

**COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF SONOMA**

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
WITH INDEPENDENT AUDITORS' REPORT
THEREON**

* * *

**COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF SONOMA
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>PAGE</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 11
 Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
 Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Balance Sheet – Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances.....	16
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances – Statement of Activities	17
Notes to the Financial Statements	18 - 27
 Required Supplemental Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual – Village Green Housing Fund	28
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual – Sonoma Creek Senior Housing Fund.....	29
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual – Low/Moderate Income Housing Fund.....	30
 Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	 31 - 32
Schedule of Findings and Questions Cost	33 - 34
Summary of Prior Year Compliance Findings.....	35



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 AUDITORS' REPORT

Members of the Board of the
Community Development Agency of the City of Sonoma
Sonoma, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Community Development Agency of the City of Sonoma (the "Agency"), a component unit of the City of Sonoma, California, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency'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, each major fund and the aggregate remaining fund information of the Community Development Agency of the City of Sonoma as of June 30, 2009, and the respective changes in financial position 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 2, 2010 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the 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 and budgetary comparison schedules as listed in the Table of Contents are not a required part of the basic financial statements, but are 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 the financial statements that collectively comprise the Agency's basic financial statements. The combined financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Agency. 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. D. Ahlberg CPA

April 2, 2010
Redwood City, California

Management's Discussion and Analysis

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2008-09

The Agency has implemented the provisions of Government Accounting Standards Board Statement 34, "Basic Financial Statements—and Management's Discussion & Analysis—for Redevelopment Agencies", known as GASB 34. GASB 34 required the Agency to make substantial changes to its financial statement format. In addition, the Agency provides this discussion and analysis of its financial activities for the fiscal year.

The Community Development Agency, the City's redevelopment arm, was established in November of 1983 and incorporates approximately 40% of the property in the City. The governing board is the City Council, and existing staff supports the Agency's activities. The boundaries of the Project Area were expanded in 1998 and the Plan was amended a second time in 1999 to increase the cap on the amount of tax revenue the Agency can collect over time. A 2002 plan amendment again increased the Agency's tax increment revenue potential. The Agency is funded by property tax increment which allows it to receive and spend property tax revenues from the increase in assessed value that has occurred after adopting a redevelopment project. Twenty percent of tax increment is required by State statutes to be spent to increase and improve housing for low and moderate income persons. The Agency's Redevelopment Plan states the following objectives:

- Funding of needed storm drainage improvements
- Funding needed public parking facilities
- Funding needed rehabilitation and preservation of historic structures
- Funding needed street improvements and beautification projects
- Funding of low and moderate income housing projects
- Funding needed parks and recreational facilities
- Elimination of blight through economic development

With the exception of low and moderate-income housing projects, the Agency can generally only spend money on projects within its boundaries. Under certain conditions, community facilities can be built outside the Project Area if there is no other funding available.

The Low/Moderate Income Housing Fund is an ancillary activity of the Community Development Agency. It is funded by 20 percent of the tax increment monies that accrue to the Agency. Funds may also be received from various grant programs or the issuance of long-term debt. Through the Housing Fund, the Agency has been able to construct or assist in the creation of the following affordable housing projects:

Firehouse Village (30 affordable rental units)

Sonoma Creek Senior Housing (34 senior rental units)

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2008-09

Casa Primera (13 first-time homebuyer affordable units)

Palm Court (18 privately developed first-time home buyer affordable units)

Marcy Court (16 first-time homebuyer affordable units)

Sonoma Commons Phase I & Phase II (first-time home buyer affordable units)

Cabernet (7 senior affordable rental units)

Maysonnave Apartments (10 senior affordable units)

Village Green II Senior Apartments (34 senior affordable units)

Wildflower Self-Help Housing Project (first-time home buyer affordable units)

Valley Oaks/Sonoma Hwy Affordable Rental Housing Project

The Agency operates with 3.2 full time equivalent staff positions to administer to all its activities. Outside consultants are hired as supplemental staffing for special projects. As a joint project with the Sonoma Chamber of Commerce, the Agency initiated an economic development program to help businesses within the redevelopment project area. An Economic Development Committee was created to guide efforts to reduce or eliminate economic blight and generate a healthy economy. Through the Economic Development Project, the City participates in funding the position of Economic Development Coordinator. This program has proven to be successful in focusing interest in Façade Improvement Grants and Loans by businesses located within the project area.

CDA Capital Fund for 2009 included significant activity to complete major projects funded through tax increment proceeds. These projects include the business improvement loans, historic preservation easement, ADA Accessibility Improvements, numerous sidewalk and street resurfacing projects.

Capital Expenses in the Low/Moderate Housing Fund include use of the remaining 2003 Bond proceeds of \$7.5 million plus tax increment proceeds. These project included Broadway property construction, Sonoma Hwy property construction and minor ADA upgrades.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2008-09**

FISCAL 2009 FINANCIAL HIGHLIGHTS

Agency revenues experienced flat growth in the project area. Property tax increment, the Agency's primary revenue source, increased 6% from \$5.4 million in fiscal year 2007-08 to \$5.7 million in fiscal year 2008-09.

- The assets of the Agency exceeded its liabilities at June 30, 2009, by \$22.4 million (net assets).
- The Agency's total net assets increased by \$2.8 million from the prior year which is largely due to a decrease in cash and other assets based on the undertaking and/or completion of capital projects.
- As of June 30, 2009 the Agency's governmental funds reported combined ending fund balances of about \$13.9 million, an increase of over \$3.3 million from the prior year's combined fund balance of \$9.8 million. The increase is due to increases in the Low/Moderate Income Housing Fund and Capital Improvement Projects Fund.
- The Agency's total outstanding debt decreased by \$746 thousand during the current fiscal year. The decrease was chiefly due to the principal payments on outstanding bonds and financings.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

The Management Discussion and Analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basic Financial Statements

The Basic Financial Statements contain the Government-wide Financial Statements and the Fund Financial Statements. These sets of financial statements are designed to provide a broad overview of the Agency's finances, in a manner similar to a private-sector business.

Government-wide Financial Statements: The Government-wide financial statements required by GASB 34 provide a longer-term view of the Agency's activities as a whole, and include the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* provides information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. In the long-term, increases or decreases in net assets serves as a useful indicator of whether the financial position of the Agency is improving or deteriorating. The Statement of Activities explains in detail the change in net assets for the year.

The government-wide financial statements reflect that taxes, intergovernmental revenues and investment income principally support the Agency.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2008-09

Fund Financial Statements: The Fund Financial Statements report the Agency's operations in more detail than the Agency-wide statements and focus primarily on the short-term activities of the Agency's Capital Projects Fund, Debt Service Fund, Low/Moderate Housing Fund, Village Green II Housing and the Sonoma Creek Senior Housing Fund. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities and fund balances, excluding capital assets, long-term debt and other long-term amounts.

Governmental Funds - All of the Agency's basic services are considered to be governmental functions, including Community Development and Housing services. These services are supported by general Agency revenues such as tax increment, and by specific program revenues such as loan repayments. Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Fund Financial Statements include Capital Projects, Housing, Low/Moderate Housing Fund, Sonoma Creek Senior Housing Fund and Debt Service Funds

Governmental Fund financial statements are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Agency-wide Financial Statements. In 2008-09, the Agency has five Major Governmental Funds: Capital Projects Fund, Low/Moderate Housing Fund, Sonoma Creek Senior Housing Fund, Village Green II Housing Fund and Debt Service Fund.

FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the Agency as a whole. Tables 1, 2 and 3 focus on the Agency's Governmental Statement of Net Assets and Statement of Activities.

Governmental Activities

Governmental Net Assets presents total program assets and liabilities and the resulting allocation of the Agency's net assets. Table 1 below summarizes the Agency's Statement of Net Assets as of June 30, 2009.

The Agency's governmental net assets amounted to \$22.4 million at June 30, 2009. The Agency's net assets at June 30, 2009 are comprised of the following:

- Cash and investments comprised \$14 million of pooled cash and investments available for operations. Substantially all of these amounts were held in the City's cash and investments pool as described in Note 3 to the financial statements.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2008-09**

**Table 1
Net Assets
(Full Accrual, in Whole Dollars)**

Assets	2009	2008
Cash and other assets	\$ 14,321,163	\$ 12,050,392
Capital assets	39,364,864	39,490,912
Total Assets	\$ 53,686,027	\$ 51,541,304
Liabilities		
Long - term debt	\$ 30,197,507	\$ 31,715,305
Other liabilities	1,083,595	144,324
Total Liabilities	\$ 31,281,102	\$ 31,859,629
Net Assets:		
Invested in capital assets, net of related debt	\$ 8,395,572	\$ 14,090,111
Restricted	4,026,020	5,591,564
Unrestricted	9,983,333	-
Total Net Assets	\$ 22,404,925	\$ 19,681,675

- Long-term debt of \$30.969 million, of which \$30.197 million is due in future years and \$772 thousand, is due currently.
- The \$8.4 million of 'Invested in capital assets, net of related debt' describes the portion of Net Assets that represents the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.
- Restricted net assets total \$4 million, of which approximately \$3.5 million is restricted for low and moderate income housing purposes. The restrictions on these funds were placed there by Redevelopment law and cannot be changed by the Agency.
- Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The Agency had no unrestricted net assets at June 30, 2009 due to restrictions imposed by tax allocation bonds to be used for capital projects.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2008-09**

Changes in Governmental Net Assets

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Assets summarized below.

**Table 2
Changes in Net Assets
(Full Accrual, in Whole Dollars)**

	2009	2008
Revenues		
Program Revenues		
Charges for services	\$ 618,560	\$ 613,609
General Revenues and Special Item		
Property tax increments	5,723,487	5,440,827
Interest	225,126	832,544
Miscellaneous	272,291	213,678
Special item - write-off of notes receivable	-	(250,000)
Total Revenues	6,839,464	6,850,658
 Expenses		
Community Redevelopment	2,453,653	1,443,191
Interest and Fees	1,479,309	1,564,550
Total Expenses	3,932,962	3,007,741
 Increase (Decrease) in Net Assets Before Transfers	2,906,502	3,842,917
Transfers	(183,255)	(286,304)
Increase (Decrease) in Net Assets	2,723,247	3,556,613
 Net Assets - Beginning	19,681,678	15,913,055
Adjustment		212,010
Net Assets - Beginning, Restated	19,681,678	16,125,065
 Net Assets - Ending	\$ 22,404,925	\$ 19,681,678

As Table 2 above shows, \$618 thousand (9%) of the Agency's 2009 Governmental revenue is program revenue and \$6.22 million (91%) came from general revenues such as taxes and interest. Program revenues were comprised of charges for services, which include reimbursements for expenses incurred in providing services. General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2008-09**

Net Revenue (Expense) of Governmental Activities

Table 3 presents the net (expense) or revenue of each of the Agency's governmental activities, including interest on long-term debt. Net expense is defined as total program cost less the revenues generated by those specific activities.

**Table 3
Net Cost of Service
(Full Accrual, In Whole Dollars)**

	<u>2009</u>	<u>2008</u>
Redevelopment Projects	\$ (2,453,653)	\$ (1,443,191)
Charges for service	618,560	613,609
Interest	(1,479,309)	(1,564,550)
Total Net Cost of Service	<u>\$ (3,314,402)</u>	<u>\$ (2,394,132)</u>

BUDGET HIGHLIGHTS

During the year, the Agency made no revisions to its budget. The Low/Moderate Housing Fund (LMI) realized favorable budget variances for expenditures. This was due to over budgeted cost of land acquisition for LMI fund.

THE AGENCY'S FUND FINANCIAL STATEMENTS

Table 4 below summarizes the fund balances of Governmental Funds:

**Table 4
Fund Balances
(Modified Accrual, In Whole Dollars)**

Governmental Funds	<u>2009</u>	<u>2008</u>	Increase (Decrease)
Village Green Housing Fund	\$ 545,313	\$ 233,864	\$ 311,449
Sonoma Creek Senior Housing Fund	521,151	390,430	130,721
Low/Moderate Income Housing Fund	3,527,088	2,114,053	1,413,035
Capital Improvement Projects Fund	7,739,852	6,336,559	1,403,293
Debt Service Funds	763,246	748,002	15,244
Total fund balances	<u>\$ 13,096,650</u>	<u>\$ 9,822,908</u>	<u>\$ 3,273,742</u>

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2008-09

CAPITAL ASSETS

The Agency's capital assets have been reported in the financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34. These assets include infrastructure such as roads, sidewalks, bridges, drainage systems, and street lighting systems, and other depreciable infrastructure assets.

Table 5
Capital Assets
June 30, 2009
(In Whole Dollars)

	2009	2008
Land - Nondepreciable	\$ 12,833,700	\$ 12,833,700
Buildings and Improvements	13,178,965	7,548,166
Improvements other than Buildings	356,028	356,028
Infrastructure	14,987,173	10,629,815
Equipment and Vehicles	72,250	-
Construction In Progress	755,050	10,373,925
 Total Capital Assets	 42,183,166	 41,741,634
 Less: Accumulated Depreciation	 (2,818,302)	 (2,250,722)
 Capital Assets - Net	 \$ 39,364,864	 \$ 39,490,912

Analyses of Major Governmental Funds

Special Revenue Fund

Accounts for activities of the Community Development Agency of the City not accounted for in the other funds. Activities include economic development program expenses and general and administrative expenses. Fund resources are primarily from tax increment revenues transferred from the Capital Fund.

Low and Moderate Income Housing Fund

Accounts for administering the housing component of the Redevelopment plan. The revenue source for this program comes from the 20% State-mandated housing set-aside deducted from incremental property taxes.

Capital Projects Fund

This Fund accounts for capital project expenses of the Agency. During fiscal year 2008-2009, the Agency's capital project expenses were for expenses related to the sale of

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2008-09**

the old fire station site and numerous reconstruction projects to streets and roads in various locations throughout the project area including installing pavement, gutters, and other improvements to meet the Americans with Disabilities Act.

Debt Service Fund

This Fund accounts for financial resources to be used for the payment of principal and interest in long-term obligations. Each of the Agency's debt issues is discussed in detail in Note 7 to the financial statements.

**Table 6
Outstanding Debt
June 30, 2009
(In Whole Dollars)**

	2009	2008
1997 Tax Allocation Bonds	\$ 2,035,000	\$ 2,130,000
2000 Tax Allocation Refunding Bonds	7,860,000	8,000,000
2003 Tax Allocation Bonds	18,145,000	18,580,000
Notes Payable: USDA	803,036	806,661
Notes Payable: Exchange Bank	2,116,160	2,183,440
Compensated Absences	10,097	15,204
Total Outstanding Debt	\$ 30,969,293	\$ 31,715,305

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

- City of Sonoma has experienced a moderate increase in population of approximately one percent per year.
- Inflationary trends tend to reflect the regional indices.
- The Agency's property assessed valuation for all project areas increased 2% in the current fiscal year.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

These Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency's finances. Questions about this Report should be directed to Carol Giovanatto, Assistant City Manager, City of Sonoma, No. 1 The Plaza, Sonoma CA 95476.

Basic Financial Statements

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities
ASSETS	
Cash and investments	\$ 11,534,842
Cash and investments - retriected	558,305
Accounts receivable (net of allowance for uncollectible)	76,536
Prepaid assets	4,363
Notes receivable	1,125,837
Deferred charges (net of accumulated amortization)	1,021,280
Capital assets (net)	39,364,864
 Total Assets	 \$ 53,686,027
LIABILITIES	
Accounts payable	\$ 199,483
Interest payable	108,576
Deposits payable	3,750
Noncurrent liabilities:	
Due within one year	771,787
Due in more than one year	30,197,506
 Total Liabilities	 \$ 31,281,102
NET ASSETS	
Invested in capital assets (net of related debt)	\$ 8,395,572
Restricted for:	
Capital projects	364,714
Low income housing	3,467,715
Debt service	193,591
Unrestricted	9,983,333
 Total Net Assets	 \$ 22,404,925

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF ACTIVITIES
JUNE 30, 2009

	Governmental Activities
Program Expenses:	
Redevelopment	\$ 2,453,653
Interest and fees	1,479,309
Total Program Expenses	3,932,962
Program Revenues:	
Residential rental income	618,560
Total Program Revenues	618,560
Net Program Income (Expense)	(3,314,402)
General Revenues, Special Items, and Transfers:	
Tax allocation increment	5,723,487
Interest income	225,126
Miscellaneous	272,291
Transfers to the City of Sonoma	(183,255)
Total General Revenues, Special Items, and Transfers	6,037,649
Change in Net Assets	2,723,247
Net Assets - Beginning	19,681,678
Net Assets - Ending	\$ 22,404,925

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2009**

	CAPITAL PROJECT FUNDS					Total Government Funds
	Village Green Housing Fund	Sonoma Creek Senior Housing Fund	Low/Moderate Income Housing Fund	Capital Improvement Projects Fund	Debt Service Funds	
ASSETS						
Cash and investments	\$ 183,199	\$ 522,176	\$ 2,397,956	\$ 7,866,219	\$ 565,292	\$ 11,534,842
Cash and investments -restricted	364,714	-	-	-	193,591	558,305
Accounts receivable - net	-	-	15,307	61,229	-	76,536
Notes receivable	-	-	1,125,837	-	-	1,125,837
Prepaid items	-	-	-	-	4,363	4,363
TOTAL ASSETS	\$ 547,913	\$ 522,176	\$ 3,539,100	\$ 7,927,448	\$ 763,246	\$ 13,299,883
LIABILITIES						
Accounts payable	2,600	\$ 1,025	\$ 12,012	183,846	-	\$ 199,483
Deposits payable	-	-	-	3,750	-	3,750
TOTAL LIABILITIES	2,600	1,025	12,012	187,596	-	203,233
Reserved for debt service	-	-	-	-	763,246	763,246
Reserved for low and moderate income housing	545,313	521,151	2,401,251	-	-	3,467,715
Reserved for notes receivable	-	-	1,125,837	-	-	1,125,837
Reserved for capital projects	-	-	-	7,739,852	-	7,739,852
TOTAL FUND BALANCES	545,313	521,151	3,527,088	7,739,852	763,246	13,096,650
TOTAL LIABILITIES & FUND BALANCES	\$ 547,913	\$ 522,176	\$ 3,539,100	\$ 7,927,448	\$ 763,246	\$ 13,299,883

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Fund Balances - Governmental Funds	\$ 13,096,650
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 (net) used in governmental activities are not current assets or financial resources and therefore, are not reported in the Governmental Funds Balance Sheet.	39,364,864
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.	1,021,280
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)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet	<u>(30,969,293)</u>
Net Assets of Governmental Activities	<u>\$ 22,404,925</u>

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**

	CAPITAL PROJECT FUNDS					Total Government Funds
	Village Green Housing Fund	Sonoma Creek Senior Housing Fund	Low/Moderate Income Housing Fund	Capital Improvement Projects Fund	Debt Service Funds	
REVENUES						
Tax allocation increment	\$ -	\$ -	\$ 1,144,697	\$ 4,578,790	\$ -	\$ 5,723,487
Use of money and property	405,768	209,205	51,169	168,578	8,966	843,686
Other revenues	80,188	143,532	95	46,800	1,676	272,291
Total Revenues	485,956	352,737	1,195,961	4,794,168	10,642	6,839,464
EXPENDITURES						
Current:						
Community Development	182,429	173,581	219,174	-	-	575,184
Capital Outlay	-	-	-	1,757,528	-	1,757,528
Debt service:						
Principal payments	70,904	-	-	-	670,000	740,904
Interest and fiscal charges	114,304	-	-	-	1,320,384	1,434,688
Total Expenditures	367,637	173,581	219,174	1,757,528	1,990,384	4,508,304
Excess (Deficiency) of Revenues over Expenditures	118,319	179,156	976,787	3,036,640	(1,979,742)	2,331,160
OTHER FINANCING SOURCES (USES)						
Transfers in	193,130	1,565	69,217	24,456	1,994,986	2,283,354
Transfers out	-	(50,000)	(758,806)	(1,657,803)	-	(2,466,609)
Total Other Financing Sources (Uses)	193,130	(48,435)	(689,589)	(1,633,347)	1,994,986	(183,255)
Net Changes in Fund Balances	311,449	130,721	287,198	1,403,293	15,244	2,147,905
Beginning fund balances	233,864	390,430	2,114,053	6,336,559	748,002	9,822,908
Restatement to beginning fund balance	-	-	1,125,837	-	-	1,125,837
Beginning fund balances as restated	233,864	390,430	3,239,890	6,336,559	748,002	10,948,745
Ending fund balances	\$ 545,313	\$ 521,151	\$ 3,527,088	\$ 7,739,852	\$ 763,246	\$ 13,096,650

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is reported on the full accrual basis.

NET CHANGES IN FUND BALANCES	\$ 2,147,905
------------------------------	--------------

Amounts reported for governmental activities in the Statement of Activities are different from those reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because of the following:

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.

Capital additions	441,532
Depreciation expense not reported in the governmental funds	(567,580)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Repayment of debt principle	740,904
Amortization of deferred charges	(46,484)

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

Interest payable	1,863
Compensated absences	<u>5,107</u>

Government Wide Changes in Net Assets	<u><u>\$ 2,723,247</u></u>
---------------------------------------	----------------------------

Notes to Financial Statements

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

1. DESCRIPTION OF THE AGENCY

The Community Development Agency of the City of Sonoma (the "Agency") is a public body established and authorized to transact business under the provisions of the Community Redevelopment Law of the State of California, including the power to issue bonds for any of its corporate purposes. Its purposes are to stimulate and attract private investment and eliminate physical, social and/or economic blight.

As the City of Sonoma (the "City") is financially accountable for the Agency, the Agency is considered a component unit of the City. As such, the Agency is reported as part of the City in the basic financial statements of the City.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Agency's Basic Component Unit Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standard Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

GASB requires that the financial statements described below be presented.

Government-wide Statements - The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency. Eliminations have been made to minimize the effect of interfund of activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency'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 Agency's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

B. Major Funds

GASB Statement 34 defines major funds and requires the Agency's major governmental funds to 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 Agency may also select other funds it believes should be presented as major funds.

The Agency reported the following major governmental funds in the accompanying financial statements:

Village Green Housing Fund – This fund was established to account for the Agency's investment in the Village Green Apartments – Low and Moderate Income Housing Complex and the ongoing operations of sale.

Sonoma Creek Senior Housing Fund – This fund was established for the purpose of providing affordable public housing to senior citizens.

Low/Moderate Income Housing Fund – This fund was established to account for the portion of the Agency's property tax allocations required to be set aside for the purpose of increasing or improving the community's supply of low or moderate income housing, pursuant to Health and Safety Code Section 33334.2.

Capital Projects Fund – This fund was established to account for the balance of property tax allocations after debt service, 20% set aside allocation, and related expenditures made on behalf of the Agency.

Debt Service Fund – This fund is used to account for the accumulation of financial resources and the payment of general long-term obligation principal, interest and related costs.

C. Basis of Accounting

The government-wide 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 Agency 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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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*.

Non-exchange transactions, in which the Agency 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. Other revenues susceptible to accrual include other taxes, intergovernmental revenue, interest, and charges for services.

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

D. Cash and Investments

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments if they are liquid.

Cash includes not only currency on hand, but deposits in the City's cash and investment pool. These deposits have the same characteristics for the participating funds as demand deposit accounts, in that the funds may deposit additional cash at any time and also effectively withdraw cash at any time without prior notice or penalty. Cash with trustee includes unpooled cash and both restricted and unrestricted cash and money market funds held by fiscal agent.

Investments include unpooled investments in securities and certificates of deposit having original maturities greater than three months. Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments, including those in the City's cash and investment pool, are stated at fair value.

E. 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.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

F. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

G. Tax Increment

The Agency has no direct taxing power and does not have the power to pledge the general credit or taxing power of the City, the State of California or any political subdivision thereof. However, California's Health and Safety Code allows redevelopment agencies with appropriate approvals of the local legislative bodies to recover costs of financing public improvements from increased tax revenues (tax increment) associated with increased property values of individual project areas. Property tax increment is recorded as revenue when it becomes both measurable and available to finance expenditures.

H. Property Held for Resale

Property held for resale is acquired as part of the Agency's redevelopment program. All of these properties are residential. Costs of developing and administering Agency projects are charged to capital outlay expenditures as incurred.

The Agency does not maintain cost records by parcel, as there is no relationship between costs incurred and the final disposition value, which is significantly affected by various use restrictions. For financial statement presentation, this property is stated at the lower of estimated cost or net realizable value.

I. Budgets and Budgetary Accounting

Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the upcoming fiscal year. The proposed budget includes a summary of proposed expenditures and forecasted revenues of the Agency's governmental funds.

The City Manager adopts the budget through passage of an adopting ordinance. All appropriated amounts, as originally adopted or as amended by the City Council, lapse at year-end or are subject to reappropriation in the following year. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Formal budgetary integration is employed as a management control device.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

J. Expenditures over Appropriation

For the current fiscal year, actual expenditures exceeded budgeted amounts are as follows:

Fund	Expenditure Category	Excess Expenditure	Explanation
Village Green Housing Fund	Community development and interest and fiscal charges	\$ 102,343	Under budgeted operating expenses and interest expenses
Sonoma Creek Senior Housing Fund	Community development	\$ 35,245	Under budgeted operating expenses

K. Use of Estimates

The Agency's management has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

3. CASH AND INVESTMENTS

The Agency has pooled its cash and investments with the City of Sonoma in order to achieve a higher return on investment. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These restricted funds include cash with fiscal agents.

The investments made by the City are limited to those allowable under State statutes and include the following types of investments:

- Bankers Acceptances
- State of California Local Agency Investment Fund (LAIF)
- Certificate of Deposit
- Government Agency Securities
- Money Market Certificates
- U.S. Treasury Obligations
- Repurchase Agreements

All cash and investment are stated at fair value. Pooled investment earnings are allocated monthly based on the average cash and investment balances of the various funds and related entities of the City.

See The City's Comprehensive Annual Financial Report for disclosures related to cash and investments and the related custodial risk categorization.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2009</u>
Capital assets, not being depreciated:					
Land	\$12,833,700	\$ -	\$ -	\$ -	\$12,833,700
Right of ways	356,028	-	-	-	356,028
Construction in progress	10,373,925	190,123	-	(9,808,998)	755,050
Total capital assets, not being depreciated	23,563,653	190,123	-	(9,808,998)	13,944,778
Capital assets, being depreciated:					
Infrastructure	10,629,815	12,156	-	4,345,202	14,987,173
Buildings and improvements	7,548,166	167,003	-	5,463,796	13,178,965
Equipment and vehicles	-	72,250	-	-	72,250
Total capital assets, being depreciated	18,177,981	251,409	-	9,808,998	28,238,388
Less accumulated depreciation	(2,250,722)	(567,580)	-	-	(2,818,302)
Total capital assets, being depreciated, net	15,927,259	(316,171)	-	9,808,998	25,420,086
Capital assets, net	\$39,490,912	\$ (126,048)	\$ -	\$ -	\$39,364,864

Depreciation expense of \$316,171 was charged to redevelopment expense in the Statement of Activities.

5. LONG-TERM NOTES RECEIVABLE

Long-term notes receivable of \$1,125,837 represent monies loaned to home buyers in connection with a home ownership assistance program, shared appreciation second mortgages, secured by real property, with repayment due upon sale of real property. If no sale or transfer occurs within 30 years after the date of the notes, the notes shall be automatically forgiven. The Agency has deferred revenue recognition on these notes in the Low and Moderate Income Housing Redevelopment Fund.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

6. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt activity of the Agency for the fiscal year ended June 30, 2009:

	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
Compensated Absences	15,204	-	5,107	10,097	-
Total Governmental Activities Debt	\$ 31,715,304	\$ -	\$ 746,011	\$ 30,969,293	\$ 771,787

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 a variable interest rate, 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	1,057,421
2020-2022	740,000	90,353	1,047,987
Total	\$ 2,035,000	\$ 907,928	\$ 3,162,139

2000 Tax Allocation Refunding Bonds

On June 28, 2000, the City's Community Development Agency issued \$8,895,000 of Tax Allocation Refunding Bonds with interest rates ranging from 4.75% to 5.70%, 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 are 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:

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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 1.45% to 4.45% per annum, to provide funds for certain community development projects. The bonds 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>\$ 11,920,726</u>	<u>\$ 30,065,726</u>

2005 USDA Loan

In April of 2005, the City's Community Development Agency obtained an \$821,423 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 \$803,036 and the future minimum obligations as of June 30, 2009 as follows:

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

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>\$ 803,036</u>	<u>\$ 1,052,288</u>	<u>\$ 1,855,323</u>

2005 Exchange Bank Loan

On March 1, 2005 the City's Community Development Agency borrowed \$2,300,157 from Exchange Bank to purchase the Village Green Apartments, a 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 \$2,116,160 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	173,574
2014	98,728	74,846	173,574
2015	1,662,815	59,025	1,721,840
Total	<u>\$ 2,116,160</u>	<u>\$ 473,547</u>	<u>\$ 2,589,708</u>

7. NET ASSETS AND FUND BALANCES

Net Assets are the excess of all the Agency'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 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 Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which are restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

restrictions which the Agency 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.

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

Capital Outlay and Redevelopment Projects reserves are funded from fees, incremental tax revenues, and debt proceeds that are legally restricted for major capital projects.

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

Low/Moderate Income Housing reserves are funded from 20% of incremental tax revenues which are restricted for projects that assist low to moderate income families.

8. TAX INCREMENT SHIFT TO EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF)

In fiscal year 2003, the state of California directed that a portion of the incremental property taxes, which had been received in prior years by redevelopment agencies be paid instead to local educational agencies. During the fiscal year ended June 30, 2009, the Agency did not make an ERAF payment.

9. COMMITMENTS AND CONTINGENCIES

Construction in Progress

At June 30, 2009, the Agency had uncompleted construction contracts. The remaining commitment on the construction contracts were approximately \$1,444,711.

10. 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.

Required Supplementary Information

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
BUDGET AND ACTUAL
VILLAGE GREEN HOUSING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Use of money and property	\$ 390,000	\$ 390,000	\$ 405,768	\$ 15,768
Other revenues	3,300	3,300	80,188	76,888
Total Revenues	393,300	393,300	485,956	92,656
EXPENDITURES				
Current:				
Community development	106,752	106,752	182,429	(75,677)
Debt service:				
Principal	58,258	58,258	70,904	(12,646)
Interest and fiscal charges	100,284	100,284	114,304	(14,020)
Total Expenditures	265,294	265,294	367,637	(102,343)
Excess (Deficiency) of Revenues Over Expenditures	128,006	128,006	118,319	(9,687)
OTHER FINANCING SOURCES (USES)				
Transfers in	32,300	32,300	193,130	160,830
Total Other Financing Sources (Uses)	32,300	32,300	193,130	160,830
Net Change in Fund Balance	\$ 160,306	\$ 160,306	311,449	\$ 151,143
Fund Balance - Beginning			233,864	
Fund Balance - Ending			\$ 545,313	

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
BUDGET AND ACTUAL
SONOMA CREEK SENIOR HOUSING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Use of money and property	\$ -	\$ -	\$ 209,205	\$ 209,205
Other revenues	-	-	143,532	143,532
Total Revenues	-	-	352,737	352,737
EXPENDITURES				
Current:				
Community development	138,336	138,336	173,581	(35,245)
Total Expenditures	138,336	138,336	173,581	(35,245)
Excess (Deficiency) of Revenues Over Expenditures	(138,336)	(138,336)	179,156	317,492
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,565	(1,565)
Transfers out	(50,000)	(50,000)	(50,000)	-
Total Other Financing Sources (Uses)	(50,000)	(50,000)	(48,435)	1,565
Net Change in Fund Balance	\$ (188,336)	\$ (188,336)	130,721	\$ 319,057
Fund Balance - Beginning			390,430	
Fund Balance - Ending			\$ 521,151	

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

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Property tax increment revenue	\$ 1,150,371	\$ 1,150,371	\$ 1,144,697	\$ (5,674)
Use of money and property	125,000	125,000	51,169	(73,831)
Other revenues	-	-	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 Change in Fund Balance	\$ 680,884	\$ 680,884	287,198	\$ (393,686)
Fund Balance - Beginning			2,114,053	
Restatement to Fund Balance - Beginning			1,125,837	
Fund Balance - Ending			\$ 3,527,088	

Other Independent Auditor's Report



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 COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Members of the Board
Community Development Agency of the City of Sonoma
Sonoma, California

We have audited the financial statements of the Community Development Agency of the City of Sonoma Community Development Agency ("the Agency") as of and for the year ended June 30, 2009, and have issued our report thereon dated April 2, 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 the Agency's internal control over financial reporting as a basis for designing out auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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 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. We consider certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs 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 Agency'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 Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency'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 Agency'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 Agency's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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.

This report is intended solely for the information and use of the Mayor, members of the Agency board members, and the State Controller's office and is not intended to be and should not be used by anyone other than these specified parties.

C. D. Uhlenberg LLP

April 2, 2010
Redwood City, California

Findings and Recommendations

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
SCHEDULE OF FINDINGS AND QUESTIONS COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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. The Agency's cash and investments are deposited with the City's cash and investment pool.

Criteria: Assets should be monitored regularly as part of the internal control policy of the Agency.

Cause of Condition:

1. Internal control design - The City did not perform 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.

Client's response: The Agency acknowledges and agrees to this finding. [1] The Agency 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. The Agency's cash and investments are deposited with the City's cash and investment pool.

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.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
SCHEDULE OF FINDINGS AND QUESTIONS COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Effect of Condition: The Agency'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.

Client's response: The Agency 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 Agency did not perform GASB 34 conversion for governmental funds to prepare governmental-wide financial statements.

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

Cause of Condition: Additional staffing and training may be needed for finance personnel.

Effect of Condition: The Agency's financial statements are not in compliance with GASB.

Questioned Costs: None noted

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

Client's response: The Agency acknowledges this finding. As part of a Performance Management Plan, staff is activating the Fixed Asset Module through the Agency'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.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
SUMMARY OF PRIOR YEAR COMPLIANCE FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

08-01 Pursuant to Health and Safety Code 33418(a), "The agency shall monitor, on an ongoing basis, any housing affordable to persons and families of low or moderate income developed. As part of this monitoring, an agency shall require owners or managers of the housing to submit to the agency an annual report, which shall include for each rental unit the rental rate and the income and family size of the occupants, and for each owner-occupied unit whether there was a change in ownership from the prior year and, if so, the income and family size of the new owners."

Recommendation: We recommend that the Agency obtains the required information annually from the owners or managers of the housing units, pursuant to Health and Safety Code 33418(a).

Client's response: The Agency is overloaded with the housing administration and it did not comply in FY 2007-2008. It is working on the possibility to outsource this function.

Status: The Agency complied in FY 2008-2009.

08-02 Pursuant to Health and Safety Code 33334.16, "For each interest in real property acquired using moneys from the Low and Moderate Income Housing Fund, the agency shall, within five years from the date it first acquires the property interest for the development of housing affordable to persons and families of low and moderate income, initiate activities consistent with the development of the property for that purpose. If these activities have not been initiated within this period, the legislative body may,

1. By resolution, extend the period during which the agency may retain the property for one additional period not to exceed five years.
2. Or, the property shall be sold and the moneys from the sale, less reimbursement to the agency for the cost of the sale, shall be deposited in the agency's Low and Moderate Income Housing Fund.

Recommendation: We recommend that the Agency disposes the two pieces of land purchased in 2002 with housing fund or extends the period by resolution, pursuant to Health and Safety Code 33334.12.

Client's response: The Agency is in the process of working with legal council to either sell the land or extend the period. It expects to get this issue resolved during FY 2008-2009.

Status: The Agency complied in FY 2008-2009.