

**CITY OF SONOMA
CALIFORNIA**

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

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, 2010

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CITY OF SONOMA, CALIFORNIA

ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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Financial Section



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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, 2010, 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, 2010, 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 December 9, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 46 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary



information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements and USDA Rural Development – Rural Rental Housing Loans Reporting are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The USDA Rural Development – Rural Rental Housing Loans Reporting has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

C. G. Uhlenberg LLP

December 9, 2010
Redwood City, California

Management's Discussion and Analysis

Fiscal Year 2009-2010

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 full 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. Complete financial statements of the component unit can be obtained from the City.

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, 2010 were \$57,836,353, an decrease of \$548,127 over the prior fiscal year 2008-2009.
- Total City revenues, including program and general revenues, were \$22,501,851, a increase of \$1,041,851 from the prior year. Total expenses were \$23,116,090, which was an increase of \$2,487,364 from the prior year.

- Governmental Activities Program Revenues were \$4,247,019 in fiscal year 2009-2010, a increase of \$461,468 from the prior fiscal year's \$3,785,551.
- Governmental Activities Program Expenses were \$19,283,298 in fiscal year 2009-2010, an increase of \$1,989,654 from the prior fiscal year's \$17,293,644.
- Program revenues from Business-Type Activities [Proprietary Funds] were \$4,129,838 in fiscal year 2009-2010, a decrease of \$263,474 from the prior fiscal year.
- General Fund revenues and net other financing sources were \$9,881,664 in fiscal year 2009-2010, a decrease of \$1,463,173 over the prior fiscal year.
- General Fund total expenditures were \$11,607,927 in fiscal year 2009-2010, an increase of \$2,204,632 from prior fiscal year amounts. This increase is primarily due to the consolidation of the EMS Fund into the General Fund.
- General fund balance was \$5,373,250 at fiscal year end June 30, 2010, compared with the budgeted fund balance and the prior fiscal year's actual fund balance of \$7,492,184. The fund balance is 46% 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.

<i>(in US Dollar)</i>	2010	2009
Current and other assets	23,132,480	25,161,585
Capital Assets	52,664,498	51,455,658
Total Assets	75,796,978	76,617,243
Long-term debt outstanding	30,825,288	31,659,497
Other Liabilities	2,875,693	1,829,073
Total Liabilities	33,700,981	33,488,570
Net assets:		
Invested in Capital Asset [net of debt]	21,174,732	19,475,360
Restricted for Debt Service	194,463	193,591
Restricted for Capital Projects	632,131	1,321,379
Restricted for LMI	3,764,427	3,467,714
Unrestricted	16,330,244	18,670,629
Total Net Assets	42,095,997	43,128,673

Total Net Assets decreased approximately \$1,032,676 in fiscal year 2009-2010 as compared to fiscal year 2008-2009 due to an increase in capital outlay in the Community Development Agency Capital Project Fund.

Governmental Activities – Revenues

REVENUES		
<i>Governmental Activities</i> (in US Dollar)		
<i>Revenues by Source</i>	<i>2010</i>	<i>%</i>
<i>Program revenues:</i>		
<i>Charges for Services</i>	<i>2,928,212</i>	<i>69%</i>
<i>Operating contributions & grants</i>	<i>320,427</i>	<i>7%</i>
<i>Capital contributions & grants</i>	<i>998,380</i>	<i>24%</i>
<i>Total Program Revenues</i>	<i>4,247,019</i>	
<i>General revenues</i>		
<i>Taxes and Assessments</i>	<i>13,093,122</i>	<i>94%</i>
<i>Use of money and property</i>	<i>844,369</i>	<i>6%</i>
<i>Other</i>	<i>0</i>	<i>0%</i>
<i>Total General Revenues</i>	<i>13,937,491</i>	
<i>Total Revenues, Transfers & Special Items</i>	<i>18,184,510</i>	

The table above shows that all Governmental Activity revenues totaled \$18,184,510 in fiscal year 2009-2010. This is in comparison to \$18,127,116 in fiscal year 2008-2009.

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> (in US Dollar)			
Department	Functions/ Expenses	Program Revenue	Revenue/ (Expenses)
General Government	1,622,464	158,089	(1,464,375)
Public Safety	8,651,318	1,999,843	(6,651,475)
Public Works	2,291,509	981,914	(1,309,595)
Community Development	5,095,692	1,078,756	(4,016,936)
Culture and Leisure	170,588	28,417	(142,171)
Interest on Long-term debt	1,451,727	-	(1,451,727)
Total Net Cost	19,283,298	4,247,019	(15,036,279)

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

activities. Total Governmental Activity expenses totaled \$19,283,298 in fiscal year 2009-2010. In fiscal year 2008-2009, the City's expense level was \$17,293,644.

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, 2010 and 2009</i>		<i>(in US Dollar)</i>	
	2010	2009	Increase/(Decrease) from FY 08-09
Cash and other assets	5,885,903	5,553,023	332,880
Capital assets	12,572,068	12,723,870	(151,802)
Total Assets	18,457,971	18,276,893	181,078
Long-term debt outstanding	1,884,983	2,603,889	(718,906)
Other Liabilities	832,632	417,197	415,435
Total Liabilities	2,717,615	3,021,086	(303,471)
Total Net Assets:			
Invested in capital assets, net of debt	10,572,102	10,085,311	486,791
Restricted	320,468	318,830	1,638
Unrestricted	4,847,786	4,851,866	(4,080)
Total Net Assets	15,740,356	15,255,807	484,549

The City's Business-type net assets increased \$484,549 to \$15.7 million in fiscal year 2009-2010, from \$15.2 million in fiscal year 2008-2009.

- ◆ Cash and investments in fiscal year 2009-2010 were higher by \$332,880 in comparison to prior fiscal year.
- ◆ Unrestricted net assets of \$4.8 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, 2010, the City's Governmental Funds reported combined fund balances of \$16.7 million, an decrease of \$3.2 million as compared with last year.

Governmental Fund revenues increased \$339,509 this fiscal year to a total of \$18.1 million as compared to \$17.7 million.

Governmental Fund expenditures increased approximately \$2.7 million this year to \$21.3 million. The major cause for the increase is the expenditure of CDA Project Funds.

General Fund – The General Fund ended the year with \$5.4 million fund balance, compared to \$7.1 million, as restated, in the prior year. The City's financial performance was impacted by the lingering recession in fiscal year 2009-2010. Expenditures were higher than in the current period, \$11.6 million in fiscal year 2009-2010 as compared to \$9.4 million in fiscal year 2008-2009. Increase is due to consolidation of EMS Fund into the General Fund.

Sales tax, Transient Occupancy Tax and other miscellaneous taxes, decreased by approximately \$680,137 as compared to the prior year. Property taxes, sales tax and transient occupancy taxes reflected a decrease of 8.9% due to economic conditions.

At June 30, 2010, the General Fund fund balance totaled \$5.4 million. The Council has designated approximately \$2.1 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.

Low/Moderate Income (LMI) Housing Fund – The Low/Moderate Income Housing Fund ended the year with a \$2.6 million fund balance, compared to \$2.4 million in the prior year as restated. LMI revenues, including transfers in, totaled \$1.3 million, which is predominately derived directly from the 20% tax increment set-aside and investment income. Low/Moderate Housing expenditures, including transfers out, were \$1.0 million in fiscal year 2009-2010.

Community Development Agency (CDA) Capital Projects Fund – The CDA Projects Fund ended the year with a \$7.3 million fund balance, compared to \$7.7 million in the prior year. Revenues and transfers of \$5.4 million are derived directly from the tax increment and investment income. CDA Capital Projects Fund expenditures and transfers were \$5.8 million in fiscal year 2009-2010. Several significant construction projects, including numerous street projects, pavement, gutters and other improvements such as an emergency generator replacement, were completed or in progress during the fiscal year. The Fund also paid \$1.9 million to Supplemental Educational Revenue Augmentation Funds (SERAF) as required by the State Legislature.

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 \$1.4 million at June 30, 2010, as compared to \$2.7 million at the end of the prior fiscal year.

PERFORMANCE OF PROPRIETARY [ENTERPRISE & INTERNAL SERVICE] FUNDS

At June 30, 2010, the City's Proprietary Funds reported combined net assets of \$15.7 million, as compared to combined net assets at June 30, 2009 of \$14.5 million.

Water Fund – The Water Fund ended the year with \$14.7 million net assets on June 30, 2010 as compared to the prior fiscal year which ended the year with a \$14.5 million balance. The Water Fund posted Operating revenues of \$3.4 million, compared to \$3.6 in the prior year. Operating expenditures for fiscal year 2009-2010 totaled \$3.2 million in comparison with fiscal year 2008-2009 expenditures of \$2.6 million.

Cemetery Fund – The Cemetery Fund ended the year with \$994,147 net assets on June 30, 2010 as compared to fiscal year 2008-2009, which ended the year with a \$759,535 balance. Operating revenues were higher in fiscal year 2009-2010 by \$12,369 from fiscal year 2008-2009, which posted \$236,105 as compared to \$248,474 in fiscal year 2009-2010. Operating expenditures were higher in fiscal year 2009-2010 totaling \$505,062 in comparison with fiscal year 2008-2009 expenditures of \$457,272.

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.

CITY OF SONOMA
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 16,863,730	\$ 5,242,182	\$ 22,105,912
Cash and investments - restricted	1,554,540	320,468	1,875,008
Interest receivable	158,748	-	158,748
Accounts receivable - net	1,700,669	778,308	2,478,977
Deposits and other assets	22,766	-	22,766
Total current assets	<u>20,300,453</u>	<u>6,340,958</u>	<u>26,641,411</u>
Noncurrent assets:			
Notes receivable	1,352,812	-	1,352,812
Internal balances	455,705	(455,705)	-
Deferred charges - net	1,023,510	-	1,023,510
Capital assets:			
Nondepreciable	16,596,386	960,472	17,556,858
Depreciable, net of accumulated depreciation	36,068,112	11,611,596	47,679,708
Other noncurrent assets	-	650	650
Total noncurrent assets	<u>55,496,525</u>	<u>12,117,013</u>	<u>67,613,538</u>
Total Assets	<u>\$ 75,796,978</u>	<u>\$ 18,457,971</u>	<u>\$ 94,254,949</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,537,943	\$ 596,851	\$ 2,134,794
Accrued interest	107,414	-	107,414
Deposits payable and other liabilities	240,059	180,781	420,840
Total current liabilities	<u>1,885,416</u>	<u>777,632</u>	<u>2,663,048</u>
Long-term liabilities:			
Due within one year	990,277	55,000	1,045,277
Due in more than one year	30,825,288	1,884,983	32,710,271
Total long-term liabilities	<u>31,815,565</u>	<u>1,939,983</u>	<u>33,755,548</u>
Total Liabilities	<u>\$ 33,700,981</u>	<u>\$ 2,717,615</u>	<u>\$ 36,418,596</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 21,174,732	\$ 10,572,102	\$ 31,746,834
Restricted for debt service	194,463	141,300	335,763
Restricted for capital projects	632,131	179,168	811,299
Restricted for low/moderate income housing	3,764,427	-	3,764,427
Unrestricted	<u>16,330,244</u>	<u>4,847,786</u>	<u>21,178,030</u>
Total Net Assets	<u>\$ 42,095,997</u>	<u>\$ 15,740,356</u>	<u>\$ 57,836,353</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, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 1,622,464	\$ 158,089	\$ -	\$ -	\$ (1,464,375)	\$ -	\$ (1,464,375)
Public safety	8,651,318	1,842,144	119,546	38,153	(6,651,475)	-	(6,651,475)
Public works	2,291,509	282,656	169,601	529,657	(1,309,595)	-	(1,309,595)
Community development	5,095,692	616,906	31,280	430,570	(4,016,936)	-	(4,016,936)
Culture and leisure	170,588	28,417	-	-	(142,171)	-	(142,171)
Interest on long-term debt	1,451,727	-	-	-	(1,451,727)	-	(1,451,727)
Total Governmental Activities	19,283,298	2,928,212	320,427	998,380	(15,036,279)	-	(15,036,279)
Business-type Activities:							
Water	3,194,385	3,422,284	-	459,080	-	686,979	686,979
Cemetery	511,544	248,474	-	-	-	(263,070)	(263,070)
Interest on long-term debt	126,863	-	-	-	-	(126,863)	(126,863)
Total Business-type Activities	3,832,792	3,670,758	-	459,080	-	297,046	297,046
Total	\$ 23,116,090	\$ 6,598,970	\$ 320,427	\$ 1,457,460	\$ (15,036,279)	\$ 297,046	\$ (14,739,233)
General Revenues:							
Taxes:							
General property taxes					7,301,420	-	7,301,420
Franchise taxes					370,989	-	370,989
Sales and use taxes					2,172,544	-	2,172,544
Transient occupancy taxes					2,084,450	-	2,084,450
Business license tax					296,428	-	296,428
Real property transfer taxes					63,196	-	63,196
Motor vehicle in lieu taxes					804,095	-	804,095
Investment earnings					746,141	154,117	900,258
Transfers					(33,386)	33,386	-
Miscellaneous					131,614	-	131,614
Total General Revenues and Transfers					13,937,491	187,503	14,124,994
Change in Net Assets					(1,098,788)	484,549	(614,239)
Net Assets - Beginning					43,128,673	15,255,807	58,384,480
Prior Period Adjustments					66,112	-	66,112
Net Assets - Beginning as Restated					43,194,785	15,255,807	58,450,592
Net Assets - Ending					\$ 42,095,997	\$ 15,740,356	\$ 57,836,353

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

CITY OF SONOMA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010

	General	Community Development Agency Low/Moderate Income Housing Fund	Community Development Agency Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 2,457,696	\$ 739,638	\$ 8,861,485	\$ 1,771,804	\$ 13,830,623
Cash and investments - restricted	-	-	-	1,554,540	1,554,540
Interest receivable	156,577	-	2,171	-	158,748
Accounts receivable - net	1,163,756	9,593	485,978	33,701	1,693,028
Due from other funds	2,712,782	-	-	-	2,712,782
Loan and advances to other funds	18,991	1,920,016	-	-	1,939,007
Deposits and other assets	2,231	-	-	20,535	22,766
Total Assets	\$ 6,512,033	\$ 2,669,247	\$ 9,349,634	\$ 3,380,580	\$ 21,911,494
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ 1,092,240	\$ 33,728	\$ 86,794	\$ 255,722	\$ 1,468,484
Due to other funds	-	-	-	1,573,605	1,573,605
Loan from other funds	-	-	1,920,016	-	1,920,016
Deposits payable and other liabilities	46,043	-	3,750	182,187	231,980
Total Liabilities	1,138,283	33,728	2,010,560	2,011,514	5,194,085
Fund Balances (Deficits):					
Reserved for:					
Loan and advance to other funds	18,991	1,920,016	-	-	1,939,007
Debt service	-	-	-	763,414	763,414
Low/Moderate income housing	-	715,503	-	1,128,908	1,844,411
Operating reserve	1,500,000	-	-	-	1,500,000
Unreserved designated for:					
Emergency services	2,099,975	-	-	-	2,099,975
Unreserved and undesignated:					
General fund	1,754,784	-	-	-	1,754,784
Special revenue funds	-	-	-	132,050	132,050
Capital projects funds	-	-	7,339,074	(655,306)	6,683,768
Total Fund Balances	5,373,750	2,635,519	7,339,074	1,369,066	16,717,409
Total Liabilities and Fund Balances	\$ 6,512,033	\$ 2,669,247	\$ 9,349,634	\$ 3,380,580	\$ 21,911,494

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, 2010

Fund Balance - Total Governmental Funds **\$ 16,717,409**

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	\$ 64,166,356	
Less: accumulated depreciation	<u>(11,501,858)</u>	
		52,664,498

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	1,440,705	
Less: accumulated amortization	<u>(417,195)</u>	
		1,023,510

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	1,265,003	
Notes payable	2,869,763	
Tax allocation bonds payable	27,355,000	
Compensated absences	<u>325,799</u>	
		(31,815,565)

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. (107,414)

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. 2,260,747

In governmental funds, notes receivables are not available to pay for current period expenditures and, therefore, are offset by deferred revenue. 1,352,812

Net Assets - Governmental Activities **\$ 42,095,997**

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
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Community Development Agency Low/Moderate Income/Housing Fund	Community Development Agency Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 6,985,050	\$ 1,140,901	\$ 4,563,606	\$ 52,877	\$ 12,742,434
Fines and penalties	97,950	-	-	2,891	100,841
Intergovernmental revenues	238,413	-	461,850	799,258	1,499,521
Charges for services	1,761,839	-	-	13,675	1,775,514
License, permits and fees	334,318	-	-	5,624	339,942
Investment earnings (loss)	413,436	60,310	211,508	60,887	746,141
Rental income	80,338	-	18,900	605,237	704,475
Other revenue	14,118	-	94,184	37,426	145,728
Total Revenues	9,925,462	1,201,211	5,350,048	1,577,875	18,054,596
EXPENDITURES					
Current:					
General government	1,427,859	-	-	-	1,427,859
Public safety	8,580,393	-	-	24,403	8,604,796
Public works	1,429,087	-	-	795,045	2,224,132
Community development	-	405,192	2,943,861	380,189	3,729,242
Culture and leisure	170,588	-	-	-	170,588
Capital outlay	-	2,061	1,000,104	1,769,351	2,771,516
Debt service:					
Principal	-	-	-	895,483	895,483
Interest and fees	-	-	-	1,450,232	1,450,232
Total Expenditures	11,607,927	407,253	3,943,965	5,314,703	21,273,848
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,682,465)	793,958	1,406,083	(3,736,828)	(3,219,252)
OTHER FINANCING SOURCES (USES)					
Transfers in	790,128	50,000	-	2,643,107	3,483,235
Transfers (out)	(833,926)	(609,690)	(1,806,861)	(241,333)	(3,491,810)
Total Other Financing Sources (Uses)	(43,798)	(559,690)	(1,806,861)	2,401,774	(8,575)
NET CHANGES IN FUND BALANCES	(1,726,263)	234,268	(400,778)	(1,335,054)	(3,227,827)
FUND BALANCES - BEGINNING	7,100,013	3,527,088	7,739,852	1,646,306	20,013,259
PRIOR PERIOD ADJUSTMENTS	-	(1,125,837)	-	1,057,814	(68,023)
FUND BALANCES - BEGINNING AS RESTATED	7,100,013	2,401,251	7,739,852	2,704,120	19,945,236
FUND BALANCES - ENDING	\$ 5,373,750	\$ 2,635,519	\$ 7,339,074	\$ 1,369,066	\$ 16,717,409

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
FOR THE YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances - Total Governmental Funds **\$ (3,227,827)**

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

Impairment loss of property held for sale does not affect the governmental fund balances, but is treated as expenses in the Statement of Activities. (783,185)

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	\$ 3,031,626	
Current year depreciation	<u>(1,039,601)</u>	
		1,992,025

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	161,050	
Repayment of notes payable	49,433	
Repayment of tax allocation bonds	<u>685,000</u>	
		895,483

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. (49,964)

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	1,162	
Compensated absences	<u>(4,998)</u>	
		(3,836)

Discount or premium on long-term bonds payable is reported as expenditures of current financial resources in governmental funds, whereas they are deferred and amortized over the period during which the debt is outstanding in the Statement of Activities. (2,657)

Revenue from long-term receivable does not generate current financial resources to governmental funds but should be reported in the Statement of Activities. 226,975

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. (145,802)

Change in Net Assets - Governmental Activities **\$ (1,098,788)**

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

CITY OF SONOMA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	\$ 5,242,182	\$ -	\$ 5,242,182	\$ 3,033,107
Cash and investments - restricted	320,468	-	320,468	-
Accounts receivable - net	774,989	3,319	778,308	7,641
Total current assets	<u>6,337,639</u>	<u>3,319</u>	<u>6,340,958</u>	<u>3,040,748</u>
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	764,168	196,304	960,472	-
Depreciable, net of accumulated depreciation	10,202,609	1,408,987	11,611,596	-
Total capital assets	10,966,777	1,605,291	12,572,068	-
Deposits and other assets	650	-	650	-
Total noncurrent assets	<u>10,967,427</u>	<u>1,605,291</u>	<u>12,572,718</u>	<u>-</u>
Total Assets	<u>\$ 17,305,066</u>	<u>\$ 1,608,610</u>	<u>\$ 18,913,676</u>	<u>\$ 3,040,748</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 579,244	\$ 17,607	\$ 596,851	\$ 69,459
Due to other funds	-	436,714	436,714	702,463
Advances from other funds	-	18,991	18,991	-
Deposits payable and other liabilities	63,112	117,669	180,781	8,079
Long term debt - current portion	55,000	-	55,000	-
Total current liabilities	<u>697,356</u>	<u>590,981</u>	<u>1,288,337</u>	<u>780,001</u>
Noncurrent liabilities:				
Long term debt - noncurrent portion	1,825,000	-	1,825,000	-
Compensated absences	36,501	23,482	59,983	-
Total noncurrent liabilities	<u>1,861,501</u>	<u>23,482</u>	<u>1,884,983</u>	<u>-</u>
Total Liabilities	<u>\$ 2,558,857</u>	<u>\$ 614,463</u>	<u>\$ 3,173,320</u>	<u>\$ 780,001</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 9,086,777	\$ 1,605,291	\$ 10,692,068	\$ -
Restricted for capital projects (expendable)	179,168	-	179,168	-
Restricted for debt service (expendable)	141,300	-	141,300	-
Unrestricted	5,338,964	(611,144)	4,727,820	2,260,747
Total Net Assets	<u>\$ 14,746,209</u>	<u>\$ 994,147</u>	<u>\$ 15,740,356</u>	<u>\$ 2,260,747</u>

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, 2010

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
OPERATING REVENUES				
Sales and services	\$ 3,422,284	\$ 248,474	\$ 3,670,758	\$ 2,534,905
Miscellaneous	-	-	-	300,752
Total Operating Revenues	<u>3,422,284</u>	<u>248,474</u>	<u>3,670,758</u>	<u>2,835,657</u>
OPERATING EXPENSES				
Salaries and benefits	724,689	359,236	1,083,925	2,345,619
Services, supplies and maintenance	1,903,842	74,236	1,978,078	360,349
Insurance premiums and claims	-	-	-	276,392
Miscellaneous	126,782	23,358	150,140	-
Depreciation and amortization	420,743	48,232	468,975	-
Total Operating Expenses	<u>3,176,056</u>	<u>505,062</u>	<u>3,681,118</u>	<u>2,982,360</u>
OPERATING INCOME (LOSS)	<u>246,228</u>	<u>(256,588)</u>	<u>(10,360)</u>	<u>(146,703)</u>
NONOPERATING REVENUES (EXPENSES):				
Grant revenue	339,000	-	339,000	-
Investment earnings	131,779	22,338	154,117	901
Interest expense	(88,983)	(37,880)	(126,863)	-
Total Nonoperating Revenues (Expenses)	<u>381,796</u>	<u>(15,542)</u>	<u>366,254</u>	<u>901</u>
INCOME (LOSS) BEFORE CONNECTION FEES & TRANSFERS	628,024	(272,130)	355,894	(145,802)
CONNECTION FEES	120,080	-	120,080	-
TRANSFERS:				
Transfers in	-	563,509	563,509	-
Transfers (out)	(498,167)	(56,767)	(554,934)	-
CHANGES IN NET ASSETS	249,937	234,612	484,549	(145,802)
NET ASSETS - BEGINNING AS RESTATED	<u>14,496,272</u>	<u>759,535</u>	<u>15,255,807</u>	<u>2,406,549</u>
NET ASSETS - ENDING	<u>\$ 14,746,209</u>	<u>\$ 994,147</u>	<u>\$ 15,740,356</u>	<u>\$ 2,260,747</u>

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, 2010

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 3,343,530	\$ 245,560	\$ 3,589,090	\$ -
Receipts from interfund services provided	-	-	-	2,529,622
Payments to employees for services	(721,132)	80,893	(640,239)	(1,643,156)
Payments to suppliers for goods and services	(1,241,999)	41,601	(1,200,398)	(654,967)
Payments for interfund services used	(309,670)	(109,503)	(419,173)	-
Other payments and receipts	(120,349)	(27,863)	(148,212)	300,752
Net Cash Provided by (Used for) Operating Activities	<u>950,380</u>	<u>230,688</u>	<u>1,181,068</u>	<u>532,251</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash paid to other funds	(498,167)	(56,767)	(554,934)	-
Cash received from other funds	-	563,509	563,509	-
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(498,167)</u>	<u>506,742</u>	<u>8,575</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Cash received from connection fees and grants	459,080	-	459,080	-
Purchases of capital assets	(298,832)	-	(298,832)	-
Principal paid on capital debt	(50,000)	(620,878)	(670,878)	-
Interest paid on capital debt	(88,983)	(37,880)	(126,863)	-
Net Cash Provided by (Used for) Capital Related Financing Activities	<u>21,265</u>	<u>(658,758)</u>	<u>(637,493)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	<u>131,779</u>	<u>22,338</u>	<u>154,117</u>	<u>901</u>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	<u>605,257</u>	<u>101,010</u>	<u>706,267</u>	<u>533,152</u>
CASH AND INVESTMENTS - BEGINNING	<u>4,957,393</u>	<u>(101,010)</u>	<u>4,856,383</u>	<u>2,499,955</u>
CASH AND INVESTMENTS - ENDING	<u>\$ 5,562,650</u>	<u>\$ -</u>	<u>\$ 5,562,650</u>	<u>\$ 3,033,107</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 246,228	\$ (256,588)	\$ (10,360)	\$ (146,703)
Adjustments to reconcile operating income to cash flows provided by operating activities:				
Depreciation and amortization	420,743	48,232	468,975	-
Change in assets and liabilities:				
Accounts receivable	(78,754)	(2,914)	(81,668)	(5,283)
Accounts payable	352,173	6,334	358,507	(18,226)
Due to other funds	-	436,714	436,714	702,463
Compensated absences	3,557	3,415	6,972	-
Deposits and other liabilities	6,433	(4,505)	1,928	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 950,380</u>	<u>\$ 230,688</u>	<u>\$ 1,181,068</u>	<u>\$ 532,251</u>

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, 2010

ASSETS

Cash and investments	\$ 2,525,148
Accounts receivable - net	<u>198,421</u>

Total Assets	<u>\$ 2,723,569</u>
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LIABILITIES

Accounts payable	\$ 2,378,572
Deposits payable	<u>344,997</u>

Total Liabilities	<u>\$ 2,723,569</u>
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The notes to the financial statements are an integral part of this statement

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010

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, 2010

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. During the fiscal year ended June 30, 2010, the City closed out Emergency Medical Services Fund, a major fund in prior years, and account for the revenues and expenses of the emergency medical service operations in the General 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.

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, 2010

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 generally 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. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles.

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 generally reserves allowance for doubtful accounts based on historical trend of uncollectible accounts. Management has elected to record bad debts using the direct write-off method for water fund. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad

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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
Software	5-7 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.

Property Held for Resale - is acquired as part of the Agency's redevelopment program. Cost 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.

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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 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, 2010, 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 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

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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.

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:

Fund	Excess Expenditures	Explanation
General Fund	\$ 354,767	The fire and EMS department's overtime pay as well as legal council's charge are over appropriation.

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Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for the presentation in the current-year financial statements.

NOTE 2 – CHANGE IN FINANCIAL STATEMENT PRESENTATION AND PRIOR PERIOD ADJUSTMENT

During the current year, the City has determined that certain transactions were recorded incorrectly in prior years.

It was determined that prior year notes receivable and fund balance reserved for notes receivable of \$1,125,837 was incorrectly presented in the Low/Moderate Income Housing Fund. To correct this error, the notes receivable and the fund balance were eliminated. The beginning fund balance of the Low/Moderate Income Housing Fund of \$3,527,088, as originally reported, has been reduced to \$2,401,251.

As a result of internal review of the City's long term debt activities, the City discovered that the issuance of one of the long term debts and the cash proceeds from the issuance were not recorded in a prior year. To correct this error as a prior period adjustment, the net proceeds from the issuance of \$1,057,814 were added to the fund balance of a nonmajor fund. The adjustment also impacted the government-wide financial statements. Net capital lease payable of \$1,043,896 were added to the long term debt balances, and \$66,112 representing the principal payment and amortization of issuance cost and bond discount was added to the net asset.

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 and Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have formal policies for custodial credit risk. 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.

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The City's cash deposits with banks (including CD investment) were \$3,908,743 as of June 30, 2010. Of the bank balance, \$3,765,629 was either insured or guaranteed by Federal Depository Insurance Corporation (FDIC) and \$143,114 was uninsured but collateralized as noted in the preceding paragraph as of June 30, 2010. Differences between the carrying amount and bank balances are from outstanding deposits and checks as of June 30, 2010.

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 invests in the California State Treasurer's Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. As of June 30, 2010, LAIF had approximately \$71 billion in investments.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost of best estimate for those securities where market value is not readily available. The City's investments with LAIF at June 30, 2010 included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows.

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and / or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2010, the City had \$6,920,592 invested in LAIF, which had invested 5.42% of the pool investments funds in Structured Notes and Asset-Backed Securities. The City valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor is the result of dividing all LAIF participants' total aggregate fair value (\$69,555,776,591) by total aggregate amortized cost (\$69,441,630,091) resulting in a factor of 1.001643776.

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, 2010, the unrealized loss from these investments totaled \$84,054 and was accounted for in General Fund.

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.

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Custodial Credit Risk

This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. All securities owned by the City shall be held in safekeeping by a third party institution, acting as primary agent for the City under the terms of a custody agreement.

Concentration of Credit Risk, Credit Risk, and Interest Rate Risk Policies

The following table summarizes the City's policy related to the types (credit risk), maturities (interest rate risk), and portfolio percentages (concentration credit risk) of investments:

Investment Type	Maximum Maturity	Maximum Portfolio Percentage	Maximum Investment per Institution
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%

The following is a summary of the City's Cash and Investments as of June 30, 2010.

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 obligations	\$ 14,578,540	\$ -	\$ 14,578,540	-	59%	3.19	1.88
Government Securities Money							
Market Mutual Funds	-	1,147,062	1,147,062	-	5%	N/A	N/A
Certificates of Deposit							
Commercial Banks	2,001,081		2,001,081	-	8%	1.86	0.15
Local Agency Investment Fund	6,920,592	-	6,920,592	Unrated	28%	0.58	0.16
Total Investments	23,500,213	1,147,062	24,647,275		100%		
Cash Deposits with Banks	922,605	727,946	1,650,551				
Certificate of Deposit	206,917	-	206,917				
Cash on Hand	1,325	-	1,325				
Total Cash and Investments	\$ 24,631,060	\$ 1,875,008	\$ 26,506,068				

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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.

	City	Fiduciary Funds	Totals
Cash and Investments Available for Operation	\$ 22,105,912	\$ 2,525,148	\$ 24,631,060
Restricted Cash and Investments	1,875,008	-	1,875,008
 Total Cash and Investments	 \$ 23,980,920	 \$ 2,525,148	 \$ 26,506,068

NOTE 4 - RECEIVABLES

Accounts Receivable

\$220,053 of the accounts receivable balance in General Fund was composed of amounts due from customers for emergency medical service (EMS) and was reported net of an allowance for uncollectible accounts in the amount of \$180,043. Other than the EMS accounts receivable, the majority of accounts receivable in the governmental activities was due from other governments while the majority of accounts receivable in the business-type activities was due from customers.

Notes Receivable

The long-term notes receivable for affordable housing loans of \$1,125,837 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.

Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009/10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Sonoma was \$226,975.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-13) and thus the receivable is offset by deferred revenue. In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

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NOTE 5 - INTERFUND TRANSACTIONS

The following tables summarize the City's due to and due from other funds as of June 30, 2010:

<u>Receivable Fund (Due From in)</u>	<u>Payable fund (Due To in)</u>	<u>Amount</u>
General Fund	Nonmajor Proprietary Fund	\$ 436,714
	Nonmajor Governmental Funds	1,574,889
	Internal Service Funds	702,463
		<u>\$ 2,714,066</u>

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

The following tables summarize the City's interfund loan and advance as of June 30, 2010:

<u>Fund Making Loan and Advance</u>	<u>Fund Receiving Loan and Advance</u>	<u>Term</u>	<u>Amount</u>
General Fund	Nonmajor Proprietary Fund	Advance	\$ 18,991
Community Development Agency	Community Development Agency		
Low/Moderate Income Housing Fund	Capital Projects Fund	Loan	1,920,016
			<u>\$ 1,939,007</u>

The Community Development Agency Capital Projects Fund borrowed \$1,920,016 from the Low/Moderate Income Housing Fund in order to make payment to the Supplemental Educational Revenue Augmentation Funds (SERAF) as disclosed in Note 12.

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, 2010 were as follows:

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	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 790,128	\$ 833,926
Low/Moderate Income Housing Fund	50,000	609,690
Community Development Agency Capital Projects Fund	-	1,806,861
Major Enterprise Funds:		
Water Fund	-	498,167
Nonmajor Governmental Funds:		
COP Grant Fund	-	67,758
Cleep Fund	374	-
SLESF Law Enforcement Fund	12,125	100,000
El Prado Landscape Maintenance Fund	8,243	-
Fryer Creek Landscape Maintenance Fund	73	5,559
Sonoma Valley Oaks Fund	26,051	-
Starr Ranch Fund	47,686	-
Sonoma Creek Senior Housing Fund	-	50,000
Gas Tax Fund	359,917	-
1993 REFA Debt Service Fund	18,016	-
Municipal Finance Corporation Debt Service Fund	107,517	18,016
1997 Community Development Agency Debt Service Fund	210,956	-
2000 Community Development Agency Debt Service Fund	584,896	-
2003 Tax Allocation Bonds Debt Service Fund	1,195,003	-
2008 CREB Bonds Debt Service Fund	72,250	-
Nonmajor Enterprise Funds:		
Cemetery Fund	563,509	56,767
	<u>\$ 4,046,744</u>	<u>\$ 4,046,744</u>

During the fiscal year, the City approved a transfer of \$541,337 from General Fund to Cemetery Fund to pay off a capital lease obligation.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 6 - CAPITAL ASSETS

Changes in capital assets consisted of the following for the fiscal year ended June 30, 2010:

Governmental Activities	Balance June 30, 2009	Additions	Deletions	Transfers	Balance June 30, 2010
Capital assets, not being depreciated:					
Land	\$ 15,735,424	\$ -	\$ -	\$ (2,233,185)	\$ 13,502,239
Land held for resale	-	-	(783,185)	2,233,185	1,450,000
Right of ways	356,028	-	-	-	356,028
Construction in progress	1,192,871	2,784,774	-	(2,689,526)	1,288,119
 Total capital assets, not being depreciated	 17,284,323	 2,784,774	 (783,185)	 (2,689,526)	 16,596,386
Capital assets, being depreciated:					
Infrastructure	19,298,015	-	-	1,922,883	21,220,898
Buildings and improvements	20,944,077	-	-	-	20,944,077
Equipment and vehicles	4,391,500	246,852	-	766,643	5,404,995
 Total capital assets, being depreciated	 44,633,592	 246,852	 -	 2,689,526	 47,569,970
 Less accumulated depreciation	 (10,462,257)	 (1,039,601)	 -	 -	 (11,501,858)
 Total capital assets, being depreciated, net	 34,171,335	 (792,749)	 -	 2,689,526	 36,068,112
 Capital assets, net	 \$ 51,455,658	 \$ 1,992,025	 \$ (783,185)	 \$ -	 \$ 52,664,498

During the year ended June 30, 2010, the Agency reclassified five parcels of land, originally acquired for redevelopment purpose, to property held for resale. The Agency valued the land at the lower of estimated cost or net realizable value and recognized a loss of \$783,185. The Agency recorded the loss in community development expenses on the Statement of Activities.

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Business-type Activities	Balance June 30, 2009	Additions	Deletions	Transfers	Balance June 30, 2010
Capital assets, not being depreciated:					
Land	\$ 960,472	\$ -	\$ -	\$ -	\$ 960,472
Construction in progress	118,501	298,832	-	(417,333)	-
Total capital assets, not being depreciated	1,078,973	298,832	-	(417,333)	960,472
Capital assets, being depreciated:					
Infrastructure	25,572	-	-	-	25,572
Buildings and improvements	20,598,181	-	-	417,333	21,015,514
Equipment and vehicles	911,680	-	-	-	911,680
Total capital assets, being depreciated	21,535,433	-	-	417,333	21,952,766
Less accumulated depreciation	(9,872,195)	(468,975)	-	-	(10,341,170)
Total capital assets, being depreciated, net	11,663,238	(468,975)	-	417,333	11,611,596
Capital assets, net	\$ 12,742,211	\$ (170,143)	\$ -	\$ -	\$ 12,572,068

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:

Program/Function	Governmental Activities	Business-type Activities
General government	\$ 184,760	\$ -
Public safety	217,728	-
Public works	47,518	-
Community development	589,595	-
Water	-	420,743
Cemetery	-	48,232
Total Depreciation	\$ 1,039,601	\$ 468,975

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.

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A. Schedule of Changes in Long-term Debt

	Balance June 30, 2009	Prior period Adjustment	Additions	Reductions	Balance June 30, 2010	Due within one year
Governmental Activities:						
1997 Tax Allocation Bonds	\$ 2,035,000	\$ -	\$ -	\$ 100,000	\$ 1,935,000	\$ 105,000
2000 Tax Allocation Refunding Bonds	7,860,000	-	-	145,000	7,715,000	155,000
2003 Tax Allocation Bonds	18,145,000	-	-	440,000	17,705,000	450,000
Note Payable - USDA	803,036	-	-	3,833	799,203	4,054
Note Payable - Exchange Bank	2,116,160	-	-	45,600	2,070,560	47,629
Capital Lease Obligation REFA1993	379,500	-	-	88,800	290,700	92,800
Capital Lease Obligation CREBs, net	-	1,043,896	2,657	72,250	974,303	69,593
Compensated Absences	320,801	-	4,998	-	325,799	66,201
Total Governmental Activities Debt	31,659,497	1,043,896	7,655	895,483	31,815,565	990,277
Business-type Activities:						
Certificates of Participation - Water	1,930,000	-	-	50,000	1,880,000	55,000
Capital Lease Obligations - Cemetery	620,878	-	-	620,878	-	-
Compensated Absences	53,011	-	6,972	-	59,983	7,274
Total Business-type Activities Debt	2,603,889	-	6,972	670,878	1,939,983	62,274
Total Long-term Obligations	\$ 34,263,386	\$ 1,043,896	\$ 14,627	\$ 1,566,361	\$ 33,755,548	\$ 1,052,551

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

B. Tax Allocation Bonds

Governmental Activities

1997 Tax Allocation Bonds - On July 10, 1997, the 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
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	130,000	79,878	209,878
2016-2020	955,000	279,034	1,234,034
2021-2022	390,000	52,284	442,284
Total	\$ 1,935,000	\$ 796,971	\$ 2,731,971

2000 Tax Allocation Refunding Bonds - On June 28, 2000, the Agency issued \$8,895,000 of Tax Allocation Refunding Bonds to advance refund \$2,085,000 of outstanding 1991 Senior Housing

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JUNE 30, 2010

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:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	185,000	398,045	583,045
2016-2020	1,075,000	1,831,605	2,906,605
2021-2025	1,850,000	1,485,706	3,335,706
2026-2030	3,200,000	782,895	3,982,895
2031	755,000	43,035	798,035
Total	<u>\$ 7,715,000</u>	<u>\$ 6,216,187</u>	<u>\$ 13,931,187</u>

2003 Tax Allocation Bonds - On May 29, 2003, the 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 mature semiannually in increasing amounts on each December 1, through 2033. Annual debt service requirements are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	520,000	679,334	1,199,334
2016-2020	2,905,000	3,090,494	5,995,494
2021-2025	3,575,000	2,440,580	6,015,580
2026-2030	4,455,000	1,581,085	6,036,085
2031-2034	4,355,000	494,840	4,849,840
Total	<u>\$ 17,705,000</u>	<u>\$ 11,167,568</u>	<u>\$ 28,872,568</u>

C. Notes Payable

Governmental Activities

2005 Note Payable – USDA - In April of 2005, the 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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010 was \$803,035 and the future minimum obligations as of June 30, 2010 as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	5,075	43,831	48,906
2016-2020	30,120	214,410	244,530
2021-2025	39,877	204,653	244,530
2026-2030	52,793	191,737	244,530
2031-2035	653,662	174,636	828,298
Total	<u>\$ 799,203</u>	<u>\$ 1,007,215</u>	<u>\$ 1,806,418</u>

2005 Note Payable - Exchange Bank - On March 1, 2005 the 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, 2010 was \$2,116,162 and the future minimum annual debt commitments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 47,629	\$ 89,332	\$ 136,961
2012	49,747	87,214	136,961
2013	51,960	85,001	136,961
2014	54,271	82,689	136,960
2015	1,866,953	67,068	1,934,021
Total	<u>\$ 2,070,560</u>	<u>\$ 411,304</u>	<u>\$ 2,481,864</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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 92,800	\$ 11,781	\$ 104,581
2012	96,800	7,654	104,454
2013	101,100	3,348	104,448
Total	<u>\$ 290,700</u>	<u>\$ 22,783</u>	<u>\$ 313,483</u>

Municipal Finance Corporation Leases – In 2007 the City submitted applications to the United States Internal Revenue Service (IRS) for allocation of Clean Renewable Energy Bonds (CREBs). The IRS awarded the City an allocation of \$1,156,000 to finance solar paneling project at four different municipal facilities within the City limits. Bonds were issued on July 10, 2008 in the amount of \$1,156,000 and tax credits were granted to lender upon financing. The bonds were issued at a discount of \$39,854. The discount and the issuance cost of \$52,195 are amortized over 16 years. The obligation is a lease agreement with Municipal Finance Corporation (Corporation) entered into by the City on July 10, 2008. Principal installments of \$72,250 are made on December 15 of each year, with the final installment due on July 10, 2023.

The future minimum obligations as of June 30, 2010 were as follows:

Fiscal Year Ending June 30,	Total
2011	\$ 72,250
2012	72,250
2013	72,250
2014	72,250
2015	72,250
2016-2020	361,250
2021-2024	289,000
Total minimum lease payments	<u>\$ 1,011,500</u>

Business-type Activities

Municipal Finance Corporation Leases – In 2005, the City entered into a lease agreement with the Corporation for the development of the Veterans Memorial Park Cemetery in the amount of

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

\$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. On April 15, 2010, the City approved a prepayment option to pay off the loan and paid remaining principal of \$620,878 and interest of \$37,880.

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 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:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	60,000	76,178	136,178
2016-2020	350,000	337,188	687,188
2021-2025	440,000	245,100	685,100
2026-2030	550,000	128,250	678,250
2031	255,000	12,231	267,231
Total	<u>\$ 1,880,000</u>	<u>\$ 1,126,613</u>	<u>\$ 3,006,613</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:

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 expenditure or is legally segregated for a specific future use. As of June 30, 2010, portions of fund balance had been reserved because of the following:

Loan and Advance to other Funds reserves reflect the balance of long-term loans and advances to other funds 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.

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, 2010:

Funds	Deficit
<u>Non major Funds:</u>	
Strong Motion Fund	\$ 3,008
El Prado Landscape Maintenance Fund	220
Sonoma Valley Oaks Fund	681
Starr Ranch Fund	4,985
Gas Tax Fund	137,450
Economic Stimulus Fund	397,482
Capital Asset Project Fund	618,280
Municipal Finance Corporation Debt Service Fund	15,483
<u>Internal Service Fund:</u>	
Employee Benefits Fund	755,107

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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.

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, 2010 was 13.268% of annual covered payroll for non-safety (miscellaneous) employees and 33.636% 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, 2010, the City's \$965,590 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, 2008 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

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2008	\$ 880,053	100%	\$ -
6/30/2009	906,581	100%	-
6/30/2010	965,590	100%	-

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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.

Actuarial – Safety Fire 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
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%
2008	8,700,467,733	7,464,927,716	1,235,540,017	85.8%	914,840,596	135.1%

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
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%
2008	2,780,280,768	2,547,323,278	232,957,490	91.6%	688,606,681	33.8%

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 \$39,500,000 in excess of its \$500,000 retention limit to cover losses above its deductible for general liability and \$300,000,000 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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 June 30, 2010, the City paid \$438,482 for current year coverage and received a rebate from the program of \$300,753.

Condensed full accrual basis audited financial information of REMIF as of and for the year ended June 30, 2010, is as follows:

Rewood Empire Municipal Insurance Fund
Balance Sheet
June 30, 2010

Total Assets	\$ 19,028,937
Total Liabilities	13,679,292
Net Assets	<u>\$ 5,349,645</u>

Rewood Empire Municipal Insurance Fund
Statements of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2010

Operating Revenues, net refunds	\$ 8,150,154
Operating Expenses	<u>7,925,517</u>
Operating Income	224,637
Nonoperating income	<u>272,366</u>
Net Increase in Net Assets	497,003
Net Assets - Beginning of year	<u>4,852,642</u>
Net Assets - End of year	<u>\$ 5,349,645</u>

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.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 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, 2010, the City has uncompleted construction contracts. The remaining commitment on the construction contracts was approximately \$2,072,289.

NOTE 12 - SERAF

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately \$1.9 and \$0.4 million for the year ended June 30, 2010 and 2011, respectively. In response to AB 26 4x, the Agency funded the SERAF payment due in May 2010 by borrowing from the Community Development Agency Low/Moderate Income Housing Fund. The borrowing will be repaid no later than June 30, 2015 in full without interest.

NOTE 13 - SUBSEQUENT EVENT

On September 1, 2010, the Board of the Community Development Agency authorized the issuance of Tax Allocation Bonds in order to refund the 1997 Tax Allocation Bonds and the 2000 Tax Allocation Refunding Bonds. The 2010 bonds were sold on September 22, 2010 in an amount of \$10,120,000. The issuance will save the Agency an estimated amount of \$640,000. The cash flow savings was approximately \$1 million or \$50,000 per year in interest costs without extending the life of the debt (20 years). Annual interest rate varies from 2% in 2010 to 5% in 2030.

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, 2010

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$ 7,545,440	\$ 7,545,440	\$ 6,985,050	\$ (560,390)
Fines and penalties	63,550	63,550	97,950	34,400
Intergovernmental revenues	142,950	142,950	238,413	95,463
Charges for services	2,311,600	2,311,600	1,761,839	(549,761)
License, permits and fees	288,500	288,500	334,318	45,818
Investment earnings	160,000	160,000	413,436	253,436
Rental income	90,100	90,100	80,338	(9,762)
Other revenue	84,500	84,500	14,118	(70,382)
Total Revenues	<u>10,686,640</u>	<u>10,686,640</u>	<u>9,925,462</u>	<u>(761,178)</u>
EXPENDITURES				
Current:				
General government	1,316,431	1,316,431	1,427,859	(111,428)
Public safety	8,231,218	8,237,476	8,580,393	(342,917)
Public works	1,518,253	1,518,253	1,429,087	89,166
Culture and leisure	181,000	181,000	170,588	10,412
Total Expenditures	<u>11,246,902</u>	<u>11,253,160</u>	<u>11,607,927</u>	<u>(354,767)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(560,262)</u>	<u>(566,520)</u>	<u>(1,682,465)</u>	<u>(1,115,945)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	833,302	833,302	790,128	(43,174)
Transfers (out)	(238,346)	(238,346)	(833,926)	(595,580)
Total Other Financing Sources (Uses)	<u>594,956</u>	<u>594,956</u>	<u>(43,798)</u>	<u>(638,754)</u>
NET CHANGES IN FUND BALANCE	<u>\$ 34,694</u>	<u>\$ 28,436</u>	<u>(1,726,263)</u>	<u>\$ (1,754,699)</u>
FUND BALANCES - BEGINNING			<u>7,100,013</u>	
FUND BALANCE - ENDING			<u>\$ 5,373,750</u>	

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, 2010

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$ 1,092,852	\$ 1,092,852	\$ 1,140,901	\$ 48,049
Investment earnings	125,000	125,000	60,310	(64,690)
Total Revenues	<u>1,217,852</u>	<u>1,217,852</u>	<u>1,201,211</u>	<u>(16,641)</u>
EXPENDITURES				
Current:				
Community development	1,854,132	1,854,102	405,192	1,448,910
Capital outlay	-	-	2,061	(2,061)
Total Expenditures	<u>1,854,132</u>	<u>1,854,102</u>	<u>407,253</u>	<u>1,446,849</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(636,280)</u>	<u>(636,250)</u>	<u>793,958</u>	<u>1,430,208</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,833,148	1,833,148	50,000	(1,783,148)
Transfers (out)	(534,643)	(534,673)	(609,690)	(75,017)
Total Other Financing Sources (Uses)	<u>1,298,505</u>	<u>1,298,475</u>	<u>(559,690)</u>	<u>(1,858,165)</u>
NET CHANGES IN FUND BALANCE	<u>\$ 662,225</u>	<u>\$ 662,225</u>	<u>234,268</u>	<u>\$ (427,957)</u>
FUND BALANCE - BEGINNING			<u>2,401,251</u>	
FUND BALANCE - ENDING			<u>\$ 2,635,519</u>	

Supplementary Information

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2010

SPECIAL REVENUE FUNDS

	Strong Motion Fund	COP Grant Fund	Asset Forfeiture Fund	Cleep Fund	SLESF Law Enforcement Fund
ASSETS					
Cash and investments	\$ -	\$ -	\$ 3,659	\$ -	\$ -
Cash and investments - restricted	-	-	-	-	-
Accounts receivable - net	-	-	-	-	11,956
Deposits and other assets	-	-	-	-	-
Total Assets	\$ -	\$ -	\$ 3,659	\$ -	\$ 11,956
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ 512	\$ -	\$ -	\$ -	\$ -
Due to other funds	2,496	-	-	-	-
Deposits payable and other liabilities	-	-	-	-	-
Total Liabilities	3,008	-	-	-	-
Fund Balances (Deficits):					
Reserved for:					
Debt service	-	-	-	-	-
Low/moderate income housing	-	-	-	-	-
Unreserved reported in:					
Special revenue funds	(3,008)	-	3,659	-	11,956
Capital projects funds	-	-	-	-	-
Total Fund Balances (Deficits)	(3,008)	-	3,659	-	11,956
Total Liabilities and Fund Balances (Deficits)	\$ -	\$ -	\$ 3,659	\$ -	\$ 11,956

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2010

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	\$ 31,114	\$ 7,162	\$ 34,947	\$ 62,136	\$ -
Cash and investments - restricted	-	-	-	-	-
Accounts receivable - net	-	-	-	470	-
Deposits and other assets	-	-	-	-	-
Total Assets	\$ 31,114	\$ 7,162	\$ 34,947	\$ 62,606	\$ -
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 220
Due to other funds	-	-	-	-	-
Deposits payable and other liabilities	30,891	-	-	-	-
Total Liabilities	30,891	-	-	-	220
Fund Balances (Deficits):					
Reserved for:					
Debt service	-	-	-	-	-
Low/moderate income housing	-	-	-	-	-
Unreserved reported in:					
Special revenue funds	223	7,162	34,947	62,606	(220)
Capital projects funds	-	-	-	-	-
Total Fund Balances (Deficits)	223	7,162	34,947	62,606	(220)
Total Liabilities and Fund Balances (Deficits)	\$ 31,114	\$ 7,162	\$ 34,947	\$ 62,606	\$ -

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2010

SPECIAL REVENUE FUNDS

	Fryer Creek Landscape Maintenance Fund	Sonoma Valley Oaks Fund	Schell Drainage Fund	Starr Ranch Fund	Abandoned Vehicle Fund
ASSETS					
Cash and investments	\$ -	\$ -	\$ 176,198	\$ -	\$ 51,064
Cash and investments - restricted	-	-	-	-	-
Accounts receivable - net	-	-	-	-	1,712
Deposits and other assets	-	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 176,198</u>	<u>\$ -</u>	<u>\$ 52,776</u>
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ -	\$ 681	\$ -	\$ 477	\$ 580
Due to other funds	-	-	-	4,508	-
Deposits payable and other liabilities	-	-	142,460	-	-
Total Liabilities	<u>-</u>	<u>681</u>	<u>142,460</u>	<u>4,985</u>	<u>580</u>
Fund Balances (Deficits):					
Reserved for:					
Debt service	-	-	-	-	-
Low/moderate income housing	-	-	-	-	-
Unreserved reported in:					
Special revenue funds	-	(681)	33,738	(4,985)	52,196
Capital projects funds	-	-	-	-	-
Total Fund Balances (Deficits)	<u>-</u>	<u>(681)</u>	<u>33,738</u>	<u>(4,985)</u>	<u>52,196</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 176,198</u>	<u>\$ -</u>	<u>\$ 52,776</u>

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2010

SPECIAL REVENUE FUNDS

	Sonoma Creek Senior Housing Fund	Village Green Fund	Gas Tax Fund	Community Development Block Grant Fund
ASSETS				
Cash and investments	\$ 272,957	\$ 117,808	\$ -	\$ 62,272
Cash and investments - restricted	213,111	514,835	-	-
Accounts receivable - net	-	-	2,318	17,245
Deposits and other assets	-	11,413	-	-
Total Assets	\$ 486,068	\$ 644,056	\$ 2,318	\$ 79,517
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts payable	\$ 1,216	\$ -	\$ 98,804	\$ 7,610
Due to other funds	-	-	40,964	-
Deposits payable and other liabilities	-	-	-	-
Total Liabilities	1,216	-	139,768	7,610
Fund Balances (Deficits):				
Reserved for:				
Debt service	-	-	-	-
Low/moderate income housing	484,852	644,056	-	-
Unreserved reported in:				
Special revenue funds	-	-	(137,450)	71,907
Capital projects funds	-	-	-	-
Total Fund Balances (Deficits)	484,852	644,056	(137,450)	71,907
Total Liabilities and Fund Balances (Deficits)	\$ 486,068	\$ 644,056	\$ 2,318	\$ 79,517

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2010

CAPITAL PROJECT FUNDS

	Capital Improvement Program Fund	Measure M Fund	Economic Stimulus Fund	Capital Asset Project Fund
ASSETS				
Cash and investments	\$ 187,304	\$ 189,871	\$ -	\$ -
Cash and investments - restricted	-	-	-	632,131
Accounts receivable - net	-	-	-	-
Deposits and other assets	-	-	-	-
Total Assets	\$ 187,304	\$ 189,871	\$ -	\$ 632,131
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts payable	\$ 7,883	\$ -	\$ 7,421	\$ 130,318
Due to other funds	-	-	390,061	1,120,093
Deposits payable and other liabilities	8,836	-	-	-
Total Liabilities	16,719	-	397,482	1,250,411
Fund Balances (Deficits):				
Reserved for:				
Debt service	-	-	-	-
Low/moderate income housing	-	-	-	-
Unreserved reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	170,585	189,871	(397,482)	(618,280)
Total Fund Balances (Deficits)	170,585	189,871	(397,482)	(618,280)
Total Liabilities and Fund Balances (Deficits)	\$ 187,304	\$ 189,871	\$ -	\$ 632,131

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2010

	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	2008 CREB Bonds Debt Service Fund	
ASSETS							
Cash and investments	\$ -	\$ -	\$ 108,804	\$ 316,840	\$ 149,668	\$ -	\$ 1,771,804
Cash and investments - restricted	-	-	194,463	-	-	-	1,554,540
Accounts receivable - net	-	-	-	-	-	-	33,701
Deposits and other assets	-	-	-	5,221	3,901	-	20,535
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 303,267</u>	<u>\$ 322,061</u>	<u>\$ 153,569</u>	<u>\$ -</u>	<u>\$ 3,380,580</u>
LIABILITIES AND FUND BALANCES (DEFICITS)							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 255,722
Due to other funds	-	15,483	-	-	-	-	1,573,605
Deposits payable and other liabilities	-	-	-	-	-	-	182,187
Total Liabilities	<u>-</u>	<u>15,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,011,514</u>
Fund Balances (Deficits):							
Reserved for:							
Debt service	-	(15,483)	303,267	322,061	153,569	-	763,414
Low/moderate income housing	-	-	-	-	-	-	1,128,908
Unreserved reported in:							
Special revenue funds	-	-	-	-	-	-	132,050
Capital projects funds	-	-	-	-	-	-	(655,306)
Total Fund Balances (Deficits)	<u>-</u>	<u>(15,483)</u>	<u>303,267</u>	<u>322,061</u>	<u>153,569</u>	<u>-</u>	<u>1,369,066</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 303,267</u>	<u>\$ 322,061</u>	<u>\$ 153,569</u>	<u>\$ -</u>	<u>\$ 3,380,580</u>

(Concluded)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2010

SPECIAL REVENUE FUNDS

	Strong Motion Fund	COP Grant Fund	Asset Forfeiture Fund	Cleep Fund	SLESF Law Enforcement Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and penalties	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	100,000
Charges for services	-	-	-	-	-
License, permits and fees	317	-	-	-	-
Investment earnings	-	1,608	88	-	19
Rental income	-	-	-	-	-
Other revenue	-	-	-	-	-
Total Revenues	317	1,608	88	-	100,019
EXPENDITURES					
Current:					
Public safety	-	-	-	-	-
Public works	751	-	57	-	-
Community development	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total Expenditures	751	-	57	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(434)	1,608	31	-	100,019
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	374	12,125
Transfers (out)	-	(67,758)	-	-	(100,000)
Total Other Financing Sources (Uses)	-	(67,758)	-	374	(87,875)
NET CHANGES IN FUND BALANCES (DEFICITS)	(434)	(66,150)	31	374	12,144
FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS	(2,574)	66,150	3,628	(374)	(188)
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	(2,574)	66,150	3,628	(374)	(188)
FUND BALANCES (DEFICITS) - ENDING	\$ (3,008)	\$ -	\$ 3,659	\$ -	\$ 11,956

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2010

SPECIAL REVENUE FUNDS

REVENUES

	Eastside Estate Fund	Traffic Grant Fund	Bond Property Maintenance Fund	Mayssonave Property Fund	El Prado Landscape Maintenance Fund
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and penalties	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	-
Charges for services	-	-	-	-	-
License, permits and fees	-	-	-	-	-
Investment earnings	738	170	917	1,476	-
Rental income	-	-	-	7,230	-
Other revenue	-	-	-	-	-
Total Revenues	738	170	917	8,706	-

EXPENDITURES

Current:					
Public safety	-	-	-	-	-
Public works	-	-	4,965	6,271	-
Community development	-	-	-	-	4,261
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total Expenditures	-	-	4,965	6,271	4,261

**EXCESS (DEFICIENCY) OF REVENUES
OVER EXPENDITURES**

738	170	(4,048)	2,435	(4,261)
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OTHER FINANCING SOURCES (USES)

Transfers in	-	-	-	-	8,243
Transfers (out)	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	8,243

NET CHANGES IN FUND BALANCES (DEFICITS)

738	170	(4,048)	2,435	3,982
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**FUND BALANCES (DEFICITS) - BEGINNING
PRIOR PERIOD ADJUSTMENTS**

(515)	6,992	38,995	60,171	(4,202)
-	-	-	-	-

**FUND BALANCES (DEFICITS)
- BEGINNING AS RESTATED**

(515)	6,992	38,995	60,171	(4,202)
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FUND BALANCES (DEFICITS) - ENDING

\$ 223	\$ 7,162	\$ 34,947	\$ 62,606	\$ (220)
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(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2010

	SPECIAL REVENUE FUNDS				
	Fryer Creek Landscape Maintenance Fund	Sonoma Valley Oaks Fund	Schell Drainage Fund	Starr Ranch Fund	Abandoned Vehicle Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and penalties	-	-	-	-	2,891
Intergovernmental revenues	-	-	-	-	-
Charges for services	-	-	-	-	-
License, permits and fees	-	-	-	-	-
Investment earnings	-	-	4,180	-	1,496
Rental income	-	-	-	-	-
Other revenue	-	-	-	-	1,573
Total Revenues	-	-	4,180	-	5,960
EXPENDITURES					
Current:					
Public safety	-	-	-	-	24,403
Public works	-	-	-	-	-
Community development	-	12,367	-	4,538	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total Expenditures	-	12,367	-	4,538	24,403
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(12,367)	4,180	(4,538)	(18,443)
OTHER FINANCING SOURCES (USES)					
Transfers in	73	26,051	-	47,686	-
Transfers (out)	(5,559)	-	-	-	-
Total Other Financing Sources (Uses)	(5,486)	26,051	-	47,686	-
NET CHANGES IN FUND BALANCES (DEFICITS)	(5,486)	13,684	4,180	43,148	(18,443)
FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS	5,486	(14,365)	29,558	(48,133)	70,639
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	5,486	(14,365)	29,558	(48,133)	70,639
FUND BALANCES (DEFICITS) - ENDING	\$ -	\$ (681)	\$ 33,738	\$ (4,985)	\$ 52,196

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2010

	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	-	-	169,601	85,773
Charges for services	-	-	-	-
License, permits and fees	-	-	-	-
Investment earnings	11,509	13,936	310	2,236
Rental income	201,668	396,339	-	-
Other revenue	2,895	30,988	1,970	-
Total Revenues	216,072	441,263	171,881	88,009
EXPENDITURES				
Current:				
Public safety	-	-	-	-
Public works	-	-	774,441	-
Community development	202,371	156,652	-	-
Capital outlay	-	-	-	141,816
Debt service:				
Principal	-	49,433	-	-
Interest and fees	-	136,434	-	-
Total Expenditures	202,371	342,519	774,441	141,816
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	13,701	98,744	(602,560)	(53,807)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	359,917	-
Transfers (out)	(50,000)	-	-	-
Total Other Financing Sources (Uses)	(50,000)	-	359,917	-
NET CHANGES IN FUND BALANCES (DEFICITS)	(36,299)	98,744	(242,643)	(53,807)
FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS	521,151	545,312	105,193	125,714
	-	-	-	-
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	521,151	545,312	105,193	125,714
FUND BALANCES (DEFICITS) - ENDING	\$ 484,852	\$ 644,056	\$ (137,450)	\$ 71,907

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2010

CAPITAL PROJECT FUNDS

	Capital Improvement Program Fund	Measure M Fund	Economic Stimulus Fund	Capital Asset Project Fund
REVENUES				
Taxes	\$ -	\$ 52,877	\$ -	\$ -
Fines and penalties	-	-	-	-
Intergovernmental revenues	-	-	443,884	-
Charges for services	-	-	-	-
License, permits and fees	5,307	-	-	-
Investment earnings	4,682	3,322	-	6,348
Rental income	-	-	-	-
Other revenue	-	-	-	-
Total Revenues	9,989	56,199	443,884	6,348
EXPENDITURES				
Current:				
Public safety	-	-	-	-
Public works	8,560	-	-	-
Community development	-	-	-	-
Capital outlay	17,662	-	696,607	913,266
Debt service:				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Total Expenditures	26,222	-	696,607	913,266
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,233)	56,199	(252,723)	(906,918)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
NET CHANGES IN FUND BALANCES (DEFICITS)	(16,233)	56,199	(252,723)	(906,918)
FUND BALANCES (DEFICITS) - BEGINNING	186,818	133,672	(144,759)	(769,176)
PRIOR PERIOD ADJUSTMENTS	-	-	-	1,057,814
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	186,818	133,672	(144,759)	288,638
FUND BALANCES (DEFICITS) - ENDING	\$ 170,585	\$ 189,871	\$ (397,482)	\$ (618,280)

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2010

	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	2008 CREB Bonds Debt Service Fund	
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,877
Fines and penalties	-	-	-	-	-	-	2,891
Intergovernmental revenues	-	-	-	-	-	-	799,258
Charges for services	-	13,675	-	-	-	-	13,675
License, permits and fees	-	-	-	-	-	-	5,624
Investment earnings	-	16	2,215	5,084	537	-	60,887
Rental income	-	-	-	-	-	-	605,237
Other revenue	-	-	-	-	-	-	37,426
Total Revenues	<u>-</u>	<u>13,691</u>	<u>2,215</u>	<u>5,084</u>	<u>537</u>	<u>-</u>	<u>1,577,875</u>
EXPENDITURES							
Current:							
Public safety	-	-	-	-	-	-	24,403
Public works	-	-	-	-	-	-	795,045
Community development	-	-	-	-	-	-	380,189
Capital outlay	-	-	-	-	-	-	1,769,351
Debt service:							
Principal	-	88,800	100,000	145,000	440,000	72,250	895,483
Interest and fees	26	15,732	112,891	436,455	748,694	-	1,450,232
Total Expenditures	<u>26</u>	<u>104,532</u>	<u>212,891</u>	<u>581,455</u>	<u>1,188,694</u>	<u>72,250</u>	<u>5,314,703</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(26)</u>	<u>(90,841)</u>	<u>(210,676)</u>	<u>(576,371)</u>	<u>(1,188,157)</u>	<u>(72,250)</u>	<u>(3,736,828)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	18,016	107,517	210,956	584,896	1,195,003	72,250	2,643,107
Transfers (out)	-	(18,016)	-	-	-	-	(241,333)
Total Other Financing Sources (Uses)	<u>18,016</u>	<u>89,501</u>	<u>210,956</u>	<u>584,896</u>	<u>1,195,003</u>	<u>72,250</u>	<u>2,401,774</u>
NET CHANGES IN FUND BALANCES (DEFICITS)	<u>17,990</u>	<u>(1,340)</u>	<u>280</u>	<u>8,525</u>	<u>6,846</u>	<u>-</u>	<u>(1,335,054)</u>
FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS	<u>(17,990)</u>	<u>(14,143)</u>	<u>302,987</u>	<u>313,536</u>	<u>146,723</u>	<u>-</u>	<u>1,646,306</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,057,814</u>
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	<u>(17,990)</u>	<u>(14,143)</u>	<u>302,987</u>	<u>313,536</u>	<u>146,723</u>	<u>-</u>	<u>2,704,120</u>
FUND BALANCES (DEFICITS) - ENDING	<u>\$ -</u>	<u>\$ (15,483)</u>	<u>\$ 303,267</u>	<u>\$ 322,061</u>	<u>\$ 153,569</u>	<u>\$ -</u>	<u>\$ 1,369,066</u>

(Concluded)

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2010

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	Totals
ASSETS									
Current Assets:									
Cash and investments	\$ 279,812	\$ 8,820	\$ 1,022,998	\$ 278,852	\$ -	\$ 1,368,970	\$ 50,967	\$ 22,688	\$ 3,033,107
Accounts receivable - net	-	-	-	-	812	-	6,829	-	7,641
Total current assets	279,812	8,820	1,022,998	278,852	812	1,368,970	57,796	22,688	3,040,748
Total Assets	<u>\$ 279,812</u>	<u>\$ 8,820</u>	<u>\$ 1,022,998</u>	<u>\$ 278,852</u>	<u>\$ 812</u>	<u>\$ 1,368,970</u>	<u>\$ 57,796</u>	<u>\$ 22,688</u>	<u>\$ 3,040,748</u>
LIABILITIES									
Current Liabilities:									
Accounts payable	\$ 1,547	\$ -	\$ -	\$ 13,288	\$ 53,456	\$ 1,168	\$ -	\$ -	\$ 69,459
Due to other funds	-	-	-	-	702,463	-	-	-	702,463
Deposits payable and other liabilities	-	8,079	-	-	-	-	-	-	8,079
Total current liabilities	<u>1,547</u>	<u>8,079</u>	<u>-</u>	<u>13,288</u>	<u>755,919</u>	<u>1,168</u>	<u>-</u>	<u>-</u>	<u>780,001</u>
Total Liabilities	1,547	8,079	-	13,288	755,919	1,168	-	-	780,001
NET ASSETS									
Unrestricted	278,265	741	1,022,998	265,564	(755,107)	1,367,802	57,796	22,688	2,260,747
Total Net Assets	<u>\$ 278,265</u>	<u>\$ 741</u>	<u>\$ 1,022,998</u>	<u>\$ 265,564</u>	<u>\$ (755,107)</u>	<u>\$ 1,367,802</u>	<u>\$ 57,796</u>	<u>\$ 22,688</u>	<u>\$ 2,260,747</u>

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	Totals
OPERATING REVENUES									
Charges for services	\$ 114,084	\$ -	\$ 74,188	\$ 239,725	\$ 1,902,620	\$ 204,288	\$ -	\$ -	\$ 2,534,905
Miscellaneous	-	-	-	200,473	100,279	-	-	-	300,752
Total Operating Revenues	114,084	-	74,188	440,198	2,002,899	204,288	-	-	2,835,657
OPERATING EXPENSES									
Salaries and benefits	-	-	-	-	2,345,619	-	-	-	2,345,619
Services, supplies and maintenance	152,544	-	147,445	-	-	60,360	-	-	360,349
Insurance premiums and claims	-	-	-	276,392	-	-	-	-	276,392
Total Operating Expenses	152,544	-	147,445	276,392	2,345,619	60,360	-	-	2,982,360
OPERATING INCOME (LOSS)	(38,460)	-	(73,257)	163,806	(342,720)	143,928	-	-	(146,703)
NONOPERATING REVENUES (EXPENSES):									
Investment earnings	-	209	-	-	-	-	154	538	901
Total Nonoperating Revenues (Expenses)	-	209	-	-	-	-	154	538	901
INCOME (LOSS) BEFORE TRANSFERS	(38,460)	209	(73,257)	163,806	(342,720)	143,928	154	538	(145,802)
CHANGES IN NET ASSETS	(38,460)	209	(73,257)	163,806	(342,720)	143,928	154	538	(145,802)
NET ASSETS - BEGINNING	316,725	532	1,096,255	101,758	(412,387)	1,223,874	57,642	22,150	2,406,549
NET ASSETS - ENDING	\$ 278,265	\$ 741	\$ 1,022,998	\$ 265,564	\$ (755,107)	\$ 1,367,802	\$ 57,796	\$ 22,688	\$ 2,260,747

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from internal service provided	\$ 114,084	\$ -	\$ 74,188	\$ 239,725	\$ 1,902,257	\$ 204,288	\$ (4,920)	\$ -	\$ 2,529,622
Payments to employees	-	-	-	-	(1,643,156)	-	-	-	(1,643,156)
Payments to suppliers and users	(169,644)	-	(147,445)	(263,104)	(15,582)	(59,192)	-	-	(654,967)
Other payments and receipts	-	-	-	200,473	100,279	-	-	-	300,752
Net Cash Provided by (Used for) Operating Activities	<u>(55,560)</u>	<u>-</u>	<u>(73,257)</u>	<u>177,094</u>	<u>343,798</u>	<u>145,096</u>	<u>(4,920)</u>	<u>-</u>	<u>532,251</u>
CASH FLOWS FROM INVESTING ACTIVITIES:									
Interest received	-	209	-	-	-	-	154	538	901
Net Cash Provided by Investing Activities	<u>-</u>	<u>209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>154</u>	<u>538</u>	<u>901</u>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(55,560)	209	(73,257)	177,094	343,798	145,096	(4,766)	538	533,152
CASH AND INVESTMENTS - BEGINNING	335,372	8,611	1,096,255	101,758	(343,798)	1,223,874	55,733	22,150	2,499,955
CASH AND INVESTMENTS - ENDING	\$ 279,812	\$ 8,820	\$ 1,022,998	\$ 278,852	\$ -	\$ 1,368,970	\$ 50,967	\$ 22,688	\$ 3,033,107
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:									
Operating income (loss)	\$ (38,460)	\$ -	\$ (73,257)	\$ 163,806	\$ (342,720)	\$ 143,928	\$ -	\$ -	\$ (146,703)
Adjustments to reconcile operating income to cash flows provided by operating activities:									
Change in assets and liabilities:									
Accounts receivable	-	-	-	-	(363)	-	(4,920)	-	(5,283)
Accounts payable	(17,100)	-	-	13,288	(15,582)	1,168	-	-	(18,226)
Due to other funds	-	-	-	-	702,463	-	-	-	702,463
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (55,560)	\$ -	\$ (73,257)	\$ 177,094	\$ 343,798	\$ 145,096	\$ (4,920)	\$ -	\$ 532,251

CITY OF SONOMA
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2010

	Cultural Fine Arts	Tree Trust	Payroll Clearing	Climate Conference	Bid Deposits	Valley of the Moon Fire	Totals
ASSETS							
Cash and investments	\$ 11,221	\$ 9,546	\$ 16,815	\$ 84	\$ 356,368	\$ 2,131,114	\$ 2,525,148
Accounts receivable - net	-	400	-	-	598	197,423	198,421
Total Assets	<u>\$ 11,221</u>	<u>\$ 9,946</u>	<u>\$ 16,815</u>	<u>\$ 84</u>	<u>\$ 356,966</u>	<u>\$ 2,328,537</u>	<u>\$ 2,723,569</u>
LIABILITIES							
Accounts payable	\$ 11,221	\$ 9,946	\$ 6,274	\$ 84	\$ 22,510	\$ 2,328,537	\$ 2,378,572
Deposits payable and other liabilities	-	-	10,541	-	334,456	-	344,997
Total Liabilities	<u>\$ 11,221</u>	<u>\$ 9,946</u>	<u>\$ 16,815</u>	<u>\$ 84</u>	<u>\$ 356,966</u>	<u>\$ 2,328,537</u>	<u>\$ 2,723,569</u>

Supplementary Information for OMB Circular A-133

MULTIPLE FAMILY HOUSING PROJECT BUDGET/
UTILITY ALLOWANCE

FORM APPROVED
OMB NO.0575-0189

PROJECT NAME Village Green II		BORROWER NAME Village Green II/Sonoma CDA		BORROWER ID AND PROJECT NO. 04-49-946000433 01-04	
Loan/Transfer Amount \$ 799,203		Note Rate Payment		IC Payment	
Reporting Period	Budget Type	Project Rental Type	Profit Type	The following utilities are master metered:	
<input checked="" type="checkbox"/> Annual	<input checked="" type="checkbox"/> Initial	<input type="checkbox"/> Family	<input type="checkbox"/> Full Profit	<input checked="" type="checkbox"/> Electricity	<input type="checkbox"/> Gas
<input type="checkbox"/> Quarterly	<input type="checkbox"/> Regular Report	<input checked="" type="checkbox"/> Elderly	<input type="checkbox"/> Limited Profit	<input checked="" type="checkbox"/> Water	<input checked="" type="checkbox"/> Sewer
<input type="checkbox"/> Monthly	<input type="checkbox"/> Rent Change	<input type="checkbox"/> Congregate	<input checked="" type="checkbox"/> Non-Profit	<input type="checkbox"/> Trash	
	<input type="checkbox"/> SNR	<input type="checkbox"/> Group Home		<input type="checkbox"/> Other _____	
	<input type="checkbox"/> Other Servicing	<input type="checkbox"/> Mixed LH			
				<input checked="" type="checkbox"/> I hereby request <u>33</u> units of RA. Current number of RA units <u>33</u> Borrower Accounting Method <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual	

PART I—CASH FLOW STATEMENT

BEGINNING DATES>

ENDING DATES>

OPERATIONAL CASH SOURCES

1. RENTAL INCOME ...
2. RHS RENTAL ASSISTANCE RECEIVED...
3. APPLICATION FEES RECEIVED ...
4. LAUNDRY AND VENDING ...
5. INTEREST INCOME ...
6. TENANT CHARGES ...
7. OTHER - PROJECT SOURCES...
8. LESS (Vacancy and Contingency Allowance) ...
9. LESS (Agency Approved Incentive Allowance) ...
10. SUB-TOTAL [(1 thru 7) - (8 & 9)]...

NON-OPERATIONAL CASH SOURCES

11. CASH - NON PROJECT ...
12. AUTHORIZED LOAN (Non-RHS) ...
13. TRANSFER FROM RESERVE ...
14. SUB-TOTAL (11 thru 13) ...
15. TOTAL CASH SOURCES (10+14) ...

OPERATIONAL CASH USES

16. TOTAL O&M EXPENSES (From Part II) ...
17. RHS DEBT PAYMENT ...
18. RHS PAYMENT (Overage) ...
19. RHS PAYMENT (Late Fee) ...
20. REDUCTION IN PRIOR YEAR PAYABLES ...
21. TENANT UTILITY PAYMENTS ...
22. TRANSFER TO RESERVE ...
23. RETURN TO OWNER /NP ASSET MANAGEMENT FEE .
24. SUB-TOTAL (16 thru 23) ...

NON-OPERATIONAL CASH USES

25. AUTHORIZED DEBT PAYMENT (Non-RHS)...
26. ANNUAL CAPITAL BUDGET (From Part III, Lines 4-6)
27. MISCELLANEOUS ...
28. SUB-TOTAL (25 thru 27) ...
29. TOTAL CASH USES (24+28) ...
30. NET CASH (DEFICIT) (15-29)...

CASH BALANCE

31. BEGINNING CASH BALANCE ...
32. ACCRUAL TO CASH ADJUSTMENT ...
33. ENDING CASH BALANCE (30+31+32) ...

CURRENT BUDGET 7/1/09 6/30/10	ACTUAL 7/1/09 6/30/10	PROPOSED BUDGET 7/1/10 6/30/11	COMMENTS or (YTD)
386,220	386,220	386,220	
	28,112		
2,400	2,876	2,400	
	15,286		
	8,769		
	19		
(7,725)		(7,725)	
-		-	
380,895	441,282	380,895	-
27,800	-	44,000	
27,800	-	44,000	-
408,695	441,282	424,895	-
199,376	156,673	162,646	-
20,940	48,889	20,940	
	-		
	-		
23,800	27,320	23,800	
244,116	232,882	207,386	-
154,000	136,977	154,000	
27,800	-	44,000	-
	12,513		
181,800	149,490	198,000	-
425,916	382,372	405,386	-
(17,221)	58,910	19,509	-
27,536	183,200	27,536	
	(14,013)		
10,315	228,097	47,045	-

PART II—OPERATING AND MAINTENANCE EXPENSE SCHEDULE

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
1. MAINTENANCE AND REPAIRS PAYROLL...	-		15,969	
2. MAINTENANCE AND REPAIRS SUPPLY ...	520	16,488	520	
3. MAINTENANCE AND REPAIRS CONTRACT ...	5,150	-	5,500	
4. PAINTING ...	2,400		2,400	
5. SNOW REMOVAL ...				
6. ELEVATOR MAINTENANCE/CONTRACT ...				
7. GROUNDS...	21,000	21,000	22,600	
8. SERVICES ...				
9. ANNUAL CAPITAL BUDGET(From Part V - Operating)	17,000	17,873	13,850	
10. OTHER OPERATING EXPENSES (Itemize) ...		-		
11. SUB-TOTAL MAINT. & OPERATING (1 thru 10) ...	46,070	55,361	60,839	-
12. ELECTRICITY If master metered	2,040	1,290	2,040	
13. WATER check box on	11,452	6,784	11,900	
14. SEWER front.	14,933		-	
15. FUEL (Oil/Coal/Gas) ...	1,350	907	1,475	
16. GARBAGE & TRASH REMOVAL...	3,560		3,600	
17. OTHER UTILITIES...	-	-		
18. SUB-TOTAL UTILITIES (12 thru 17) ...	33,335	8,981	19,015	-
19. SITE MANAGEMENT PAYROLL ...	22,120	22,984	23,420	
20. MANAGEMENT FEE ...	20,172	20,172	20,832	
21. PROJECT AUDITING EXPENSE ...	5,500		7,000	
22. PROJECT BOOKKEEPING/ACCOUNTING ...	-	1,500		
23. LEGAL EXPENSES ...	300		-	
24. ADVERTISING ...	500	464	500	
25. TELEPHONE & ANSWERING SERVICE ...	1,200	1,887	1,200	
26. OFFICE SUPPLIES ...	-	769	300	
27. OFFICE FURNITURE & EQUIPMENT...	-			
28. TRAINING EXPENSE ...	900	141	450	
29. HEALTH INS. & OTHER EMP. BENEFITS ...	4,804	4,695	4,804	
30. PAYROLL TAXES ...	3,439	3,942	3,750	
31. WORKER'S COMPENSATION ...	2,495	3,195	2,495	
32. OTHER ADMINISTRATIVE EXPENSES (Itemize) ...	500	32,582	500	
33. SUB-TOTAL ADMINISTRATIVE (19 thru 32) ...	61,930	92,331	65,251	-
34. REAL ESTATE TAXES ...	40,500		-	
35. SPECIAL ASSESSMENTS ...	-		-	
36. OTHER TAXES, LICENSES & PERMITS...	-		-	
37. PROPERTY & LIABILITY INSURANCE ...	17,541		17,541	
38. FIDELITY COVERAGE INSURANCE...	-			
39. OTHER INSURANCE ...	-			
40. SUB-TOTAL TAXES & INSURANCE (34 thru 39)...	58,041	-	17,541	-
41. TOTAL O&M EXPENSES (11+18+33+40)...	199,376	156,673	162,646	-

PART III—ACCOUNT BUDGETING/STATUS

RESERVE ACCOUNT:

1. BEGINNING BALANCE ...
2. TRANSFER TO RESERVE ...
- TRANSFER FROM RESERVE...
3. OPERATING DEFICIT...
4. ANNUAL CAPITAL BUDGET (Part V - Reserve) ...
5. BUILDING & EQUIPMENT REPAIR ...
6. OTHER NON-OPERATING EXPENSES...
7. TOTAL (3 thru 6) ...
8. ENDING BALANCE [(1+2)-7] ...

CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
106,410	364,713	102,410	
23,800	27,320	23,800	
27,800	-	44,000	
	-		
27,800	-	44,000	-
102,410	392,033	82,210	-

GENERAL OPERATING ACCOUNT:*

- BEGINNING BALANCE ...
- ENDING BALANCE ...

27,536	183,200	27,536	
56,820	228,097	53,906	

REAL ESTATE TAX AND INSURANCE ESCROW ACCOUNT:

- BEGINNING BALANCE ...
- ENDING BALANCE ...

25,000	-	25,000	
8,000	-	8,000	

TENANT SECURITY DEPOSIT ACCOUNT:*

- BEGINNING BALANCE ...
- ENDING BALANCE ...

13,362	-	13,362	
13,362	12,513	13,362	

(*Complete upon submission of actual expenses.)

- NUMBER OF APPLICANTS ON THE WAITING LIST
- NUMBER OF APPLICANTS NEEDING RA...

51
51

- RESERVE ACCT. REQ. BALANCE...
- AMOUNT AHEAD/BEHIND ...

even
even

PART IV—RENT SCHEDULE AND UTILITY ALLOWANCE

A. CURRENT APPROVED RENTS/ UTILITY ALLOWANCE

UNIT DESCRIPTION			RENTAL RATES			POTENTIAL INCOME FROM EACH RATE			UTILITY ALLOWANCE
BR SIZE	UNIT TYPE	NUMBER	BASIC	NOTE RATE	HUD	BASIC	NOTE RATE	HUD	
1BR	1	26	\$ 935			\$ 291,720			
2BR	2	7	\$ 1,125			\$ 94,500			
						\$ -			
						\$ -			
						\$ -			

CURRENT RENT TOTALS:

\$ 386,220 \$ - \$ -
BASIC NOTE HUD

B. PROPOSED RENTS - Effective Date: 7/1/2010

UNIT DESCRIPTION			RENTAL RATES			POTENTIAL INCOME FROM EACH RATE		
BR SIZE	UNIT TYPE	NUMBER	BASIC	NOTE RATE	HUD	BASIC	NOTE RATE	HUD
1BR	1	26	\$ 935			\$ 291,720		
2BR	2	7	\$ 1,125			\$ 94,500		
MGR	2	1	\$ -			\$ -		
						\$ -		
						\$ -		

PROPOSED RENT TOTALS:

\$ 386,220 \$ - \$ -
BASIC NOTE HUD

C. PROPOSED UTILITY ALLOWANCE - Effective Date: 7/1/10

MONTHLY DOLLAR ALLOWANCES									
BR SIZE	UNIT TYPE	NUMBER	ELECTRIC	GAS	WATER	SEWER	TRASH	OTHER	TOTAL
1BR	1	26							\$ 49
2BR	2	7							\$ 62

PART V - ANNUAL CAPITAL BUDGET

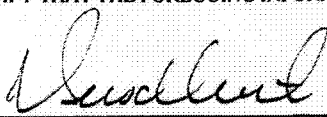
	Proposed Number of Units/Items	Proposed from Reserve	Actual from Reserve	Proposed from Operating	Actual from Operating	Actual Total Cost	Total Actual Units/Items
Appliances:							
Range ...	2			1,300		-	
Refrigerator ...	2			1,300		-	
Range Hood ...	1			300		-	
Washers & Dryers ...						-	
Other: ...						-	
Carpet & Vinyl:							
1BR...	2			4,200	653	653	
2BR...				2,200		-	
3BR...						-	
4BR...						-	
Other: ...						-	
Cabinets:							
Kitchens...	1			-		-	
Bathrooms ...	1			-		-	
Other: ...						-	
Doors:							
Exterior ...				400		-	
Interior ...						-	
Other: ...						-	
Window Coverings:							
List: ...	4			600		-	
Other: ...						-	
Heating & Air Conditioning:							
Heating ...	2	2,500				-	
Air Conditioning ...	3	4,000		900	4,458	4,458	
Other: ...						-	
Plumbing:							
Water Heater ...	1			900	7,024	7,024	
Bath Sinks ...	2			100		-	
Kitchen Sinks ...	2			300		-	
Faucets ...	2			150	-	-	
Toilets ...	4			300		-	
Other: ...					-	-	
Major Electrical:							
Lighting				-	575	575	
Other: ...						-	
Structures:							
Windows ...	2			800		-	
Screens...	6			100		-	
Walls ...						-	
Roofing ...		5,500			32	32	
Siding ...		6,500			1,492	1,492	
Exterior Painting ...		3,500			58	58	
Other: ...						-	
Paving:							
Asphalt ...		12,000				-	
Concrete ...					1,236	1,236	
Seal & Stripe ...		6,500				-	
Other: ...						-	
Landscape & Grounds:							
Landscaping ...		3,500			1,035	1,035	
Lawn Equipment ...						-	
Fencing ...					537	537	
Recreation Area ...						-	
Signs ...						-	
Other: ...						-	
Accessibility Features:							
List: ...						-	
Other: ...						-	
Automation Equipment:							
Site Management...						-	
Common Area...						-	
Other: ...						-	
Other:							
Apt renovation					720	720	
Exterminator					53	53	
List: ...						-	
TOTAL CAPITAL EXPENSES:	37	44,000	-	13,850	17,873	17,873	-

PART VI – SIGNATURES, DATES AND COMMENTS

Warning: Section 1001 of Title 18, United States Code provides: "Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both.

I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THAT THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

11/19/2010
(DATE)


(Signature of Borrower or Borrower's Representative)

CFO, VP- Admin, Hank Fisher Properties
(Title)

AGENCY APPROVAL (*Rural Development Approval Official*):

DATE:

COMMENTS:

Position 3
**MULTI-FAMILY HOUSING
BORROWER BALANCE SHEET**
PART I - BALANCE SHEET

FORM APPROVED
OMB NO. 0575-0189

PROJECT NAME	BORROWER NAME	BORROWER ID AND PROJECT NO.
Village Green II	Sonoma City Community Development	04-49-946000433 01-04

	BEGINNING DATES>	CURRENT YEAR	PRIOR YEAR	COMMENTS
	ENDING DATES>	(07-01-2008)	(07-01-2008)	
		(06-30-2018)	(06-30-2008)	

ASSETS

CURRENT ASSETS

1. GENERAL OPERATING ACCOUNT		228,097.00	\$183,200.00	
2. R.E. TAX & INSURANCE ACCOUNT				
3. RESERVE ACCOUNT		392,033.00	364,713.00	
4. SECURITY DEPOSIT ACCOUNT		12,513.00		
5. OTHER CASH (identify)				
6. OTHER (identify)				
7. TOTAL ACCOUNTS RECEIVABLE (Attach list)				
..... ACCTS RCVBL 0-30 DAYS \$				
ACCTS RCVBL 30-60 DAYS \$				
ACCTS RCVBL 60-90 DAYS \$				
ACCTS RCVBL OVER 90 DAYS \$				
8. LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS				
9. INVENTORIES (supplies)	()	()		
10. PREPAYMENTS		11,413.00		
11. Interest receivable				
12. TOTAL CURRENT ASSETS (Add 1 thru 11)		644,056.00	547,913.00	

FIXED ASSETS

13. LAND		1,300,000.00	1,300,000.00	
14. BUILDINGS		2,781,773.00	2,781,773.00	
15. LESS: ACCUMULATED DEPRECIATION	(274,496.00)	(218,860.00)		
16. FURNITURE & EQUIPMENT				
17. LESS: ACCUMULATED DEPRECIATION	()	()		
18.				
19. TOTAL FIXED ASSETS (Add 13 thru 18)		\$3,807,277.00	\$3,862,913.00	

OTHER ASSETS

20.				
21. TOTAL ASSETS (Add 12, 19, and 20)		\$4,451,333.00	\$4,410,826.00	

LIABILITIES AND OWNERS EQUITY

CURRENT LIABILITIES

22. TOTAL ACCOUNTS PAYABLE (Attach list)		\$0.00	\$3,000.00	
..... ACCTS PAYABLE 0-30 DAYS \$				
ACCTS PAYABLE 30-60 DAYS \$				
ACCTS PAYABLE 60-90 DAYS \$				
ACCTS PAYABLE OVER 90 DAYS \$				
23. NOTES PAYABLE (Attach list)				
24. SECURITY DEPOSITS				
25. TOTAL CURRENT LIABILITIES (Add 22 thru 24)		\$0.00	\$3,000.00	

LONG-TERM LIABILITIES

26. NOTES PAYABLE RURAL DEVELOPMENT	\$799,203.00	\$803,036.00
27. OTHER (Identify) Exchange bank notes payable	2,070,560.00	2,116,160.00
28. TOTAL LONG-TERM LIABILITIES (Add 26 and 27)	2,869,763.00	2,919,196.00
29. TOTAL LIABILITIES (Add 25 and 28)	2,869,763.00	2,922,196.00
30. OWNER'S EQUITY (Net Worth) (21 minus 29)	1,581,570.00	1,488,630.00
31. TOTAL LIABILITIES AND OWNER'S EQUITY (Add 29 and 30)	\$4,451,333.00	\$4,410,826.00

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I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

11/19/2010
(Date)

[Signature]
(Signature of Borrower or Borrower Representative)
CFO, VP-Admin, Hank Fisher Properties
(Title)

PART II - VERIFICATION OF REVIEW

I/We have reviewed the borrower's records. The accompanying balance sheet, and statement of actual budget and income on Form RD 1930-7, is a fair presentation of the borrower's records.

I/We certify that no identity of interest exists between me/us and any individual or organization doing business with the project or borrower.

(Date)

(Signature)

(Name and Title)

(Address)

☐ In lieu of the above verification and signature, a review completed, dated and signed by a person or firm qualified by I license or certification is attached.

Other Independent Auditor's Reports



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**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, 2010, and have issued our report thereon dated December 9, 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



- The Community Development Agency of City of Sonoma did not obtain household income information through annual reporting process to monitor affordable housing to low and moderate income household in accordance with the *Health & Safety Code §33418*

Detail and City's response to the findings identified in our audit is described in the schedule of findings and questioned costs of the financial statements of Community Development Agency of City of Sonoma. We did not audit City's response and, accordingly, we express no opinion on it.

This report is intended for the information of the City Council, management, others within the entity, 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.

C. D. Yabnerberg CPA

December 9, 2010
Redwood City, California



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**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, 2010. 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, 2010.

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 and to test and report on internal control over



compliance in accordance with OMB Circular A-133, 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 internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiency in internal control over compliance that we consider to be significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-01 to be a significant deficiency. We did not audit City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City Council, management, others within the entity, federal awarding agencies, and pass-through entities and is not to be and should not be used by anyone other than these specified parties.

C. D. Uhlenberg LLP

December 9, 2010
Redwood City, California

Compliance Section

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<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	\$ 799,203
U.S. DEPARTMENT OF TRANSPORTATION			
5th Street West Rehabilitation *	20.205	ESPL-5114(014)	443,884
Andrieux Street Rehabilitation	20.205	STPL-5114(013)	<u>150,000</u>
TOTAL CITY OF SONOMA EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,393,087</u>

* American Recovery and Reinvestment Act award

CITY OF SONOMA, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2010

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 X no
- Significant deficiencies identified that are not considered to material weaknesses? _____ yes X no
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.415	Rural Rental Housing Loan
20.205	5 th West Street West Rehabilitation
20.205	Andrieux Street Rehabilitation

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

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Section II - Financial Statement Findings

No current year finding.

Section III - Federal Award Findings and Questioned Costs

Finding 10 - 01/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.

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 has not implemented appropriate control during current year but is in the process of establishing policies and procedures regarding to this deficiency in the first quarter of fiscal year 2010-2011.

CITY OF SONOMA, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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.

STATUS: The City has implemented appropriate control.

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.

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

CITY OF SONOMA, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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.

STATUS: The City has implemented appropriate control.

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.

STATUS: The City has implementing appropriate control.

Finding 09 - 04/Significant Control 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

CITY OF SONOMA, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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.

STATUS: The City has implementing appropriate control and is in compliance in current year.

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.

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.

CITY OF SONOMA, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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.

STATUS: The City has not implemented appropriate control during current year but is in the process of establishing policies and procedures regarding to this deficiency in the first quarter of fiscal year 2010-2011.