2,759,187
Payments to employees for services	(634,136)	(300,229)	(934,365)	(2,352,974)
Payments to suppliers for goods and services	(1,228,607)	22,991	(1,205,616)	(1,487,665)
Payments for interfund services used	(222,783)	(106,470)	(329,253)	-
Other payments and receipts	(69,955)	(19,950)	(89,905)	157,834
Net Cash Provided by (Used for) Operating Activities	1,599,457	(167,553)	1,431,904	(923,618)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash paid to other funds	(491,480)	(25,215)	(516,695)	(356,148)
Cash received from other funds	55,216	56,156	111,372	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(436,264)	30,941	(405,323)	(356,148)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Cash received from connection fees	19,280	-	19,280	-
Purchases of capital assets	(143,164)	(58,015)	(201,179)	-
Principal paid on capital debt	(50,000)	(89,886)	(139,886)	-
Interest paid on capital debt	(90,695)	(27,535)	(118,230)	-
Net Cash Provided by (Used for) Capital Related Financing Activities	(264,579)	(175,436)	(440,015)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	129,771	23,916	153,687	985
Net Cash Provided by Investing Activities	129,771	23,916	153,687	985
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	1,028,385	(288,132)	740,253	(1,278,781)
CASH AND INVESTMENTS - BEGINNING	3,929,008	187,122	4,116,130	3,778,736
CASH AND INVESTMENTS - ENDING	\$ 4,957,393	\$ (101,010)	\$ 4,856,383	\$ 2,499,955
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 968,773	\$ (221,167)	\$ 747,606	\$ (959,575)
Adjustments to reconcile operating income to cash flows provided by operating activities:				
Depreciation and amortization	427,143	48,048	475,191	-
Change in assets and liabilities:				
Accounts receivable	144,131	-	144,131	2,885
Deposits and other assets	182	-	182	36,290
Accounts payable	57,916	3,415	61,331	(11,297)
Compensated absences	1,525	5,116	6,641	-
Deposits and other liabilities	(213)	(2,965)	(3,178)	8,079
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 1,599,457	\$ (167,553)	\$ 1,431,904	\$ (923,618)

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

CITY OF SONOMA
AGENCY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2009

ASSETS	
Cash and investments	\$ 2,604,244
Accounts receivable	<u>416,792</u>
 Total Assets	 <u><u>\$ 3,021,036</u></u>
 LIABILITIES	
Accounts payable	\$ 2,745,553
Deposits payable	<u>275,483</u>
 Total Liabilities	 <u><u>\$ 3,021,036</u></u>

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

Notes to Basic Financial Statements

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The City of Sonoma (the "City") is a municipal corporation operating as a general law city in the State of California. The City operates under a Council - Manager form of government and is governed by a council of five members. The City provides a full range of municipal services to its citizens including general government, public safety, public works and facilities, culture, public utilities, and community development. Redevelopment services are provided primarily through the Community Development Agency (the "Agency") of the City.

These basic financial statements present the City of Sonoma (the primary government) and its component units. The component units discussed in Section B (below) are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

B. Description of Blended Component Units

The Community Development Agency of the City of Sonoma (Agency), the Sonoma Community Housing Corporation (Corporation), and the Sonoma Public Financing Authority (Authority) serve all the citizens of the City. The Agency and Authority are governed by a board comprised of members of the City's elected council. The Corporation is governed by two members of the City Council and two city employees. The Corporation was created as a public benefit corporation to provide affordable public housing. The Corporation's assets were purchased by the Agency, and the Agency has pledged its revenues for the repayment of the Corporation's debt. The Agency and Corporation activities are reported in a combination of governmental funds including a special revenue fund, a capital projects fund, and a debt service fund depending upon the type of transactions.

The financial statements of the Agency can be obtained from the City at No.1 The Plaza, Sonoma, CA, 95476.

C. Description of Joint Ventures and Public Entity Risk Pool

The City, in conjunction with other governmental entities, created a number of joint powers authorities which include the Redwood Empire Municipal Insurance Fund (REMIF), the Sonoma County Transportation Authority, the Sonoma County Abandoned Vehicle Abatement Service Authority, Emergency Dispatch for Fire and Emergency Medical Services (REDCOM), and the Sonoma Valley Fire and Rescue Authority (SVFRA) with Valley of the Moon Fire Protection District. The City has no obligation other than to pay for a pro rata share of certain operating costs, no entitlement, and no residual interests in the other jointly governed organizations.

The financial activities of these entities are not included in the accompanying basic financial statements since their governing boards are separate from and independent of the City.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

D. Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board ("GASB") is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the effect of interfund activities. Governmental activities, which generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which significantly rely on fees and charges for support.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including blended component units. Separate statements for each fund category, *governmental, proprietary and fiduciary*, are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and the proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The City has elected to not follow subsequent private sector guidance.

E. Major Funds

GASB Statement 34 requires that the City's major governmental and enterprise funds be identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as a major fund.

The City reported the following major governmental funds:

General Fund - This fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

Community Development Agency Low/Moderate Income Housing Fund - This fund is used to account for the twenty percent housing set aside from tax increment proceeds for the purpose of increasing or improving the community's supply of low and moderate income housing, pursuant to Health and Safety Code Section 33334.2.

Community Development Agency Capital Projects Fund - This fund accounts for expenditures related to capital projects of the Agency and the balance of property tax allocations after debt service, 20% set aside allocation, and related expenditures made on behalf the Agency.

Emergency Medical Services Fund - This fund is used to account for the revenues and expenses of the City's emergency medical service operations.

The City reported the following major proprietary funds:

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprise – where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.

Water Fund - This fund is used to account for the revenues and expenses of the City's water operations.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Cemetery Fund - This fund is used to account for the revenues and expenses of the City's cemetery operations.

The City also reports the following fund types:

Internal Service Funds are used to account for services, which are provided to other departments on a cost-reimbursement basis. Those services include management information systems, furniture and equipment, vehicle replacement, self-insurance, employee benefits, long-term building maintenance, computer loans, and landscape maintenance.

Fiduciary Funds include agency funds used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of this fund are excluded from the government-wide financial statement but are presented in a separate Fiduciary Fund financial statement.

F. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds 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*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized upon becoming due and payable; and except for claims, judgments and compensated absences, which are recognized when estimable and probable. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property and sales taxes, certain intergovernmental revenues, interest revenue, and charges for services. Fines, forfeitures, and licenses and permits are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants and general revenues. Thus, both restricted and unrestricted net assets may be available to

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

finance program expenditures. The City's policy is to first apply restricted grant resources to such programs followed by general revenues as necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statement to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Investments - The City considered cash on hand, demand deposits, and highly liquid investments with a maturity of three months or less to be cash equivalents. The proprietary funds' "deposits" in the City-wide cash management pool are, in substance, demand deposits and are considered cash equivalents for purposes of the statement of cash flows. State of California statutes and the City's investment policy authorize the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, collateralized, non-negotiable certificates of deposits, commercial paper rated A-1/P-1, medium-term corporate notes rated A or its equivalent or better by Moody's or Standard & Poor's, asset backed corporate notes, bankers' acceptances, mutual funds, and the State Treasurer's investment pool (Local Agency Investment Fund). Investments for the City, as well as for its component units, are reported at fair value. The value is determined based upon market closing prices.

Receivables and Payables - Property, sales, and use taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year-end. Federal and state grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide Statement of Net Assets. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available. The City considers these taxes available if they are received during the period when settlement of prior fiscal year accounts payable and payroll changes normally occur.

Grants, entitlements and shared revenues are recorded as receivables and revenues in the General, Special Revenue and Capital Projects Funds when they are received or susceptible to accrual.

Allowance for Doubtful Accounts - Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

Interfund Receivables and Payables - Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either “due to/due from other funds” (amounts due within one year), “advances to/from other funds” (non-current portions of interfund lending/borrowing transactions), or “loans to/from other funds” (long term lending/borrowing transactions as evidenced by loan agreements). Advances and loans to other funds are offset by a fund balance reserve in applicable Governmental Funds to indicate they are not available for appropriation, and are not expendable available financial resources.

Capital Assets - Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Capital lease obligations are recorded at the present value of future minimum lease payments and the related assets are recorded as capital assets and depreciated. Capital assets are recorded if acquisition or construction costs exceed \$5,000 for fixed assets, \$20,000 for buildings, \$10,000 for building improvements, and \$50,000 for Infrastructure.

As required by GASB Statement 34, the City depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of capital assets. The City depreciates using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Buildings	25-50 years
Improvements	25-50 years
Machinery and equipment	8-30 years
Furniture and fixtures	5-12 years
Infrastructure	5-60 years

Major capital outlay for capital assets and improvements are capitalized as projects are constructed.

Capital assets may be acquired using federal and state grants, contributions from developers, and contributions or grants from other governments. GASB 34 requires that these contributed assets be accounted for as revenue at the time they are contributed.

Deferred Compensation Plan - The City established a deferred compensation plan created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Deferred compensation plans are not reported as

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part of the City's assets or liabilities, as the deferred compensation plan trustees hold those funds in trust on behalf of employees until the employees are eligible to receive the benefits.

Post-Employment Benefits - The City provides post retirement health, dental, and vision care benefits, as per the requirements of a City resolution, to former elected members of the City Council. The City pays 100 percent of the premiums of health, dental, and vision care coverage for such elected members who retire with not less than 12 years of services. The City is generally obligated to pay such premiums for a number of years equal to each retiree's cumulative service on the City Council. As of June 30, 2009, there were two elected members who retired that were receiving the premium coverage. Since 2002 the City has rescinded the authorizing resolution so that future retirees will be ineligible to receive such benefits.

The City adopted Government Accounting Standards Board Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions* in 2009 and estimated the unfunded liability to be insignificant since the benefit for the last eligible retiree will be end in September 2011.

Compensated Absences - In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for vacation leave in relevant funds. For governmental funds, the current liability appears in the respective funds. All vacation is accrued when incurred in the government-wide and proprietary funds financial statements. This liability is set up for the current employees at the current rates of pay. Vacation time may be accumulated up to 352 hours per employee. Cash compensation for accrued vacation is generally not payable until the employee has terminated employment with the City. Sick leave may be accumulated but is not paid. The General Fund is primarily responsible for the repayment of the governmental portion of compensated absences.

Long-Term Obligations - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. In the governmental fund financial statements, bond premiums, discounts, and issuance costs are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while 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.

Property Tax Levy, Collection and Maximum Rates - State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold, transferred, or substantially improved. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts.

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The County of Sonoma (County) assesses properties, bills for and collects property taxes on the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/lien dates	January 1	January 1
Levy dates	July 1	July 1
Due dates (delinquent as of)	50% on November 1 (December 10) 50% on February 1 (April 10)	July 1 (August 31)

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property taxes levied are recorded as revenue and receivables when they are collected during the fiscal year of levy or within 60 days of year-end.

Budgets and Budgetary Accounting - The City follows the procedures below when establishing the budgetary data reflected in the financial statements for governmental and proprietary funds:

1. The City Manager submits to the City Council a proposed operating draft budget for the fiscal year commencing the following July 1. The budgets include the proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at special scheduled sessions, which are open to the public. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through the adoption of a resolution by City Council.
4. From the effective date of the budget, which is adopted and controlled at the department level, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by resolution during the fiscal year. The City Manager may authorize transfers from one object or program to another within the same department, and between departments within the General Fund.
5. Budgets are adopted on a basis consistent with generally accepted accounting principles except for proprietary funds which budget for capital outlays but not depreciation.
6. Budgeted amounts are as originally adopted or as amended by City Council. Individual amendments were not material in relation to original appropriations.

Excess of Expenditures Over Appropriations in Individual Funds - The City incurred the following excess of expenditures over appropriations in General Fund and major special revenue funds:

<u>Fund</u>	<u>Excess Expenditures</u>	<u>Explanation</u>
General Fund	\$ 92,022	The budget failed to consider the second year expenditure of a two-year service contract in culture and leisure department.
Emergency Medical Service Fund	271,893	Bad debt and payroll expenditures are over appropriations

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NOTE 2 – CHANGE IN FINANCIAL STATEMENT PRESENTATION

During the current year, it was determined that prior year deferred revenue totaling \$1,125,837 were incorrectly recorded in the Low/Moderate Income Housing Fund. To correct this error, the beginning fund balance of the Low/Moderate Income Housing Fund of \$2,114,053, as originally reported, has been increased to \$3,239,890 and the amount has been reserved in the fund balance.

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds except restricted cash and investments so that it can be invested at the maximum yield, consistent with safety and liquidity, while existing funds have cash available for expenditures. Interest income earned on pooled cash and investments is allocated to various funds based on average maintained balances. Earnings from cash with fiscal agent are credited directly to the related fund.

Cash and Investments Defined - The City includes cash deposits in checking and money market bank accounts as cash. Investments in the State of California Local Agency Investment Fund (LAIF) and government securities mutual funds are net in the order of liquidity, since they may be withdrawn without penalty. U.S. Treasuries, U.S. Agencies and Certificates of Deposit are the City's least liquid investments.

Cash Deposits with Banks - California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by Federal Depository Insurance.

The City's cash deposits with banks were \$661,249 as of June 30, 2009. Of the bank balance, \$546,536 was covered by Federal Depository Insurance Corporation (FDIC) and \$114,713 was uninsured but collateralized as noted in the preceding paragraph as of June 30, 2009. Differences between the carrying amount and bank balances are from outstanding deposits and checks as of June 30, 2009.

Cash with Fiscal Agent - Restricted cash and investments are required to be held by outside fiscal agents under the provisions of various debt issues. These cash and investments are restricted for debt service requirements.

Investments - The City voluntarily participates in LAIF, regulated under Section 16429 of the State Government Code. LAIF allows local agencies such as the City to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value.

The total amount invested by all public agencies in LAIF, as of June 30, 2009, was approximately \$69.96 billion. Of that amount, 85.28% is invested in non-derivative financial products and 14.72% in

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structured notes and asset-backed securities. The average maturity for the investment in LAIF is 212 days.

The City also invested in U.S. treasury bonds and U.S. treasury inflation protected securities and stated these investments at fair value. As of June 30, 2009, the unrealized loss from these investments totaled \$345,051 and was accounted for in General Fund as investment loss.

A separate financial report for the LAIF is prepared by the State Treasurer Office. Copies of the report can be obtained from the California State Treasurer's Office, 915 Capitol Mall, Sacramento, CA 95814.

Concentration of Credit Risk and Interest Rate Risk Policies

The following table summarizes the City's policy related to maturities and concentration of investments:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Portfolio Percentage</u>	<u>Maximum Investment per Institution</u>
US Treasury Obligations	5 years	100%	NA
US Agency Obligations	5 years	100%	NA
Bankers Acceptances	270 days	30%	25%
Medium Term Notes	270 days	30%	25%
Certificates of Deposit - Commercial Banks	5 years	30%	50%
Certificates of Deposits - Savings and Loans Associations	5 years	30%	\$100,000
CA LAIF	NA	100%	\$20,000,000
Repurchase Agreements	1 year	25%	10%

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The following is a summary of the City's Cash and Investments as of June 30, 2009.

Investment Type/Cash Deposit	Available for Operations	Restricted	Total	Investment Rating	Concentration of Credit Risk	Time to Mature (Years)	Weighted Average Maturity
U.S. Government Agency securities:							
U.S. Treasuries	\$ 15,087,516	\$ -	\$ 15,087,516	-	53%	2.72	0.82
Government Securities Money							
Market Mutual Funds	-	877,135	877,135	AAA	3%		
Local Agency Investment Fund	12,610,548	-	12,610,548	Unrated	44%	0.58	0.18
Total Investments	27,698,064	877,135	28,575,199		100%		
Cash Deposits with Banks	(117,684)	-	(117,684)				
Certificate of Deposit	200,000	-	200,000				
Cash on Hand	1,325	-	1,325				
Total Cash and Investments	\$ 27,781,705	\$ 877,135	\$ 28,658,840		100%		

Cash and investments are classified in the financial statements based on whether or not their use is restricted by City debt or Agency agreements, as shown below.

	Total City	Fiduciary Funds	Totals
Cash and Investments Available for Operation	\$ 25,177,461	\$ 2,604,244	\$ 27,781,705
Restricted Cash and Investments	877,135	-	877,135
Total Cash and Investments	\$ 26,054,596	\$ 2,604,244	\$ 28,658,840

NOTE 4 - RECEIVABLES

Accounts Receivable

The Emergency Medical Services Fund accounts receivable of \$826,384, which was composed entirely of amounts due from customers, was reported net of an allowance for uncollectible accounts in the amount of \$266,195. The majority of accounts receivable in the governmental activities other than Emergency Medical Services Fund was due from other government while the majority of accounts receivable in the business-type activities was due from customers.

Notes Receivable

The long-term notes receivable of \$1,125,837 in the Low/Moderate Income Housing Fund are secured by first deeds of trust on real property. Repayment of the notes are due upon sale of the secured property unless the terms of the notes are met, at which time the notes will be forgiven. The Agency has reserved the fund balances on these notes in the Low and Moderate Income Housing Redevelopment Fund since this fund is not available for use.

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The City's Community Development Agency loaned \$250,000 to the community center for Americans with Disabilities Act improvements in prior years. The notes receivable was forgiven during the year and the City recorded a loss of \$250,000 on the write-off on the Statement of Activities. During current year, the Agency loaned \$92,000 to a local business for use in performing rehabilitation work in pursuant to the Agency's Economic Development Program. A full allowance was provided for this notes receivable.

The loan receivable of \$13,784 in the General Fund is the portion that Valley of the Moon Fire Protection District owes to the City for the purchase of firefighting Turnouts.

NOTE 5 - INTERFUND TRANSACTIONS

Inter-fund Receivables and Payables - Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances due to or due from other funds are long-term loans between funds that are to be repaid in their entirety over several years.

The following tables summarize the City's due to and due from other funds as of June 30, 2009:

<u>Receivable Fund (Due From in)</u>	<u>Payable fund (Due To in)</u>	<u>Amount</u>
Major Governmental Fund:	Major Governmental Fund:	
General Fund	Emergency Medical Services Fund	\$ 876,444

The above balance was resulted from loans made to cover operating cash deficits.

The following tables summarize the City's interfund advances as of June 30, 2009:

<u>Fund Making Advance (Advances To)</u>	<u>Fund Receiving Advance (Advances From)</u>	<u>Amount</u>
Major Governmental Fund:	Major Proprietary Fund:	
General Fund	Cemetery fund	\$ 18,991

Transfers - With Council approval, resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects.

The City uses interfund transfers to (1) move revenues from the funds that collect them to the funds that statutes or the budget requires to them expend them, (2) finance programs and capital projects in funds in accordance with the budget from unrestricted revenues recorded in the General fund, and (3) move cash to debt service funds as debt service requirements become due. In general, the effect of interfund activities has been eliminated from the government-wide financial statements. Transfers between funds during the fiscal year ended June 30, 2009 were as follows:

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	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 849,333	\$ 806,235
Low/Moderate Income Housing Fund	69,217	758,806
Community Development Agency Capital Projects Fund	24,456	1,657,803
Emergency Medical Services Fund	619,404	20,460
Major Enterprise Funds:		
Water Fund	55,216	491,480
Cemetery Fund	56,156	25,215
Non-major Governmental Funds:		
Bond Property Fund	-	2,775
Maysonnave House Fund	-	2,775
SLESF Law Enforcement Fund	-	100,000
Sonoma Creek Senior Housing Fund	1,565	50,000
VGII ADA Improvement Fund	193,130	-
Gas Tax Fund	329,998	-
Capital Improvement Program Fund	-	30,083
Municipal Finance Corporation Debt Service Fund	108,319	-
1997 Community Development Agency Debt Service Fund	215,087	-
2000 Community Development Agency Debt Service Fund	584,897	-
2003 Tax Allocation Bonds Debt Service Fund	1,195,002	-
Internal Service Funds:		
Insurance P&L Fund	-	310,000
MIS Fund	-	46,148
	\$ 4,301,780	\$ 4,301,780

During the fiscal year, it was determined by the management that the Insurance Internal Service Fund was overfunded from prior years. Therefore, \$250,000 in the fund balance was distributed back to the funds which made transfers in the past.

NOTE 6 - CAPITAL ASSETS

Changes in capital assets consisted of the following for the fiscal year ended June 30, 2009:

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Governmental Activities	Balance June 30, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Capital assets, not being depreciated:					
Land	\$ 15,735,424	\$ -	\$ -	\$ -	\$ 15,735,424
Right of ways	356,028	-	-	-	356,028
Construction in progress	10,950,670	565,504	-	(10,323,303)	1,192,871
Total capital assets, not being depreciated	27,042,122	565,504	-	(10,323,303)	17,284,323
Capital assets, being depreciated:					
Infrastructure	14,052,967	446,500	-	4,798,548	19,298,015
Buildings and improvements	14,929,245	490,077	-	5,524,755	20,944,077
Equipment and vehicles	3,520,156	871,344	-	-	4,391,500
Total capital assets, being depreciated	32,502,368	1,807,921	-	10,323,303	44,633,592
Less accumulated depreciation	(9,483,552)	(978,705)	-	-	(10,462,257)
Total capital assets, being depreciated, net	23,018,816	829,216	-	10,323,303	34,171,335
Capital assets, net	\$ 50,060,938	\$ 1,394,720	\$ -	\$ -	\$ 51,455,658
Business-type Activities	Balance June 30, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Capital assets, not being depreciated:					
Land	\$ 960,472	\$ -	\$ -	\$ -	\$ 960,472
Construction in progress	1,259,919	92,886	-	(1,234,304)	118,501
Total capital assets, not being depreciated	2,220,391	92,886	-	(1,234,304)	1,078,973
Capital assets, being depreciated:					
Infrastructure	-	25,572	-	-	25,572
Buildings and improvements	19,331,434	32,443	-	1,234,304	20,598,181
Equipment and vehicles	861,402	50,278	-	-	911,680
Total capital assets, being depreciated	20,192,836	108,293	-	1,234,304	21,535,433
Less accumulated depreciation	(9,397,004)	(475,191)	-	-	(9,872,195)
Total capital assets, being depreciated, net	10,795,832	(366,898)	-	1,234,304	11,663,238
Capital assets, net	\$ 13,016,223	\$ (274,012)	\$ -	\$ -	\$ 12,742,211

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Depreciation Allocation - Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program is as follows:

<u>Program/Function</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General government	\$ 182,429	\$ -
Public safety	200,981	-
Public works	27,715	-
Community development	567,580	-
Water	-	427,143
Cemetery	-	48,048
Total Depreciation	\$ 978,705	\$ 475,191

NOTE 7 - LONG-TERM OBLIGATIONS

The City generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The City's long-term debt issues and transactions are summarized below in the schedule of changes in long-term debt and discussed in detail thereafter.

A. Schedule of Changes in Long-term Debt

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Due within one year
Governmental Activities:					
1997 Tax Allocation Bonds	\$ 2,130,000	\$ -	\$ 95,000	\$ 2,035,000	\$ 100,000
2000 Tax Allocation Refunding Bonds	8,000,000	-	140,000	7,860,000	145,000
2003 Tax Allocation Bonds	18,580,000	-	435,000	18,145,000	440,000
Note Payable - USDA	806,660	-	3,624	803,036	3,833
Note Payable - Exchange Bank	2,183,440	-	67,280	2,116,160	82,954
Capital Lease Obligation REFA1993	464,500	-	85,000	379,500	88,800
Capital Lease Obligation firefighter turnout	23,780	-	23,780	-	-
Compensated Absences	269,796	51,005	-	320,801	36,448
Total Governmental Activities Debt	32,458,176	51,005	849,684	31,659,497	897,035
Business-type Activities:					
Certificates of Participation - Water	1,980,000	-	50,000	1,930,000	50,000
Capital Lease Obligations - Cemetery	710,764	-	89,886	620,878	93,511
Compensated Absences	46,370	6,641	-	53,011	7,064
Total Business-type Activities Debt	2,737,134	6,641	139,886	2,603,889	150,575
Total Long-term Obligations	\$ 35,195,310	\$ 57,646	\$ 989,570	\$ 34,263,386	\$ 1,047,610

For governmental activities, compensated absences are liquidated by the General Fund.

CITY OF SONOMA, CALIFORNIA
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B. Tax Allocation Bonds

Governmental Activities

1997 Tax Allocation Bonds - On July 10, 1997, the City's Community Development Agency issued tax allocation bonds in the amount of \$2,885,000, with an interest rate of 5.58% per annum, to provide funds for certain projects of the Agency. The bonds mature semiannually in increasing amounts on each December 1, through 2022. Annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 100,000	\$ 110,956	\$ 210,956
2011	105,000	105,538	210,538
2012	110,000	99,786	209,786
2013	120,000	93,573	213,573
2014	125,000	86,878	211,878
2015-2019	735,000	320,844	1,055,844
2020-2022	740,000	90,353	830,353
Total	<u>\$ 2,035,000</u>	<u>\$ 907,928</u>	<u>\$ 2,942,928</u>

2000 Tax Allocation Refunding Bonds - On June 28, 2000, the City's Community Development Agency issued \$8,895,000 of Tax Allocation Refunding Bonds to advance refund \$2,085,000 of outstanding 1991 Senior Housing Certificates of Participation. As a result, the \$2,085,000 of outstanding Certificates of Participation were considered to be defeased and the liability for those certificates have been removed from the City's financial statements. The bonds mature semiannually in increasing amounts on each December 1, through 2030. Annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 145,000	\$ 437,175	\$ 582,175
2011	155,000	430,288	585,288
2012	160,000	422,848	582,848
2013	165,000	415,008	580,008
2014	170,000	406,757	576,757
2015-2019	1,020,000	1,886,775	2,906,775
2020-2024	1,550,000	1,572,771	3,122,771
2025-2029	3,025,000	954,915	3,979,915
2030-2031	1,470,000	126,825	1,596,825
Total	<u>\$ 7,860,000</u>	<u>\$ 6,653,362</u>	<u>\$ 14,513,362</u>

2003 Tax Allocation Bonds - On May 29, 2003, the City's Community Development Agency issued tax allocation bonds in the amount of \$20,635,000, with a variable interest rate of 2.09% to 4.45% per annum, to provide funds for certain community development projects. The bonds

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mature semiannually in increasing amounts on each December 1, through 2033. Annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 440,000	\$ 752,159	\$ 1,192,159
2011	450,000	741,159	1,191,159
2012	465,000	727,659	1,192,659
2013	480,000	713,708	1,193,708
2014	500,000	698,709	1,198,709
2015-2019	2,795,000	3,197,688	5,992,688
2020-2024	3,425,000	2,585,965	6,010,965
2025-2029	4,265,000	1,771,878	6,036,878
2030-2034	5,325,000	731,803	6,056,803
Total	<u>\$ 18,145,000</u>	<u>\$ 11,920,728</u>	<u>\$ 30,065,728</u>

C. Notes Payable

Governmental Activities

2005 Note Payable – USDA - In April of 2005, the City's Community Development Agency obtained an \$816,635 loan from the U.S. Department of Agriculture to assist the Agency in purchasing and operating the Village Green Apartments II low/moderate income housing rental project. The loan is fully amortized over 30 years at an interest rate of 5.625%. The loan is secured by an interest in the property and rental income and is subordinated to an existing loan with Exchange Bank. The outstanding balance as of June 30, 2009 was \$803,035 and the future minimum obligations as of June 30, 2009 as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 3,833	\$ 45,073	\$ 48,906
2011	4,054	44,852	48,906
2012	4,288	44,618	48,906
2013	4,536	44,370	48,906
2014	4,798	44,108	48,906
2015-2019	28,477	216,053	244,530
2020-2024	37,700	206,830	244,530
2025-2029	49,912	194,618	244,530
2030-2034	66,080	178,450	244,530
2035	599,357	33,316	632,673
Total	<u>\$ 803,035</u>	<u>\$ 1,052,288</u>	<u>\$ 1,855,323</u>

2005 Note Payable - Exchange Bank - On March 1, 2005 the City's Community Development Agency borrowed \$2,300,157 from Exchange Bank to purchase the Village Green Apartments, a

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Low and Moderate Income Housing Project. The loan is secured by a deed of trust on the purchased property. Interest on the note is variable at 1.50% above the index rate. The interest rate cannot go below 4.36% or above 9.36% and cannot adjust more than 2% in any one adjustment period. The note matures April 1, 2035. The outstanding balance as of June 30, 2009 was \$2,116,162 and the future minimum annual debt commitments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 82,954	\$ 90,620	\$ 173,574
2011	86,644	86,930	173,574
2012	90,498	83,076	173,574
2013	94,523	79,050	173,573
2014	98,728	74,806	173,534
2015	1,662,813	59,025	1,721,838
Total	<u>\$ 2,116,160</u>	<u>\$ 473,507</u>	<u>\$ 2,589,667</u>

D. Capital Lease Obligations

Governmental Activities

1993 Financing Authority Leases - The City entered into lease-purchase agreements with the Redwood Empire Financing Authority (the "Authority") for the purpose of making improvements to City property and buildings, and for the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the net present value of the future minimum lease payments as of the inception date of the leases. The Authority issued \$1,430,000 in the Certificates of Participation at 6.00% to obtain the funds needed to make such improvements and acquisitions, and entered into lease agreements with in the City and Agency to provide repayment of such Certificates. In November of 2006, the City refinanced the \$610,000 remaining on the 1993 lease by issuing a new lease purchase agreement at 4.4% over the next six years for a total debt service of \$584,100. The annual lease payment is shown below. The lease payments are secured by a pledge of the City to make such payments from any source of funds available to the City. The City has agreed to budget and appropriate monies each year sufficient to pay the required lease payments.

The net present values of the 1993 Financing Authority future minimum lease payments were as follows as of June 30, 2009:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 88,800	\$ 15,732	\$ 104,532
2011	92,800	11,781	104,581
2012	96,800	7,654	104,454
2013	101,100	3,348	104,448
Total	<u>\$ 379,500</u>	<u>\$ 38,515</u>	<u>\$ 418,015</u>

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Firefighting Turnouts Leases - On April 8, 2004, the City and Valley of the Moon Fire Protection District (District) entered into a lease-purchase agreement with Exchange Bank at an interest rate of 3.5% for the purchase of 85 sets of firefighting turnout. The lease was paid off during the year ended June 30, 2009.

Business-type Activities

Municipal Finance Corporation Leases - The city entered into a lease agreement with Municipal Finance Corporation (Corporation) for the development of the Veterans Memorial Park Cemetery in the amount of \$960,000. Bi-annual payments of \$58,710 are due in April and October. The interest rate for the lease is 4%. The lease agreement required the Corporation to deposit \$960,000 into a custodial account and held in the name of the Corporation for the benefit of the City. The deposit was used to pay off a prior loan with Sonoma Valley Bank for which the City was obligated. The net present values of the future minimum lease payments were as follows as of June 30, 2009:

Fiscal Year Ending June 30,	Total
2010	\$ 117,421
2011	117,421
2012	117,421
2013	117,421
2014	117,421
2015	117,421
Total minimum lease payments	704,526
Less: amount representing interest	(83,642)
Present value of net minimum lease payments	620,884
Less: current portion	(93,511)
Long-term portion	\$ 527,373

As of June 30, 2009, capital assets under above capital lease were detailed as follows:

	Building and Improvement
Cost	\$ 572,224
Accumulated depreciation	(11,444)
Net book value	\$ 560,780

E. Certificates of Participation (COP)

Business-type Activities

2002 Finance Authority COP - The City's Public Financing Authority issued Certificates of Participation of \$2,250,000 and loaned the proceeds to the Water Enterprise Fund for water

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

facilities improvements. Semi-annual interest at 4% and principal payments, pledged by water revenues, are due in April and October. Annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 50,000	\$ 86,983	\$ 136,983
2011	55,000	85,090	140,090
2012	55,000	83,028	138,028
2013	55,000	80,910	135,910
2014	60,000	78,638	138,638
2015-2019	335,000	352,465	687,465
2020-2024	420,000	244,131	664,131
2025-2029	525,000	166,250	691,250
2030-2031	375,000	36,100	411,100
Total	<u>\$ 1,930,000</u>	<u>\$ 1,213,595</u>	<u>\$ 3,143,595</u>

F. Compensated Absences

City employees accumulate earned but unused vacation benefits which can be converted to cash at termination of employment. Since no means exists to reasonably estimate the amount that might be liquidated with expendable currently available financial resources, if any, they are reported as long-term debt on the Statement of Net Assets. No expenditure is reported for these amounts in the governmental fund statements. However, in the Statement of Activities, the expense is allocated to each function based on usage.

NOTE 8 - NET ASSETS AND FUND BALANCES

Net Assets - Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include debt service requirements and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

Reservations of Fund Balances - Fund balance consists of reserved and unreserved amounts. Reserved fund balance represents that portion of fund balance that has been appropriated for

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

expenditure or is legally segregated for a specific future use. As of June 30, 2009, portions of fund balance had been reserved because of the following:

Long-Term Notes Receivable reserves reflect the balance of long-term loans not offset by deferred revenue and that are not available for expenditure.

Debt Service reserves reflect the cash balances in the debt service funds that are restricted for debt service payments.

Capital Projects reserves reflect money set-aside for rehabilitation, development, construction and capital purchases in the City's Community Development Agency Capital Projects Fund.

Low/Moderate Income Housing reserves reflect money set-aside for low-and-moderate income housing expenditures.

Operating reserves reflect money that will be used to fund future fluctuations in the economy that are not currently foreseen.

Deficit Fund Balances – The following funds had deficit fund balances as of June 30, 2009:

Funds	Deficit
<u>Major Fund:</u>	
Emergency Medical Services Fund	\$ 392,171
<u>Non major Funds:</u>	
SLESF Law Enforcement Fund	188
Eastside Estate Fund	515
El Prado Landscape Maintenance Fund	4,202
Sonoma Valley Oaks Fund	14,365
Starr Ranch Fund	48,133
Economic Stimulus Fund	144,759
Capital Asset Project Fund	769,176
1993 REFA Debt Service Fund	17,990
Municipal Finance Corporation Debt Service Fund	14,143
<u>Internal Service Fund:</u>	
Employee Benefits Fund	412,387

NOTE 9 - EMPLOYEES' RETIREMENT PLAN

Plan Description - The City of Sonoma contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Funding Policy - Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City covers the employees required contribution and is required to contribute at an actuarially determined rate. The rates for the fiscal year ended June 30, 2009 was 13.453% of annual covered payroll for non-safety (miscellaneous) employees and 33.619% for Fire employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost - For fiscal year ended June 30, 2009, the City's \$906,581 annual pension cost for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) 3.25% to 14.45% projected annual salary increases that vary by age, duration of service, and type of employment; (c) 3.0% inflation; (d) 3.25% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.00% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value) depending on the size of investment gains and/or losses. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three-Year Trend Information PERS

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/07	780,038	100	0
6/30/08	880,053	100	0
6/30/09	906,581	100	0

Plan Actuarial Value and Funding Progress (Required Supplementary Information)

The following tables report the balances in the entire retirement pool administered by PERS for each plan and consist of more than just the City's share. The unfunded (overfunded) liability is the difference between the "determined" accrued liability for the pool and the fair value of the assets belonging to the pool at the valuation date.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

Actuarial – Safety Plan (Risk Pool)

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2005	\$ 6,367,049,264	\$ 5,295,150,375	\$ 1,071,898,889	83.2%	\$ 664,147,796	161.4%
2006	7,278,049,834	6,102,615,567	1,175,434,267	83.8%	754,730,438	155.7%
2007	7,986,055,176	6,826,599,459	1,159,455,717	85.5%	831,607,658	139.4%

Actuarial - Miscellaneous Plan (Risk Pool)

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2005	\$ 2,891,460,651	\$ 2,588,713,000	\$ 302,747,651	89.5%	\$ 755,046,679	40.1%
2006	2,754,396,608	2,492,226,176	262,170,432	90.5%	699,897,835	37.5%
2007	2,611,746,790	2,391,434,447	220,312,343	91.6%	665,522,859	33.1%

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases automobile, general liability, property, workers' compensation, earthquake and flood, boiler and machinery, and errors and omissions insurance from the REMIF, a risk-sharing program. Under this program, the City has a \$5,000 deductible for workers' compensation and liability coverage and a \$10,000 deductible for property retention limit with REMIF being responsible for losses above that amount up to \$500,000 for liability losses, \$1,000,000 for workers' compensation claims, and \$25,000 for property damage. REMIF purchases excess commercial liability coverage of \$20,000,000 in excess of its \$500,000 retention limit to cover losses above its deductible for general liability and \$195,000,000 in excess of its \$25,000 retention limit for property.

The City is assessed a contribution to cover claims, operating costs and claim settlement expenses based upon an actuarially determined rate for each coverage layer pool. Additional cash contributions may be assessed on the basis of adverse loss experience. If the events of the year result in a negative risk position, the members' annual assessment may be increased in subsequent years. The City is unable to reasonably estimate the probability of REMIF ending the year in a negative risk position. Refunds to members may be made if funds are determined to be surplus as a result on an actuarial study.

The City currently reports all of its risk management activities in the Insurance Internal Service Fund and the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. During the fiscal year ended

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

June 30, 2009, the City paid \$399,310 for current year coverage and received a rebate from the program of \$115,290.

Condensed full accrual basis audited financial information of REMIF as of and for the year ended June 30, 2009, is as follows:

Rewood Empire Municipal Insurance Fund
 Balance Sheet
 June 30, 2009

Total Assets	\$	18,401,188
Total Liabilities		14,007,048
Net Assets	\$	4,394,140

Rewood Empire Municipal Insurance Fund
 Statements of Revenues, Expenses, and Changes in Net Assets
 For the year ended June 30, 2009

Operating Revenues, net refunds	\$	7,548,089
Operating Expenses		8,294,848
Operating Loss		(746,759)
Nonoperating income		815,687
Net Increase in Net Assets		68,928
Net Assets - Beginning of year		4,325,212
Net Assets - End of year	\$	4,394,140

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The City receives funding from a number of federal, state and local grant programs. These programs are subject to financial and compliance review by grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. Expenditures, if any, which may be disallowed by the granting agencies, cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

Litigation - Various claims involving the City are currently outstanding. However, management believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the City's financial position or results of operations.

Tax Increment participation Agreements - The Community Development Agency has a Participation Agreement with Sonoma County ("County") in regard to the sharing of incremental

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

property taxes. Under the Agreement, the Agency is to retain 80 percent of the tax increment otherwise attributable to the County as a result of the redevelopment project area.

Environmental - The City owns property which was the City dumpsite 50 years ago. Clean-up efforts were completed during the fiscal year ended June 30, 2003. The City's portion of the cost of the clean-up was approximately \$200,000. On-going monitoring will continue to be conducted at nominal cost. The site will be left in its natural state and no plans for development have been made.

Construction Contracts in Progress – As of June 30, 2009, the City has uncompleted construction contracts. The remaining commitment on the contraction contracts was approximately \$1,444,711.

Required Supplementary Information

CITY OF SONOMA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$ 8,477,070	\$ 8,485,070	\$ 7,665,187	\$ (819,883)
Fines and penalties	49,500	49,500	57,988	8,488
Intergovernmental revenues	132,350	132,350	357,978	225,628
Charges for services	109,400	109,400	136,539	27,139
License, permits and fees	483,830	495,800	256,246	(239,554)
Investment earnings	313,700	313,700	(175,080)	(488,780)
Rental income	73,700	73,700	74,027	327
Other revenue	37,000	97,000	2,508	(94,492)
Total Revenues	9,676,550	9,756,520	8,375,393	(1,381,127)
EXPENDITURES				
Current:				
General government	1,631,718	1,827,295	1,763,696	63,599
Public safety	5,696,767	5,658,902	5,646,552	12,350
Public works	1,817,694	1,674,609	1,700,153	(25,544)
Culture and leisure	70,200	120,200	268,921	(148,721)
Debt service:				
Principal	12,885	12,885	23,780	(10,895)
Interest & fees	1,615	1,615	193	1,422
Total Expenditures	9,230,879	9,295,506	9,403,295	(107,789)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	445,671	461,014	(1,027,902)	(1,488,916)
OTHER FINANCING SOURCES (USES)				
Transfers in	683,620	683,620	849,333	165,713
Transfers (out)	(822,111)	(822,111)	(806,235)	15,876
Total Other Financing Sources (Uses)	(138,491)	(138,491)	43,098	181,589
NET CHANGES IN FUND BALANCE	\$ 307,180	\$ 322,523	(984,804)	\$ (1,307,327)
FUND BALANCES - BEGINNING			8,476,988	
FUND BALANCE - ENDING			\$ 7,492,184	

CITY OF SONOMA
COMMUNITY DEVELOPMENT AGENCY
LOW/MODERATE INCOME HOUSING FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$ 1,150,371	\$ 1,150,371	\$ 1,144,697	\$ (5,674)
Investment earnings	125,000	125,000	51,169	(73,831)
Other revenue	-	-	95	95
Total Revenues	1,275,371	1,275,371	1,195,961	(79,410)
EXPENDITURES				
Current:				
Community development	3,134,814	3,134,814	219,174	2,915,640
Total Expenditures	3,134,814	3,134,814	219,174	2,915,640
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,859,443)	(1,859,443)	976,787	2,836,230
OTHER FINANCING SOURCES (USES)				
Transfers in	3,050,000	3,050,000	69,217	(2,980,783)
Transfers (out)	(509,673)	(509,673)	(758,806)	(249,133)
Total Other Financing Sources (Uses)	2,540,327	2,540,327	(689,589)	(3,229,916)
NET CHANGES IN FUND BALANCE	\$ 680,884	\$ 680,884	287,198	\$ (393,686)
FUND BALANCE - BEGINNING			3,239,890	
FUND BALANCE - ENDING			\$ 3,527,088	

CITY OF SONOMA
EMERGENCY MEDICAL SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (DEFICIT)
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES				
Intergovernmental revenues	\$ -	\$ -	\$ 15,360	\$ 15,360
Charges for services	1,898,703	1,898,703	2,057,230	158,527
Investment earnings	-	-	14,248	14,248
Other revenue	3,000	3,000	452	(2,548)
Total Revenues	1,901,703	1,901,703	2,087,290	185,587
EXPENDITURES				
Current:				
Public safety	2,379,641	2,391,266	2,663,249	(271,983)
Total Expenditures	2,379,641	2,391,266	2,663,249	(271,983)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(477,938)	(489,563)	(575,959)	(86,396)
OTHER FINANCING SOURCES (USES)				
Transfers in	570,898	570,898	619,404	48,506
Transfers (out)	(92,960)	(92,960)	(20,460)	72,500
Total Other Financing Sources (Uses)	477,938	477,938	598,944	121,006
NET CHANGES IN FUND BALANCE (DEFICIT)	\$ -	\$ (11,625)	22,985	\$ 34,610
FUND BALANCE (DEFICIT) - BEGINNING			(415,156)	
FUND BALANCE (DEFICIT) - ENDING			\$ (392,171)	

Supplementary Information

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2009

SPECIAL REVENUE FUNDS

	Strong Motion Fund	COP Grant Fund	Asset Forfeiture Fund	Cleop Fund	SLESF Law Enforcement Fund
ASSETS					
Cash and investments	\$ (2,497)	\$ 66,150	\$ 3,628	\$ (374)	\$ (50,188)
Cash and investments - restricted	-	-	-	-	-
Accounts receivable - net	-	-	-	-	50,000
Deposits and other assets	-	-	-	-	-
Total Assets	\$ (2,497)	\$ 66,150	\$ 3,628	\$ (374)	\$ (188)
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ 77	\$ -	\$ -	\$ -	\$ -
Deposits payable and other liabilities	-	-	-	-	-
Total Liabilities	77	-	-	-	-
Fund Balances (Deficits):					
Reserved for:					
Debt service	-	-	-	-	-
Low/moderate income housing	-	-	-	-	-
Unreserved reported in:					
Special revenue funds	(2,574)	66,150	3,628	(374)	(188)
Capital projects funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Total Fund Balances (Deficits)	(2,574)	66,150	3,628	(374)	(188)
Total Liabilities and Fund Balances (Deficits)	\$ (2,497)	\$ 66,150	\$ 3,628	\$ (374)	\$ (188)

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2009

SPECIAL REVENUE FUNDS

	Eastside Estate Fund	Traffic Grant Fund	Bond Property Maintenance Fund	Mayssonave Property Fund	El Prado Landscape Maintenance Fund
ASSETS					
Cash and investments	\$ 31,001	\$ 6,992	\$ 38,995	\$ 59,622	\$ (3,982)
Cash and investments - restricted	-	-	-	-	-
Accounts receivable - net	-	-	-	549	-
Deposits and other assets	-	-	-	-	-
Total Assets	\$ 31,001	\$ 6,992	\$ 38,995	\$ 60,171	\$ (3,982)
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ 625	\$ -	\$ -	\$ -	\$ 220
Deposits payable and other liabilities	30,891	-	-	-	-
Total Liabilities	31,516	-	-	-	220
Fund Balances (Deficits):					
Reserved for:					
Debt service	-	-	-	-	-
Low/moderate income housing	-	-	-	-	-
Unreserved reported in:					
Special revenue funds	(515)	6,992	38,995	60,171	(4,202)
Capital projects funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Total Fund Balances (Deficits)	(515)	6,992	38,995	60,171	(4,202)
Total Liabilities and Fund Balances (Deficits)	\$ 31,001	\$ 6,992	\$ 38,995	\$ 60,171	\$ (3,982)

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2009

SPECIAL REVENUE FUNDS

	Fryer Creek Landscape Maintenance Fund	Sonoma Valley Oaks Fund	Schell Drainge Fund	Starr Ranch Fund	Abandoned Vehicle Fund
ASSETS					
Cash and investments	\$ 5,486	\$ (13,692)	\$ 172,018	\$ (47,686)	\$ 88,680
Cash and investments - restricted	-	-	-	-	-
Accounts receivable - net	-	-	-	-	3,325
Deposits and other assets	-	-	-	-	-
Total Assets	\$ 5,486	\$ (13,692)	\$ 172,018	\$ (47,686)	\$ 92,005
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ -	\$ 673	\$ -	\$ 447	\$ 21,366
Deposits payable and other liabilities	-	-	142,460	-	-
Total Liabilities	-	673	142,460	447	21,366
Fund Balances (Deficits):					
Reserved for:					
Debt service	-	-	-	-	-
Low/moderate income housing	-	-	-	-	-
Unreserved reported in:					
Special revenue funds	5,486	(14,365)	29,558	(48,133)	70,639
Capital projects funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Total Fund Balances (Deficits)	5,486	(14,365)	29,558	(48,133)	70,639
Total Liabilities and Fund Balances (Deficits)	\$ 5,486	\$ (13,692)	\$ 172,018	\$ (47,686)	\$ 92,005

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2009

SPECIAL REVENUE FUNDS

	Sonoma Creek Senior Housing Fund	Village Green Fund	Gas Tax Fund	Community Development Block Grant Fund
ASSETS				
Cash and investments	\$ 522,176	\$ 183,198	\$ 144,730	\$ 125,714
Cash and investments - restricted	-	364,714	-	-
Accounts receivable - net	-	-	349	-
Deposits and other assets	-	-	-	-
Total Assets	\$ 522,176	\$ 547,912	\$ 145,079	\$ 125,714
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts payable	\$ 1,025	\$ 2,600	\$ 39,886	\$ -
Deposits payable and other liabilities	-	-	-	-
Total Liabilities	1,025	2,600	39,886	-
Fund Balances (Deficits):				
Reserved for:				
Debt service	-	-	-	-
Low/moderate income housing	521,151	545,312	-	-
Unreserved reported in:				
Special revenue funds	-	-	105,193	125,714
Capital projects funds	-	-	-	-
Debt service funds	-	-	-	-
Total Fund Balances (Deficits)	521,151	545,312	105,193	125,714
Total Liabilities and Fund Balances (Deficits)	\$ 522,176	\$ 547,912	\$ 145,079	\$ 125,714

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2009

CAPITAL PROJECT FUNDS

	Capital Improvement Program Fund	Measure M Fund	Economic Stimulus Fund	Capital Asset Project Fund
ASSETS				
Cash and investments	\$ 197,315	\$ 133,672	\$ (123,532)	\$ (707,834)
Cash and investments - restricted	-	-	-	-
Accounts receivable - net	-	-	-	-
Deposits and other assets	-	-	-	-
Total Assets	\$ 197,315	\$ 133,672	\$ (123,532)	\$ (707,834)
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts payable	\$ 1,661	\$ -	\$ 21,227	\$ 61,342
Deposits payable and other liabilities	8,836	-	-	-
Total Liabilities	10,497	-	21,227	61,342
Fund Balances (Deficits):				
Reserved for:				
Debt service	-	-	-	-
Low/moderate income housing	-	-	-	-
Unreserved reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	186,818	133,672	(144,759)	(769,176)
Debt service funds	-	-	-	-
Total Fund Balances (Deficits)	186,818	133,672	(144,759)	(769,176)
Total Liabilities and Fund Balances (Deficits)	\$ 197,315	\$ 133,672	\$ (123,532)	\$ (707,834)

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2009

	DEBT SERVICE FUNDS					Total Combining Nonmajor Funds
	1993 REFA Debt Service Fund	1997 Municipal Finance Corporation Debt Service Fund	1997 Community Development Agency Debt Service Fund	2000 Community Development Agency Debt Service Fund	2003 Tax Allocation Bonds Debt Service Fund	
ASSETS						
Cash and investments	\$ (17,990)	\$ (66,438)	\$ 109,396	\$ 311,039	\$ 144,857	\$ 1,310,456
Cash and investments - restricted	-	-	193,591	-	-	558,305
Accounts receivable - net	-	-	-	-	-	54,223
Deposits and other assets	-	-	-	2,497	1,866	4,363
Total Assets	\$ (17,990)	\$ (66,438)	\$ 302,987	\$ 313,536	\$ 146,723	\$ 1,927,347
LIABILITIES AND FUND BALANCES (DEFICITS)						
Liabilities:						
Accounts payable	\$ -	\$ (52,295)	\$ -	\$ -	\$ -	\$ 98,854
Deposits payable and other liabilities	-	-	-	-	-	182,187
Total Liabilities	-	(52,295)	-	-	-	281,041
Fund Balances (Deficits):						
Reserved for:						
Debt service	-	(14,143)	302,987	313,536	146,723	749,103
Low/moderate income housing	-	-	-	-	-	1,066,463
Unreserved reported in:						
Special revenue funds	-	-	-	-	-	442,175
Capital projects funds	-	-	-	-	-	(593,445)
Debt service funds	(17,990)	-	-	-	-	(17,990)
Total Fund Balances (Deficits)	(17,990)	(14,143)	302,987	313,536	146,723	1,646,306
Total Liabilities and Fund Balances (Deficits)	\$ (17,990)	\$ (66,438)	\$ 302,987	\$ 313,536	\$ 146,723	\$ 1,927,347

(Concluded)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2009

SPECIAL REVENUE FUNDS

	Strong Motion Fund	COP Grant Fund	Asset Forfeiture Fund	Cleop Fund	SLESF Law Enforcement Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and penalties	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	100,000
License, permits and fees	234	-	-	-	-
Investment earnings	-	1,485	82	-	(188)
Rental income	-	-	-	-	-
Other revenue	-	-	778	-	-
Total Revenues	234	1,485	860	-	99,812
EXPENDITURES					
Current:					
Public safety	-	-	-	374	-
Public works	307	-	5,125	-	-
Community development	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total Expenditures	307	-	5,125	374	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(73)	1,485	(4,265)	(374)	99,812
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	(100,000)
Total Other Financing Sources (Uses)	-	-	-	-	(100,000)
NET CHANGES IN FUND BALANCES (DEFICITS)	(73)	1,485	(4,265)	(374)	(188)
FUND BALANCES (DEFICITS) - BEGINNING	(2,501)	64,665	7,893	-	-
FUND BALANCES (DEFICITS) - ENDING	\$ (2,574)	\$ 66,150	\$ 3,628	\$ (374)	\$ (188)

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2009

SPECIAL REVENUE FUNDS

	Eastside Estate Fund	Traffic Grant Fund	Bond Property Maintenance Fund	Mayssonave Property Fund	El Prado Landscape Maintenance Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and penalties	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	-
License, permits and fees	-	-	-	-	-
Investment earnings	695	145	933	1,341	-
Rental income	-	-	-	7,260	-
Other revenue	-	-	-	-	-
Total Revenues	695	145	933	8,601	-
EXPENDITURES					
Current:					
Public safety	-	-	-	-	-
Public works	625	-	4,662	16,522	-
Community development	-	-	-	-	4,202
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total Expenditures	625	-	4,662	16,522	4,202
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	70	145	(3,729)	(7,921)	(4,202)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers (out)	-	-	(2,775)	(2,775)	-
Total Other Financing Sources (Uses)	-	-	(2,775)	(2,775)	-
NET CHANGES IN FUND BALANCES (DEFICITS)	70	145	(6,504)	(10,696)	(4,202)
FUND BALANCES (DEFICITS) - BEGINNING	(585)	6,847	45,499	70,867	-
FUND BALANCES (DEFICITS) - ENDING	\$ (515)	\$ 6,992	\$ 38,995	\$ 60,171	\$ (4,202)

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2009

SPECIAL REVENUE FUNDS

	Fryer Creek Landscape Maintenance Fund	Sonoma Valley Oaks Fund	Schell Drainage Fund	Starr Ranch Fund	Abandoned Vehicle Fund
REVENUES					
Taxes	\$ -	\$ 254	\$ -	\$ -	\$ -
Fines and penalties	-	-	-	-	10,080
Intergovernmental revenues	-	-	-	-	-
License, permits and fees	-	-	-	-	-
Investment earnings	117	(23)	3,861	-	2,063
Rental income	-	-	-	-	-
Other revenue	-	-	-	-	-
Total Revenues	117	231	3,861	-	12,143
EXPENDITURES					
Current:					
Public safety	-	-	-	-	21,366
Public works	-	-	-	-	-
Community development	2,577	46,419	-	6,780	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total Expenditures	2,577	46,419	-	6,780	21,366
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,460)	(46,188)	3,861	(6,780)	(9,223)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
NET CHANGES IN FUND BALANCES (DEFICITS)	(2,460)	(46,188)	3,861	(6,780)	(9,223)
FUND BALANCES (DEFICITS) - BEGINNING	7,946	31,823	25,697	(41,353)	79,862
FUND BALANCES (DEFICITS) - ENDING	\$ 5,486	\$ (14,365)	\$ 29,558	\$ (48,133)	\$ 70,639

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2009

SPECIAL REVENUE FUNDS

	Sonoma Creek Senior Housing Fund	Village Green Fund	Gas Tax Fund	Community Development Block Grant Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Fines and penalties	-	-	-	-
Intergovernmental revenues	-	-	199,026	-
License, permits and fees	-	-	-	-
Investment earnings	8,343	8,648	3,839	2,819
Rental income	204,341	398,914	-	-
Other revenue	140,054	78,394	6,555	-
Total Revenues	352,738	485,956	209,420	2,819
EXPENDITURES				
Current:				
Public safety	-	-	-	-
Public works	-	-	-	-
Community development	173,581	182,429	-	-
Capital outlay	-	-	648,865	-
Debt service:				
Principal	-	70,904	-	-
Interest and fees	-	114,304	-	-
Total Expenditures	173,581	367,637	648,865	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	179,157	118,319	(439,445)	2,819
OTHER FINANCING SOURCES (USES)				
Transfers in	1,565	193,130	329,998	-
Transfers (out)	(50,000)	-	-	-
Total Other Financing Sources (Uses)	(48,435)	193,130	329,998	-
NET CHANGES IN FUND BALANCES (DEFICITS)	130,722	311,449	(109,447)	2,819
FUND BALANCES (DEFICITS) - BEGINNING	390,429	233,863	214,640	122,895
FUND BALANCES (DEFICITS) - ENDING	\$ 521,151	\$ 545,312	\$ 105,193	\$ 125,714

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2009

CAPITAL PROJECT FUNDS

	Capital Improvement Program Fund	Measure M Fund	Economic Stimulus Fund	Capital Asset Project Fund
REVENUES				
Taxes	\$ -	\$ 62,966	\$ -	\$ -
Fines and penalties	-	-	-	-
Intergovernmental revenues	-	-	-	-
License, permits and fees	1,893	-	-	-
Investment earnings	4,779	2,167	-	(223)
Rental income	-	-	-	-
Other revenue	-	-	-	-
Total Revenues	6,672	65,133	-	(223)
EXPENDITURES				
Current:				
Public safety	-	-	-	-
Public works	-	-	-	-
Community development	-	-	-	-
Capital outlay	8,340	-	144,759	1,010,760
Debt service:				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Total Expenditures	8,340	-	144,759	1,010,760
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,668)	65,133	(144,759)	(1,010,983)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	(30,083)	-	-	-
Total Other Financing Sources (Uses)	(30,083)	-	-	-
NET CHANGES IN FUND BALANCES (DEFICITS)	(31,751)	65,133	(144,759)	(1,010,983)
FUND BALANCES (DEFICITS) - BEGINNING	218,569	68,539	-	241,807
FUND BALANCES (DEFICITS) - ENDING	\$ 186,818	\$ 133,672	\$ (144,759)	\$ (769,176)

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2009

	DEBT SERVICE FUNDS					Total Combining Nonmajor Funds
	1993 REFA Debt Service Fund	Municipal Finance Corporation Debt Service Fund	1997 Community Development Agency Debt Service Fund	2000 Community Development Agency Debt Service Fund	2003 Tax Allocation Bonds Debt Service Fund	
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,220
Fines and penalties	-	-	-	-	-	10,080
Intergovernmental revenues	-	-	-	-	-	299,026
License, permits and fees	-	-	-	-	-	2,127
Investment earnings	-	-	2,074	6,637	1,932	51,526
Rental income	-	-	-	-	-	610,515
Other revenue	-	-	-	-	-	225,781
Total Revenues	-	-	2,074	6,637	1,932	1,262,275
EXPENDITURES						
Current:						
Public safety	-	-	-	-	-	21,740
Public works	-	-	-	-	-	27,241
Community development	-	-	-	-	-	415,988
Capital outlay	-	-	-	-	-	1,812,724
Debt service:						
Principal	-	85,000	95,000	140,000	435,000	825,904
Interest and fees	-	19,514	117,925	442,997	759,462	1,454,202
Total Expenditures	-	104,514	212,925	582,997	1,194,462	4,557,799
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(104,514)	(210,851)	(576,360)	(1,192,530)	(3,295,524)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	108,319	215,087	584,897	1,195,002	2,627,998
Transfers (out)	-	-	-	-	-	(185,633)
Total Other Financing Sources (Uses)	-	108,319	215,087	584,897	1,195,002	2,442,365
NET CHANGES IN FUND BALANCES (DEFICITS)	-	3,805	4,236	8,537	2,472	(853,159)
FUND BALANCES (DEFICITS) - BEGINNING	(17,990)	(17,948)	298,751	304,999	144,251	2,499,465
FUND BALANCES (DEFICITS) - ENDING	\$ (17,990)	\$ (14,143)	\$ 302,987	\$ 313,536	\$ 146,723	\$ 1,646,306

(Concluded)

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2009

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term			Totals
						Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	
ASSETS									
Current Assets:									
Cash and investments	\$ 335,372	\$ 8,611	\$ 1,096,255	\$ 101,758	\$ (343,798)	\$ 1,223,874	\$ 55,733	\$ 22,150	\$ 2,499,955
Accounts receivable - net	-	-	-	-	449	-	1,909	-	2,358
Total current assets	335,372	8,611	1,096,255	101,758	(343,349)	1,223,874	57,642	22,150	2,502,313
Total Assets	\$ 335,372	\$ 8,611	\$ 1,096,255	\$ 101,758	\$ (343,349)	\$ 1,223,874	\$ 57,642	\$ 22,150	\$ 2,502,313
LIABILITIES									
Current Liabilities:									
Accounts payable	\$ 18,647	\$ -	\$ -	\$ -	\$ 69,038	\$ -	\$ -	\$ -	\$ 87,685
Deposits and other liabilities	-	8,079	-	-	-	-	-	-	8,079
Total current liabilities	18,647	8,079	-	-	69,038	-	-	-	95,764
Total Liabilities	\$ 18,647	\$ 8,079	\$ -	\$ -	\$ 69,038	\$ -	\$ -	\$ -	\$ 95,764
NET ASSETS									
Unrestricted	\$ 316,725	\$ 532	\$ 1,096,255	\$ 101,758	\$ (412,387)	\$ 1,223,874	\$ 57,642	\$ 22,150	\$ 2,406,549
Total Net Assets	\$ 316,725	\$ 532	\$ 1,096,255	\$ 101,758	\$ (412,387)	\$ 1,223,874	\$ 57,642	\$ 22,150	\$ 2,406,549

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term			Totals
						Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	
OPERATING REVENUES									
Charges for services	\$ 293,848	-	\$ 133,009	\$ 232,785	\$ 1,852,161	\$ 244,499	-	\$ -	\$ 2,756,302
Miscellaneous	21	-	-	115,290	-	-	-	-	115,311
Total Operating Revenues	293,869	-	133,009	348,075	1,852,161	244,499	-	-	2,871,613
OPERATING EXPENSES									
Salaries and benefits	-	-	-	-	2,352,974	-	-	-	2,352,974
Supplies and maintenance	278,234	-	621,885	-	5,040	305,835	-	-	1,210,994
Insurance premiums and claims	-	-	-	265,374	-	-	-	-	265,374
Miscellaneous	-	-	-	-	-	-	1,846	-	1,846
Total Operating Expenses	278,234	-	621,885	265,374	2,358,014	305,835	1,846	-	3,831,188
OPERATING INCOME (LOSS)	15,635	-	(488,876)	82,701	(505,853)	(61,336)	(1,846)	-	(959,575)
NONOPERATING REVENUES (EXPENSES):									
Investment earnings	-	319	-	-	-	-	-	505	824
Total Nonoperating Revenues (Expenses)	-	319	-	-	-	-	-	505	824
INCOME (LOSS) BEFORE TRANSFERS	15,635	319	(488,876)	82,701	(505,853)	(61,336)	(1,846)	505	(958,751)
TRANSFERS:									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers (out)	(46,148)	-	-	(310,000)	-	-	-	-	(356,148)
CHANGES IN NET ASSETS	(30,513)	319	(488,876)	(227,299)	(505,853)	(61,336)	(1,846)	505	(1,314,899)
NET ASSETS - BEGINNING	347,238	213	1,585,131	329,057	93,466	1,285,210	59,488	21,645	3,721,448
NET ASSETS - ENDING	\$ 316,725	\$ 532	\$ 1,096,255	\$ 101,758	\$ (412,387)	\$ 1,223,874	\$ 57,642	\$ 22,150	\$ 2,406,549

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term			Totals
						Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from internal service provided	\$ 293,848	\$ -	\$ 133,009	\$ 232,785	\$ 1,852,498	\$ 244,499	\$ 2,548	\$ -	\$ 2,759,187
Payments to employees	-	-	-	-	(2,352,974)	-	-	-	(2,352,974)
Payments to suppliers and users	(294,648)	(8,079)	(621,885)	(265,374)	34,935	(332,614)	-	-	(1,487,665)
Other payments and receipts	16,524	8,079	-	115,290	19,787	-	(1,846)	-	157,834
Net Cash Provided by (Used for) Operating Activities	15,724	-	(488,876)	82,701	(445,754)	(88,115)	702	-	(923,618)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Cash paid to other funds	(46,148)	-	-	(310,000)	-	-	-	-	(356,148)
Cash received from other funds	-	-	-	-	-	-	-	-	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(46,148)	-	-	(310,000)	-	-	-	-	(356,148)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Interest received	-	366	-	-	-	-	-	619	985
Net Cash Provided by Investing Activities	-	366	-	-	-	-	-	619	985
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(30,424)	366	(488,876)	(227,299)	(445,754)	(88,115)	702	619	(1,278,781)
CASH AND INVESTMENTS - BEGINNING	365,796	8,245	1,585,131	329,057	101,956	1,311,989	55,031	21,531	3,778,736
CASH AND INVESTMENTS - ENDING	\$ 335,372	\$ 8,611	\$ 1,096,255	\$ 101,758	\$ (343,798)	\$ 1,223,874	\$ 55,733	\$ 22,150	\$ 2,499,955
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:									
Operating income (loss)	\$ 15,635	\$ -	\$ (488,876)	\$ 82,701	\$ (505,853)	\$ (61,336)	\$ (1,846)	\$ -	\$ (959,575)
Adjustments to reconcile operating income to cash flows provided by operating activities:									
Change in assets and liabilities:									
Accounts receivable	-	-	-	-	337	-	2,548	-	2,885
Other assets	16,503	-	-	-	19,787	-	-	-	36,290
Accounts payable	(16,414)	(8,079)	-	-	39,975	(26,779)	-	-	(11,297)
Deposits & other liabilities	-	8,079	-	-	-	-	-	-	8,079
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 15,724	\$ -	\$ (488,876)	\$ 82,701	\$ (445,754)	\$ (88,115)	\$ 702	\$ -	\$ (923,618)

CITY OF SONOMA
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2009

	Cultural Fine Arts	Tree Trust	Payroll Clearing	Skate Park	Climate Conference	Bid Deposits	Valley of the Moon	Totals
ASSETS								
Cash and investments	\$ 11,943	\$ 37,501	\$ 13,096	\$ (22)	\$ 10,380	\$ 293,361	\$ 2,237,985	\$ 2,604,244
Accounts receivable	-	-	-	-	-	-	416,792	416,792
Total Assets	\$ 11,943	\$ 37,501	\$ 13,096	\$ (22)	\$ 10,380	\$ 293,361	\$ 2,654,777	\$ 3,021,036
LIABILITIES								
Accounts payable	\$ 11,943	\$ 37,501	\$ 13,096	\$ (22)	\$ 10,380	\$ 17,878	\$ 2,654,777	\$ 2,745,553
Deposits payable	-	-	-	-	-	275,483	-	275,483
Total Liabilities	11,943	37,501	13,096	(22)	10,380	293,361	2,654,777	3,021,036

Other Independent Auditor's Reports



C. G. UHLENBERG LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

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

The Honorable Mayor and Members of the City Council
City of Sonoma

We have audited the financial statements of City of Sonoma (the "City") as of and for the year ended June 30, 2009, and have issued our report thereon dated April 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal



control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the accompanying schedule of findings and questioned costs, we consider Findings 09-01 and 09-02 to be material weaknesses.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* except for certain noncompliance matters as noted in the Independent Auditor's Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with *OMB Circular A-133* on page 66.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

April 8, 2010
Redwood City, California



C. G. UHLENBERG LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of the City Council
City of Sonoma, California

Compliance

We have audited the compliance of the City of Sonoma, California (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. The City's major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133*, and are described in the accompanying schedule of findings and questioned costs.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material



effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Sonoma taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and Supplemental Statements are presented for purposes of additional analysis as required by the *OMB circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.



This report is intended for the information of the City's audit committee, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

C. G. Uhlenberg LLP

April 8, 2010
Redwood City, California

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal Catalog Number (CFDA)</u>	<u>Contract Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Rural Rental Housing Loan	10.415	04-049-0946000433	<u>\$ 806,660</u>
TOTAL CITY OF SONOMA EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 806,660</u></u>

CITY OF SONOMA, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Sonoma (the "City") and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in the basic financial statements.

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to material weaknesses? yes no
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no

Type of auditor's report issued
on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of *OMB Circular A-133*?

yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.415	Rural Rental Housing Loan

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section II - Financial Statement Findings

Finding 09 - 01/Material Weakness

CONDITION: The City was not able to complete reconciliation for cash and investment for the year ended June 30, 2009 until March 2010.

CRITERIA: Assets should be monitored regularly as part of the internal control policy of the City.

CAUSE OF CONDITION:

1. Internal control design - City did not perform a monthly bank reconciliation from July 2008 to December 2008 during which time the Accountant position was vacant.
2. Staff training – The accountant requires additional training in investments related knowledge to perform reconciliation function.

EFFECT OF CONDITION: Potential errors and fraud will not be detected in a timely manner. Assets are under a higher risk of being misappropriated.

QUESTIONED COSTS: None noted

RECOMMENDATION:

1. The City should ensure the monthly reconciliation is performed even when it is short of staff.
2. Additional training may be needed for newly hired City employees.

CITY RESPONSE: The City acknowledges and agrees to this finding. [1] The City recognizes that due to staff limitations and unanticipated vacancy, reconciliations were not completed timely. Finance is at full staffing and non-major Finance related duties have been reassigned. Through the implementation of a Performance Management Plan, all reconciliations have been completed and are current as of the date of this report; monthly due dates have been established for completion of Financial Statement review and bank statement reconciliation. [2] Future training is being addressed through Performance Goals and Objectives for Finance staff.

Finding 09 - 02/Material Weakness

CONDITION: The City did not have a procedure to identify and evaluate the fair value of the investments.

CRITERIA: According to GASB 31, governmental entities should report investments at fair value in the balance sheet.

CAUSE OF CONDITION: Lack of staffing and training for finance personnel.

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

EFFECT OF CONDITION: The City's financial statements are subject to a potential misstatement of the value of investments.

QUESTIONED COSTS: None noted

RECOMMENDATION: We recommend that the City develops internal control procedures to identify and evaluate the fair value of the investment.

CITY RESPONSE: The City acknowledges and agrees to this finding. Fair Market Value [FMV] of City investments is tracked monthly through the City's investment broker. FMV will continue to be recorded at yearend as a closing entry at June 30.

Finding 09 - 03/Significant Control Deficiency

CONDITION: The City did not perform GASB 34 conversion for governmental funds to prepare governmental-wide financial statements. The City did not record capital assets and long-term liabilities correctly for business-type funds.

CRITERIA: According to GASB 34, governmental entities should report capital assets and long-term liabilities on governmental-wide and proprietary fund financial statements.

CAUSE OF CONDITION: Additional staffing and training may be needed for finance personnel.

EFFECT OF CONDITION: The City's financial statements are not in compliance with GASB.

QUESTIONED COSTS: None noted

RECOMMENDATION: We recommend that the City develops and executes internal control procedures to record capital assets and long term liabilities for governmental-wide and proprietary fund financial statements.

CITY RESPONSE: The City acknowledges this finding. As part of a Performance Management Plan, staff is activating the Fixed Asset Module through the City's Accounting Software rather than relying on the current manual procedure of recording fixed asset through an excel worksheet at yearend. This automated system will record assets at the point of purchase.

Section III - Federal Award Findings and Questioned Costs

Finding 09 - 04/Significant Control Deficiency; Non-compliance

CFDA #10.415 Rural Rental Housing Loans

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Special Provisions - Maintaining required tenant security deposit account

NAME OF FEDERAL AGENCY: Rural Development, Department of Agriculture

NAME OF APPLICABLE PASS-THROUGH ENTITY: Not applicable.

CONDITION: During our audit, we noted that the City did not maintain the required bank account and did not properly record transactions for tenant security deposits.

CRITERIA: According to the Rural Development Handbook, the City is required to maintain a separate tenant security deposit account.

CAUSE OF CONDITION: When the City initially purchased the property, it was not aware that it needed a separate tenant security deposit account.

EFFECT OF CONDITION: By not maintaining a separate account for the tenant security deposits, the City is not in compliance with USDA requirements. Furthermore, the City improperly records security deposits received as revenue instead of deferred revenue.

QUESTIONED COSTS: None noted

RECOMMENDATION: We recommend that the City maintains a separate account for tenant security deposits and properly records the liability. Any amount not fully refunded should be treated as income and the bank balance should be periodically reconciled to their security deposit schedule.

CITY RESPONSE: The City acknowledges and agrees to this finding. The City has established a tenant security deposit account under City control and all security deposit monies have been transferred from its agent, Hank Fisher Properties, to the new City account.

Finding 09 - 05/Significant Control Deficiency

CFDA #10.415 Rural Rental Housing Loans

NAME OF FEDERAL AGENCY: Rural Development, Department of Agriculture

NAME OF APPLICABLE PASS-THROUGH ENTITY: Not applicable.

CONDITION: During our audit, we noted that the City did not maintain proper monitoring mechanism over the activities and compliances of the operation of its low income housing property that used the federal awards.

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CRITERIA: According to the *OMB Circular A-133*, the receiver of federal award is responsible for maintaining proper internal controls over the compliance requirements of the federal award.

CAUSE OF CONDITION: The City solely relies on the operation and internal control of Hank Fisher Properties, Inc., the managing company of the low income housing property (the "Manager"), to meet all of the compliance and financial report requirement. The City does not have any procedures to monitor Hank Fisher's internal controls or operating activities.

EFFECT OF CONDITION: Without proper monitoring procedures, the City is at a higher risk of noncompliance.

QUESTIONED COSTS: None noted

RECOMMENDATION: We recommend that the City designs internal control procedures to monitor the operations of the Manager, especially for the controls over compliances.

CITY RESPONSE: The City acknowledges and agrees to this finding. The City will work towards incorporating an internal control process during the 2010 fiscal year.

CITY OF SONOMA, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Finding 08 - 01/Significant Deficiency; Non-compliance

CFDA #10.415 Rural Rental Housing Loans

Special Provisions - Maintaining required tenant security deposit account

NAME OF FEDERAL AGENCY: Rural Development, Department of Agriculture

NAME OF APPLICABLE PASS-THROUGH ENTITY: Not applicable.

CONDITION: During our audit, we noted that the City did not maintain the required bank account and did not properly record transactions for tenant security deposits.

CRITERIA: According to the Rural Development Handbook, the City is required to maintain a separate tenant security deposit account.

CAUSE OF CONDITION: When the City initially purchased the property, it was not aware that it needed a separate tenant security deposit account.

EFFECT OF CONDITION: By not maintaining a separate account for the tenant security deposits, the City is not in compliance with USDA requirements. Furthermore, the City improperly books security deposits received as revenue instead of deferred revenue.

QUESTIONED COSTS: None noted

RECOMMENDATION: We recommend that the City maintain a separate account for tenant security deposits and properly book the liability. Any amount not fully refunded should be treated as income and the bank balance should be periodically reconciled to their security deposit schedule.

PROGRESS AND STATUS: Not implemented.

CITY RESPONSE: The City acknowledges and agrees to this finding. The City will direct its agent, Hank Fisher Properties, to initiate a tenant security deposit account and to deposit to that account all current deposit amounts held on the tenants' behalf. The agent shall report the balance in the account to the City through submittal of monthly bank statements.